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上海醫藥集團股份有限公司
Shanghai Pharmaceuticals Holding Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02607)

2016 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Shanghai Pharmaceuticals Holding Co., Ltd. (the “**Company**”) is pleased to announce the results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2016. These annual results are prepared in accordance with the Hong Kong Financial Reporting Standards and audited by PricewaterhouseCoopers. The Audit Committee of the Board has reviewed these annual results.

The full content of the Company’s annual report of 2016 is attached to this announcement. The formal annual report will be dispatched to the shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sphchina.com) at an appropriate time.

By Order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
ZHOU Jun
Chairman

Shanghai, the PRC, 22 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo; the non-executive directors are Mr. ZHOU Jun and Ms. LI An; and the independent non-executive directors are Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang.

* For identification purpose only



Shanghai Pharmaceuticals Holding Co., Ltd.*

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

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



Important Notice

- I. The board of directors and the board of supervisors of the Company and the directors, supervisors and senior management warrant that this annual report is true, accurate and complete and contains no false information, misleading statement or material omission and assume joint and several responsibilities therefor.
- II. All directors of the Company attended the meeting of the Board of directors.
- III. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers 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 cash dividend of RMB3.60 (tax included) for every ten shares based on the total share capital of 2,688,910,538 shares as at the end 2016 was proposed to be distributed to all shareholders, subject to approval at the annual general meeting of the Company for 2016.

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

☒ Applicable ☐ Not applicable

During the reporting period, there are no significant risks that have substantive significant effect on manufacture and management of the Company. The Company has already explains all the risks and corresponding measures that the Company might face in the manufacture and management. Please refer to the potential risk factors set out in the Report of the Board of Directors, Chapter 4 of this annual report.

X. Others

☐ Applicable ☒ Not applicable



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Definitions

I. DEFINITIONS

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

Definitions of Common Terms

"the Group", "Group", "the Company", "Company" or "Shanghai Pharmaceuticals"	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shanghai Stock Exchange with stock code 601607, 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 2016 to 31 December 2016
"YOY"	year-on-year
"Shares"	shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
"A Shares"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"H Shares"	overseas shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"HK\$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"AUD"	Australian dollars, the lawful currency of Australia
"NZ\$" or "New Zealand dollars"	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 herein do not include Hong Kong, Macau or Taiwan

Definitions

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"SFO"	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong, as amended from time to time
"Controlling Shareholders"	unless otherwise stated, has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group)
"WHO"	World Health Organization
"FDA"	Food and Drug Administration of the United States
"CFDA"	China Food and Drug Administration
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"NDRC"	National Development and Reform Commission
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"MOHRSS"	Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部)
"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)

Definitions

"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)
"Shenergy Group"	Shenergy (Group) Co., Ltd. (申能(集團)有限公司)
"Humanwell Healthcare"	Humanwell Healthcare Group Co., Ltd.
"HPGC"	Harbin Pharmaceutical Group Co., Ltd.
"Fosun Pharma"	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
"NCPC"	North China Pharmaceutical Company Ltd.
"GYBYS"	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited
"HISUN"	Zhejiang Hisun Pharmaceutical Co., Ltd.
"Hengrui Medicine"	Jiangsu Hengrui Medicine Co., Ltd.
"CR Sanjiu"	China Resources Sanjiu Medical & Pharmaceutical Co., Ltd.
"Livzon Group"	Livzon Pharmaceutical Group Inc.
"SPHC"	Shanghai Pharma Health Commerce Co., Ltd
"SPD"	Supply Processing Distribution
"DTP"	Direct To Patient
"5S"	SEIRI, SEITON, SEISOU, SEIKETSU, SHITSUKE
"MES"	Manufacturing Execution System
"LIMS"	Library Information Management System
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice

Basic Corporate Information and Major Financial Indication

I. CORPORATE INFORMATION

Name of the Company in Chinese	上海醫藥集團股份有限公司
Chinese abbreviation of the name of the Company	上海醫藥
Name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd.
English abbreviation of the name of the Company	Shanghai Pharma
Legal representative of the Company	Mr. 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	Dong Linqiong
Contact address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Telephone	+8621-63730908	+8621-63730908
Facsimile	+8621-63289333	+8621-63289333
E-mail	pharm@sphchina.com	pharm@sphchina.com

Basic Corporate Information and Major Financial Indication

III. BASIC INFORMATION

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, the PRC
Postal code of the office address of the Company	200020
Principal place of business in Hong Kong	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Website of the Company	http://www.sphchina.com
E-mail	pharm@sphchina.com
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai, the PRC
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

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

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

Basic Corporate Information and Major Financial Indication

V. STOCK INFORMATION OF THE COMPANY

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

VI. OTHER RELEVANT INFORMATION

Name of accounting firm engaged by the Company (domestic)	Name	PricewaterhouseCoopers Zhong Tian LLP
	Office address	11/F, PricewaterhouseCoopers Center, No. 202 Hu Bin Road, Shanghai, the PRC
	Name of signing accountant	Ke Zhenhong 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

Basic Corporate Information and Major Financial Indication

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

(I) Major Accounting Data

Unit: RMB

Major accounting data	2016	2015	Change compared to the corresponding period of last year (%)	2014
Operating revenue	120,764,660,339.93	105,516,587,303.26	14.45	92,398,893,626.70
Net profit attributable to equity holders of listed Company	3,196,394,644.62	2,876,989,142.22	11.10	2,591,129,073.77
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed Company	2,925,512,696.75	2,530,373,020.75	15.62	2,161,174,797.86
Net cash flows from operating activities	1,946,666,985.00	1,349,162,853.33	44.29	1,335,674,135.37

	End of 2016	End of 2015	Change compared to the end of the corresponding period of last year (%)	End of 2014
Net assets attributable to equity holders of listed Company	31,622,553,105.97	29,930,309,583.79	5.65	27,822,129,424.69
Total assets	82,742,718,053.46	74,344,210,482.59	11.30	64,340,558,156.78
Total share capital at the end of the Period	2,688,910,538.00	2,688,910,538.00	0	2,688,910,538.00

Basic Corporate Information and Major Financial Indication

(II) Major Financial Indicators

Major financial indicators	2016	2015	Change compared to the corresponding period of last year(%)	2014
Basic earnings per share (RMB per share)	1.1887	1.0699	11.10	0.9636
Diluted earnings per share (RMB per share)	1.1887	1.0699	11.10	0.9636
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	1.0880	0.9410	15.62	0.8037
Weighted average return on net assets (%)	10.39	9.98	increase of 0.41 percentage point	9.67
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	9.51	8.77	increase of 0.74 percentage point	8.07

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				
	2012	2013	2014	2015	2016
Revenue	68,078,118	78,222,817	92,398,894	105,516,587	120,764,660
Profit before income tax	3,087,727	3,225,640	3,799,734	4,171,854	4,638,996
Income tax expenses	(627,139)	(628,368)	(807,717)	(807,486)	(809,284)
Profit for the year	2,460,588	2,597,272	2,992,017	3,364,368	3,829,712
Attributable to:					
Owners of the Company	2,052,872	2,213,579	2,591,131	2,876,989	3,196,394
Non-controlling interest	407,716	383,693	400,886	487,379	633,318

Basic Corporate Information and Major Financial Indication

(II) Assets and Liabilities

Unit: RMB'000

	For the year ended 31 December				
	2012	2013	2014	2015	2016
Total assets	51,069,038	56,311,522	64,340,559	74,344,211	82,742,717
Total liabilities	23,368,164	27,310,542	33,241,407	40,536,172	45,908,252
Total equity	27,700,874	29,000,980	31,099,152	33,808,039	36,834,465
Attributable to:					
Owners of the Company	24,639,299	25,953,813	27,822,133	29,930,314	31,622,557
Non-controlling interests	3,061,575	3,047,167	3,277,019	3,877,725	5,211,908

Note: The financial information for 2012 is extracted from the financial statements prepared under the Hong Kong Financial Reporting Standards;
The financial information for 2013 and 2014 is extracted from the financial statements of 2014 prepared under the Hong Kong Financial Reporting Standards;
The financial information for 2015 and 2016 is extracted from the financial statements of the year prepared under the Hong Kong Financial Reporting Standards.

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

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

Basic Corporate Information and Major Financial Indication

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

☒ 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 MAIN FINANCIAL DATA OF 2016 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	29,275,638,566.92	30,419,719,448.90	30,821,502,833.13	30,247,799,490.98
Net profit attributable to equity holders of listed Company	889,406,880.39	843,051,083.82	724,710,787.01	739,225,893.40
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed Company	776,971,759.64	824,562,676.38	681,455,336.40	642,522,924.33
Net cash flows from operating activities	327,698,478.25	477,160,694.06	504,720,699.57	637,087,113.12

Note: There is no discrepancy between the quarter data of the Company and the regular reporting data disclosed.

Basic Corporate Information and Major Financial Indication

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

✓ Applicable □ Not applicable

Unit: RMB

Non-recurring Profit or Loss Item	Amount in 2016	Amount in 2015	Amount in 2014
Profit or loss on disposal of non-current assets	179,009,218.46	294,525,445.84	273,191,524.20
Government grants recognised in profit or loss for the current period excluding those closely related to the Group's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume	265,193,947.36	177,273,697.29	159,516,888.70
Except for the effective hedging activities related to the Group's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	9,135,150.50	14,225,933.01	4,596,184.54
Reversal of provisions on receivables assessed for impairment on an individual basis	51,845,256.13	3,840,000.00	2,837,764.88
Other non-operating income and expenses other than the aforesaid items	-24,727,260.65	8,159,758.28	108,289,581.22
Other profit or loss items that meet the definition of non-recurring profit or loss	/	/	106,302,930.99
Effect on minority interests	-96,512,359.09	-38,980,403.50	-23,180,850.99
Effect on income tax	-113,062,004.84	-112,428,309.45	-201,599,747.63
Total	270,881,947.87	346,616,121.47	429,954,275.91

Basic Corporate Information and Major Financial Indication

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

✓ Applicable □ Not applicable

Unit: RMB

Item	Balance at the beginning of period	Balance at the end of period	Change during the period	Effect on the profit for the period
Financial assets at fair value with changes recognised through profit or loss for the period	820,234.80	4,060,270.54	3,240,035.74	-78,771.00
Available-for-sale financial assets	222,181,503.55	212,220,442.79	-9,961,060.76	/
Financial liabilities at fair value with changes recognised through profit or loss for the period	0.00	869,871.15	869,871.15	/
Total	223,001,738.35	217,150,584.48	-5,851,153.87	-78,771.00

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 Cyclicity of the Company During the Reporting Period

2016 is an important year for the policy of the pharmaceutical industry. From the launch of the national top-level design to the launch of various policies and regulations in the fields in the industry, innovation, quality and compliance became the keywords for the industry development while the medical reform speeds up to be boosted, supervision tends to be increasingly rigorous, costs control of medical insurance still continued, and the pharmaceutical industry was in the period of profound reform. From the middle to long term, increasing level of consumption, aging population and two-child policy liberalization etc. will provide strong support for the long-term stable development of the pharmaceutical industry. With the slow-down and gradual stabilization of Chinese economy and continued promotion of the medical reform, as the national strategic emerging industry, pharmaceutical industry will still maintain the tendency of stable growth in next 5 to 10 years. As the comprehensive industrial group for the domestic pharmaceutical industry and commerce, the Company will comply with the change of industry, grasp the tendency of industry, accelerate the transformation development, and strengthen its efforts on acquisition and reorganization to ensure it maintains as a leader in the industry.

(II) Industry Policies

1. *National strategic planning*

During the Reporting Period, the pharmaceutical industry development plans at the national level were released: on 26 February 2016, the State Council printed and issued the Planning Outline for Development Strategy of Traditional Chinese Medicine (2016-2030) to make clear the development direction of China's pharmaceuticals industry development and key points of work in the next fifteen years, which is the programmatic documentation for development of China's pharmaceuticals industry. On 25 October 2016, the State Council issued the Planning Outline for "Healthy China 2030" to improve the strategy of "Healthy China" to the unprecedented level; on 7 November 2016, the ministries and commissions jointly printed and issued the Guidance of Plan of Development of Pharmaceuticals Industry, pointing out the direction for the strategic layout of the pharmaceuticals industry; on 29 December 2016, the Ministry of Commerce printed and issued the Plan for the Development of National Drugs Distribution Industry (2016-2020), putting forward the specific goals of developing a group of large-scale drugs distribution enterprises with national network coverage at high level of integration and information.

2. *The reform policy for pharmaceutical and health care system*

On 26 April 2016, the State Council printed and issued Key Tasks of Deepening the Medical and Health System Reform in 2016, making clear health care reform work in deepening the reform of public hospitals, promoting the construction of hierarchical treatment system, consolidating and improving the health insurance system and other aspects in 2016.

3. *Pharmaceutical manufacturing*

1) R&D and registration

- i. Following the Announcement on Policy Opinions Regarding Drug Registration Evaluation and Approval System issued in November 2015, CFDA accelerated the approval of innovative drugs and the drugs urgently needed for clinics to meet clinical needs. In 2016, the National Drug Review Center announced a total of 12 batches to be included in the priority review process for drug registration applications;
- ii. On 5 March 2016, the State Council printed and issued the Opinions on Quality and Efficacy Consistency Evaluation for Generic Drugs to ensure that the quality and efficacy of generic drugs consistent with the original research drugs to enhance the overall level of China's pharmaceutical industry;
- iii. On 6 June 2016, the State Council printed and issued the Pilot Scheme for Marketing Authorization Holder System, which allowed drug research and development institutions and scientific research personnel to obtain the drug approval number and bear the corresponding responsibility for the quality of drugs;
- iv. On 29 March 2016, CFDA issued the Drug Clinical Trial Data Verification Procedures of China Food and Drug Administration (Provisional) and drafted Drug Clinical Trial Quality Management Practices (Revised version) on 2 December 2016 and solicited public opinions, and put forward the rectification measures and regulatory requirements on clinical examination of drugs, clinical trial quality management and other aspects.

2) Production

- i. In 2016, China continued to strengthen environmental protection and rectification efforts, and introduced environmental protection laws and regulations, including amendments to the Water Pollution Prevention Law, revised Environmental Impact Assessment Law and the new Environmental Protection Tax Law etc.; Environmental protection regulation over pharmaceutical companies will be strengthened continuously. In view of the above policies, Shanghai Pharmaceuticals will actively implement environmental protection policies and conduct energy-saving, emission reduction and pollution prevention and control initiatives;
- ii. On 11 August 2016, CFDA issued the Announcement on the Proof of Pharmaceutical Production Process (Consultation Draft), which clearly strengthened the management of pharmaceutical production process and required the production enterprises to carry out self-examination for production process (Chinese medicine production) of each approved drug, and remove the quality and safety risks;

An Overview of Company Businesses

- iii. In 2016, China's local drug regulatory authorities strengthened GMP flight inspection efforts for drug manufacturers, the supervision method of the food and drug supervision departments changed to double random flight inspection from the original tracking inspection, and it would be increasingly normalized. According to the information publicized by CFDA in February 2017, 2016 national drug administration departments recovered a total of 171 GMP certificates, 104 of which had been sent back;
- 3) Sales
- i. During the Reporting Period, the policies of drug procurement by categories, namely "Two-envelope system", drugs procured through direct online pricing, drugs procured through negotiation, designated production of drugs, were brought full force to the implementation; new methods for drug procurement such as GPO were piloted in some places; medicare payment standards were established gradually; measures for medicare costs control and comprehensive costs control in medical institutions were carried out, all of which will have a profound impact on the development trend and competition layout in pharmaceutical industry;
 - ii. On 30 September 2016, the Ministry of Human Resources and Social Security issued the notifications for soliciting public opinions on 2016 Adjustment Work Scheme of Directory of Drugs for Basic Medical, Accident and Maternity Insurances (Draft of Soliciting Opinions), and requested to gradually establish the dynamic adjustment mechanism for normalized directory of drugs, which was another national adjustment for directory of drugs after, 7 years following last adjustment in 2009;
 - iii. During the Reporting Period, the medical insurance payment standard was implemented in pilot points in Anhui, Zhejiang, Chongqing, Fujian and Tianjin and other provinces. The medical insurance payment price development restricted the drug price from the medical insurance payment client, improving the participation of hospitals in the procurement as the medical services provider, demonstrating that China encouraged the public hospitals to form the purchasing consortium and purchasing group etc. This transited to tendering and purchasing unity and association with pricing and quantity from the previous tendering and purchasing separation to promote the medical and health service institutions to actively lower the merchandising price.

4. *Pharmaceutical distribution*

On 26 April 2016, the State Council issued 2016 Key Tasks about Deepening the Reform of Medical and Health System, which clearly pointed out that pilot provinces of comprehensive health-care reform must implement the “two-invoice” system in order to reduce intermediate links and expedite industry shuffling. On 3 May 2016, CFDA issued Notice about Regulating Illegal Business in Drug Circulation Industry, which further reorganized and regulated the order of drug circulation and strictly combat illegal business. The State Council issued the Decision about Modifying Management Regulation about Vaccine Circulation and Vaccination, which aimed to proactively regulate the system of vaccine circulation and vaccination management, reinforce the whole management system for vaccine cold-chain storage, transport and tracking, and increase the intensity of punishment and accountability.

5. *Pharmaceutical retail*

On 28 July 2016, CFDA issued Completion of Pilot Work about Online Pharmaceutical Retail on Internet Third-party Platform. Accordingly, all the trials about online pharmaceutical retail on internet third-party platforms in Guangdong, Shanghai and Hebei were halted. CFDA said that during the trial process, some problems were exposed, such as unclear entity responsibility between third-party platforms and physical medicine stores, difficult and ineffective supervision about prescription medicine sales and medicine quality and so on, which was disadvantageous for protection of consumer interest and medication safety.

6. *Policy influence and counter-measures*

During the Reporting Period, a series of important policies in various fields of pharmaceutical industry were issued, covering the whole process of pharmaceutical production, circulation and usage and putting forward systematic reform measures which aimed to encourage innovation, improve medicine supply quality, phase out outdated production facilities, enhance industry concentration, promote reasonable medicine pricing, establish a regulated and ordered security system for medicine provision so as to better meet the people’s medical need and advance the construction of healthy China. All these policies will comprehensively promote industry upgrade and structural adjustment in pharmaceutical industry, making it develop more healthily. As one of the leading groups in domestic pharmaceutical industry, the Company will proactively blend in national strategies, follow the trend of industry development, and implement national medicine regulations and policies. Through continuously enhancing innovative development, concentrated management, acquisition and reorganization, the Company can improve its core competitiveness and strive to become a respectful manufacturer with leading brand medicine and a service provider in health-care field with industry reputation.

(III) Operation Model, Main Businesses, and Industry Position of the Company

Shanghai Pharmaceuticals is a large pharmaceutical group to have a dual-listing in the stock exchanges of Shanghai and Hong Kong and the core enterprise of major health industry segment of the controlling shareholder SIIC, with main businesses covering pharmaceutical industry, distribution and retail. The Company adheres to innovation and development, lean management and capital-driving with leading position for many years in the industry.

An Overview of Company Businesses

Pharmaceutical industry: Shanghai Pharmaceuticals attaches great importance to research and development for both generic and original drugs, with a vision of providing safe and effective drugs for patients with critical illness and chronic diseases. Shanghai Pharmaceuticals is focused on five therapeutic areas of digestive and metabolic systems, cerebral and cardio vascular diseases, anti-infection, neuro-psycho diseases and oncology. It has manufacturing bases in 8 provinces, including a specialist API base, a modern TCM (Traditional Chinese Medicine) base, a fine chemical reagent factory and a health care products production base. Shanghai Pharmaceuticals manufactures more than 800 drugs with more than 20 dosage forms and 26 products having sales of over RMB100 million. Subordinate manufactories of Shanghai Pharmaceuticals will produce products strictly in accordance with the new state GMP standards. It adopts a marketing model combining direct sale and distributor sale, with its distribution network covering the hospitals and retail terminals.

Pharmaceutical distribution: The Company's distribution business ranks the 3rd position in size in the PRC, adhering to the national commercial network layout. During the Reporting Period, the distribution network covered 31 provinces, municipalities and autonomous regions, among which, holding subsidiaries directly covered 20 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, covers more than 25,000 healthcare institutions. The distribution enterprises of the Company are engaged in medicine distribution business strictly in accordance with the requirements of the national GSP specifications to provide the distribution services and other value-added services for products of pharmaceutical manufacturers delivered to hospital terminals, retail outlets and the third terminal all over the country through its own logistics, third party logistics and other channels and benefit from the price difference between the purchase price and selling price.

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 1,800 chained pharmacies in 16 provinces with Huashi 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 GSP 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 1059th in top 2000 global enterprises of 2016 issued by Forbes (Chinese Edition);
- Ranking 55th in top 500 Chinese enterprises of 2016 issued by Fortune (Chinese Edition);
- Ranking 133th in top 500 Chinese enterprises of 2016, 51th in top 500 enterprises in Chinese manufacturing industry in 2016, issued by China Enterprise Confederation and China Entrepreneur Association;

An Overview of Company Businesses

- Ranking 16th in top 100 Shanghai enterprises of 2016, 7th in top 50 enterprises in Shanghai manufacturing industry in 2016, 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 2016, 2nd in top 100 industrial enterprises in comprehensive strength in Chinese chemical pharmaceutical industry in 2016, 9th in excellent BPC-exporting enterprises in Chinese chemical pharmaceutical industry in 2016, jointly issued by China Chemical & Pharmaceutical Industry Association, China Association of Pharmaceutical Commerce, China Nonprescription Medicine Association and China Development Promotion Association for Pharmaceutical Industry;
- Ranking 3rd in top 100 in Chinese pharmacy industry in 2015 and being selected as 2016 Chinese Medicine Enterprise with the Most Sense of Social Responsibility, issued by CFDA Southern Medicine Economic Institute and Medicine Economic Newspaper;
- Being selected as the best Industrial Enterprise with Drug R&D Product Line in China in 2016 by China Medicine Industry Information Center;
- 2016 Top 50 enterprises in chemical R&D strength in China, top 50 in comprehensive medicine R&D strength in China, top 50 in TCM R&D strength in China selected by China Medicine R&D Innovation Summit;
- 2016 Top 100 listed companies with core competitiveness in China, the enterprise with the most industrial brand influence among Chinese listed companies selected by China Institute of Development Studies for Listed Companies, China Famous Brand Institute and etc..

(IV) Main performance driving factors

Innovative development: Regarding medicine industry, the Company insisted on the combination of imitation and innovation, continuously increased R&D input which enabled multiple R&D projects to progress smoothly; as for pharmaceutical distribution, the Company proactively expanded the efficient, agile and smart modernized supply-chain service network, expedited the rapid expansion of innovative businesses including medicine store trusteeship, SPD, DTP and so on; as for pharmaceutical retail, Cloud Health Medicine, a sub-brand of the Company, focused on obtainment, management and dispensing of medicine prescription, took provision of value-added service for patients as the core mission, proactively explore the potential opportunities and solutions for pharmaceutical retail and E-commerce. Relying on offline terminal branches, online information technology platforms, the advantage of complete categories, efficient logistics and other characteristics, the Company explored the services of extended prescription dispensing and external prescription dispensing in designated community pharmacies.

An Overview of Company Businesses

Concentrated management: Regarding medicine industry, the Company insisted on putting emphasis on strategic key products and advantageous treatment field, formulated the principle of “one product one solution” for key products, achieve products’ full potential, strengthened the construction of marketing center platform and established the synergized mechanism for production and sales; on the other hand, the Company continuously advanced optimization and consolidation of producing and manufacturing bases, expedited adjustment of industrial layout, paid attention to the streamlining, automation and information construction of industrial manufacturing, thereby ensuring the control of industrial production cost and the improving of product quality in the Company; as for pharmaceutical distribution, the Company seized the opportunity of the national “two-invoice” system, expedited the deployment of various provincial level platforms and the construction of integrated information, purchasing, logistics and finance platforms.

M&A and Expansion: Regarding medicine industry, the Company entered the overseas market of health-care products through international mergers and acquisitions, thereby sharing profit brought by the future industrial growth and promoting international development; on the other hand, the Company spared no effort in promoting the strategic layout for the whole TCM industry chain, obtained breakthroughs in upstream TCM material growing bases, downstream TCM medical organization service and the innovative business of TCM formula granule; as for pharmaceutical distribution, the Company insisted on the layout of nationwide commercialized network, expedited to tap blank areas. As a result, the Company has realized the new entry into Yunnan and Heilongjiang.

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

✓ Applicable □ Not applicable

Unit: RMB

Main Assets	Consolidated on 31 December 2016	Consolidated on 31 December 2015	Changes in current amount as compared to last period (%)	Explanation of material changes (over 30%)
Long-term equity investment	4,227,206,159.43	3,636,906,109.52	16.23	/
Fixed assets	5,252,961,272.94	4,951,502,320.90	6.09	/
Under construction	1,308,125,663.10	741,611,620.55	76.39	During the Reporting Period, the investment in projects increased
Intangible assets	2,750,893,639.94	1,984,203,293.51	38.64	During the Reporting Period, the acquisition of subsidiaries increased
Goodwill	5,847,987,408.43	4,815,618,280.42	21.44	/

Among which, overseas assets amounted to 2,847,659,596.87 (Unit: Yuan, Currency: RMB), the percentage to the total assets is 3.44%

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

III. CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

✓ Applicable ☐ Not applicable

1. Industrial Chain Advantage

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

(1) *R&D Advantage*

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

(2) *Manufacturing Advantage*

The Company has production lines for all dosage forms and insists on implementing lean management in a comprehensive manner. It maintains its advantage in quality and cost by creating the MES system and LIMS system for information-oriented production management, optimizing each process in medicine production and focusing on technological innovation and the enhancement of industrialization capability and quality control capability. At the same time, it positively conducted international development. Many of its active pharmaceutical ingredients have attained quality certification issued by WHO, FDA, EU and other developed countries. Rosuvastatin Calcium Tablets were granted the US FDA approval number.

(3) *Channel advantage*

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

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 "Shanghai Pharmaceuticals" brand.

3. Digital technology advantage

With an aim of digitalization and following the government's call on integration of informatization and industrialization, the Company has actively involved in smart system development and launched a system of ten major shared platforms represented by master data with regard to the integration of informatization and industrialization.

4. Financial advantage

The Company has a sound financial structure, good control of debt to asset ratio, better capital operation and financing capacity to support its sustainable development.

5. Team 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. It has set up a multi-level talent development system featuring Little Wild Goose, Large Wild Goose, Elite Wild Goose and Leading Wild Goose, contributing to a team with the right structure, good match of skill-set and position, high quality, strong devotion and a perfect fit for the Company's development strategy.

Report of the Board of Directors

I. DISCUSSION AND ANALYSIS OF THE OPERATION DURING THE REPORTING PERIOD

■ Overview

The year of 2016 was the beginning year of new round scrolling strategic planning of “Three Three Three Plus One” of Shanghai Pharma. During the Reporting Period, facing the major changes in a series of policies and market caused by a new round of tender process, for example, drug price decrease, reform of new policies related to drug approval and supporting systems, implementation of quality and efficacy consistency evaluation for generic drugs, strengthening the production process inspection and unannounced inspection, zero mark-up of drug, two-invoice system, replacing business tax with value-added tax and anti-commercial bribery etc., and under the leadership of the board of directors, the Company insisted on strategic planning, complied with reform policy, faced the difficulties directly, made new progress and smoothly completed the annual business goal and various key tasks.

During the Reporting Period, the Company's operating income was RMB120.765 billion, up by 14.45% on a YOY basis. Net profit attributable to the equity holders of the listed company was RMB3.196 billion, representing an increase of 11.10% on a YOY basis. The net profit after deducting non-recurring profits and losses attributable to equity holders of listed companies was RMB2.926 billion, representing an increase of 15.62% on a YOY basis. Basic earnings per share amounted to RMB1.1887; and the earnings per share after deducting non-recurring profits and losses were RMB1.0880. During the Reporting Period, the Company's net cash flows from operating activities amounted to RMB1.947 billion, up by 44.29% on a YOY basis. As at 31 December 2016, the owners' equity of the Company was RMB36.834 billion; its owners' equity after deducting minority interest was RMB31.623 billion and its total assets were RMB82.743 billion. During the Reporting Period, the Company promoted endogenous growth and expansion of business in an orderly manner, strengthened intensive development, innovation and transformation, improved layout of strategic industry and accelerated integration of industry and finance to provide help in capital by issuing bonds, and setting up industry fund with international development making preliminary progress.

Priorities and Highlights of the Company during the Reporting Period:

1. Pharmaceutical manufacturing

The Company constantly increased investment in research and development, deeply optimized the research and development system, established research, development and management center, and has made several phased achievements. Recombinant anti CD20 humanized monoclonal antibody injection, SPH3127 and SPH1188-11 obtained clinical approvals, recombinant anti HER2 humanized monoclonal antibody composition used for injection purpose was under the progress of application as clinical drug, 17 varieties of generic drugs obtained clinical approvals, production approvals were applied for 5 varieties, new traditional Chinese medicine – salvianolic acid A (SAA) obtained clinical approvals, and Rosuvastatin Calcium obtained U.S. FDA approval certificate.

The Company focused on promoting quality and efficacy consistency evaluation for generic drugs, and currently has completed approval for first batch of 70 varieties, employed 15 higher colleges and R&D companies as technical service provider, established reference product purchase warehouse for Shanghai Pharma, confirmed 32 varieties proposed to be developed, and signed strategic framework agreement with 10 third-level class-A hospitals in Shanghai so as to carry out clinical test cooperation.

The Company constantly promoted the production and manufacturing level, reduced cost, increased efficiency and made management work more perfect. Some major projects construction and product adjustment were subject to be completed as scheduled, and product structure and profitability in several production bases were largely improved.

The Company fully promoted the full-industry chain strategic layout of traditional Chinese medicine, and had established the drug planning bases in Liaoning, Shandong, Shanghai, Hunan and Yunnan which were standardized, regulated, scientific and quality traced. Up to now, planting base for 10 varieties had been set up. The Company had invested RMB306 million to found joint venture with Tsumura to integrate respective advantages and entered into traditional Chinese medicine formula particles field. The joint venture's registered capital is RMB600 million with total investment amount of RMB1.2 billion.

2. Pharmaceutical Distribution

In 2016, the Company's pharmaceutical distribution business scale exceeded RMB100 billion, with year-on-year growth rate exceeding average rate of whole industry. The national-level strategic layout was further promoted. Major breakthroughs were achieved in Yunnan and Heilongjiang, number of provinces or cities with distribution business increased from 18 to 20, and quantity of medical institution was largely increased. Gross profit rate of distribution business was basically stable, product structure continued to be optimized, creation business represented by SPD was promoted across China and certain new modes such as comprehensive reform of community and quantized purchase were developed.

3. Pharmaceutical Retail

In 2016, the pharmaceutical retail business developed stably, with sales volume exceeding RMB5 billion. The Company started the internal integration and external expansion of retail resources. The purchase of Nantong Subo Pharmacy Co., Ltd. strengthened the retail network and competitiveness in Jiangsu area. Meanwhile, the Company expanded the number of pharmacies co-established with hospitals, and by the end of 2016, additional 11 pharmacies were newly established. In terms of medical e-commerce, cloud-health business was lifted to a new level, and Shanghai Pharma completed A+ round financing, increased registered capital to RMB1.333 billion, constantly improved its self-established electronic prescription circulation system, actively expanded and connected medical institutions. The electronic prescription treatment volume was rapidly increased which laid good foundation for further undertaking separation of clinic from pharmacy.

4. New Business of Grand Health

The Company established Shanghai Pharma Investment Management Company, promoted several cooperation projects. The first traditional Chinese medicine clinic was officially put into operation in Shanghai for seeking for new growth point with “good doctor +good medicine”. The Company completed the project of privatization of Australian listed company – Vitaco, and purchased 60% equity of Vitaco with contributions of approximately RMB930 million, continued to improve layout in the field of Grand-Health health care products and achieved breakthroughs in international development.

5. Internal Management

With respect to management and mechanism reform, the Company promoted the performance system optimization, continued to intensify the talent cultivation and optimize incentive mechanism, further improved risk management and control system construction, and ensured business risk under control.

6. Capital Operation

The Company constantly promoted industrial and financial integration, and set up the U.S. PAPPAS (Phase V) and Shanghai Lianyi Investment Center (limited partnership) after participating in the establishment of Shanghai Healthcare Industry Equity Investment Fund Partnership. Till then, Shanghai Pharma had made contributions for and been involved in investment and financing management of three investment fund companies, fully utilized the capital market to lay good foundation for company merger and acquisition. During the Reporting Period, the Company issued corporate bonds (1st issue) for 2016 with issuing scale of RMB2 billion at the interest rate of 2.98%.

The Company’s main business, abiding by the relevant laws and regulations that have a significant impact on the Company and the environmental policies and performance of the Company are set out in “Section III Business Overview” above. During the Reporting Period, the Company’s main businesses are as follows:

■ Pharmaceutical manufacturing

I. Pharmaceutical production

☒ Applicable ☐ Not applicable

During the Reporting Period, the Company’s sales revenue from the pharmaceutical business was RMB12.416 billion, representing an increase of 5.01% on a YOY basis; its gross profit margin was 51.57%, an increase of 1.85 percentage points on a YOY basis. The operating profit margin after deducting sales and administration costs was 12.39%, on par with the same period of last year.

During the Reporting Period, the Company's sales revenue from chemical and biochemical drugs was RMB5.773 billion, up by 8.29% on a YOY basis; sales revenue from Chinese medicines (including Chinese patent medicine and Chinese herbal medicine) was RMB4.552 billion, up by 3.30% on a YOY basis; sales revenue from biological drugs was RMB382 million, down by 6.50% on a YOY basis; and sales revenue from other industrial products (including active pharmaceutical ingredients (APIs), healthcare products and medical devices, etc.) was RMB1.709 billion, up by 1.85% on a YOY basis.

During the Reporting Period, the Company continued to implement its strategy of focusing on key products. Sales revenue of 60 key products reached RMB6.920 billion, up by 3.67% on a YOY basis, accounting for 55.73% of the revenue from industrial sales. The gross profit margin of the key products was 68.69%, up by 1.15 percentage point on a YOY basis. Among the key products, 37 products achieved a growth rate higher than or equivalent to that of similar products of IMS Health Inc. 26 products had sales revenue for the year exceeding RMB100 million.

As at the end of the Reporting Period, all 41 industrial subsidiaries of the Company passed GMP certification and obtained a total of 99 GMP (2010 Edition) certificates, including 26 certificates involving aseptic production and 73 certificates involving non-aseptic production. By reforming and passing the GMP certification, the Company has comprehensively enhanced its technological equipment, production management and quality management in pharmaceutical manufacturing for ensuring to continuously and steadily produce the drugs that meet the intended use and registration requirements.

1. Basic information about the main drugs (products)

☒ Applicable ☐ Not applicable

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

☒ Applicable ☐ Not applicable

For more details, please read the following table.

Report of the Board of Directors

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

✓ Applicable □ Not applicable

Main therapeutic area	Drug (product) name	By industry	Indications/major functions	Whether it belongs to the protection varieties of traditional Chinese medicines	Whether it belongs to prescription drugs	The beginning and ending dates of invention patent Registration classification of drugs (products)	Whether it belongs to the new drugs (products)	launched during the Reporting Period
Cardiovascular system disease	Shenmai injection (20ml/10000 vials)	Production of Chinese patent medicine	For the treatment of Qi and Yin deficiency type of shock, coronary heart disease, viral myocarditis, chronic pulmonary heart disease and Granulocytopenia.	No	Yes	2007.11.23-2027.11.23	Traditional Chinese medicine	No
Antineoplastic drug and immunomodulator	Hydroxychloroquine Sulfate Tablets (0.1g/10000 pieces)	Chemical drug preparation	Rheumatoid arthritis, juvenile chronic arthritis, discoid lupus erythematosus and systemic lupus erythematosus, as well as skin lesions triggered or exacerbated by the sun.	No	Yes	2010.12.28-2030.12.28	Class 4 of western medicine	No
Digestive and metabolic disease	Live combined bifidobacterium (10000 tablets)	Biopharmaceutical	For diarrhea and abdominal distension caused by alteration of intestinal flora, also can be used for the treatment of mild to moderate acute diarrhea and chronic diarrhea	No	Double-span drugs	2000.9.28-2020.9.28	Class 1 of biological products	No
Cardiovascular system disease	Sodium tanshinone II A sulfonate injection (2ml/10000 vials)	Chemical drug preparation	Adjuvant therapy of Coronary heart disease, stenocardia and myocardial infarction	No	Yes	2010.9.30-2030.9.30	-	No
Systemic anti-infective medicine	Cefotiam hydrochloride for injection (0.5g/10000 vials)	Chemical drug preparation	It was mainly used for infection caused by staphylococcus, streptococcus (except enterococcus), 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

Notes ① There are various specifications of Shenmai injection and it is converted into the most commonly used specification of 20ml; There are various specifications of Live combined bifidobacterium and it is converted into ten thousand pieces; the specification of cefotiam hydrochloride for injection is converted into 0.5g;

② There were no Provisions for Drug Registration when the production of Sodium tanshinon IIA silate injection was declared, so it does not have a registration classification;

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

✓ Applicable ☐ Not applicable

Main products	Unit	Production volume	Sales volume	Inventory volume	Increase or decrease percentage of production volume over the previous year (%)	Increase or decrease percentage of sales volume over the year (%)	Increase or decrease percentage of inventory volume over the previous year (%)
Shenmai injection	10,000 vials (20ml/vial)	3,901	3,748	534	8.91	9.84	4.07
Hydroxychloroquine sulfate tablets	10,000 pieces (0.1g/piece)	30,004	30,331	1,286	22.91	21.75	-21.59
Live combined bifidobacterium	10,000 pieces	48,121	50,805	13,175	-30.50	-8.80	-17.88
Sodium tanshinone II A sulfate injection	10,000 vials (2ml/vial)	10,853	11,000	323	-14.39	-18.57	-40.84
Cefotiam hydrochloride for injection	10,000 vials (0.5g/vial)	4,388	3,662	1,124	37.41	7.30	149.12

Description on Production and Sales Volume

- ① Live combined bifidobacterium: inventory of 2015 was larger, and production was arranged in a proper manner in 2016.
- ② Sodium tanshinone II A sulfonate injection: strengthen production management and control, and reduce inventory.
- ③ Cephalosporin Hydrochloride for injection: considering the GMP transformation and successful bidding of Shanghai GPO and other factors in 2017, goods are properly stored during production, causing the increase of inventory and production volumes compared with 2015.

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

✓ Applicable ☐ Not applicable

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

Notes: on 23 February 2017, China's new-version medical insurance directory (published on website of Ministry of Human Resources and Social Security of China) included 2,535 drugs, including 1,297 western medicine, 1,150 Chinese patent medicine and 88 ethno-drugs. A total of 646 drugs developed by our Company were included in the directory, and compared with the directory of 2009, additional 20 drugs were newly included. Five major drugs of the Company were not the drugs newly included in or excluded from the directory. (Final version of medical insurance directory is subject to hard copy prepared by Ministry of Human Resources and Social Security).

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

✓ Applicable ☐ Not applicable

Main Drugs (Products) Name	Bid-winning Price Range (RMB)	Actual Purchase Quantity in Total of Medical Institutions
Shenmai Injection	12.78-17.00 (10ml)	3.316 million ampoules
	24.56-31.53 (20ml)	6.862 million ampoules
	54.18-83.20 (50ml)	4.094 million ampoules
	114-148.00 (100ml)	0.967 million ampoules
Hydroxychloroquine Sulfate Tablets	23.48-31.54 (0.1g*14)	14.148 million boxes
Live Combined Bifidobacterium	20.46-25.20 (Capsules 0.21g*24)	1.111 million boxes
	30.08 (Capsules 0.21g*30)	1.068 million boxes
	30.24-37.24 (Capsules 0.21g*36)	4.877 million boxes
	15.72-17.35 (Powder 1g*6)	0.946 million boxes
	17.81-20.48 (Powder 1g*7)	1.795 million boxes
Sodium tanshinon IIA silate injection	15.63-18.26 (2ml:10mg)	60.299 million ampoules
Cephalosporin Hydrochloride for Injection	15.01-16.25 (0.25g)	3.178 million bottles
	25.73-29.00 (0.5g)	8.294 million bottles
	43.37-46.44 (1g)	5.635 million bottles
	73.50-82.55 (2g)	0.048 million bottles

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

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

Explanation

✓ Applicable ☐ Not applicable

In 2016, the bid-winning price of some drugs, to some extent, dropped, but the sales volume of some products increased; therefore, the overall influence is controllable.

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

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

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

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Therapeutic Area	Main traditional Chinese medicine products	Important medicinal materials	Supply and demand	Purchase pattern	Influence of fluctuations in price
Digestive system	Weifuchun tablets	citrus aurantium, Rabdosia amethystoides (Benth.)Hara, ginseng, etc.	With stable supply sources	Centralized purchasing from the place of origins of medicinal materials; Bidding purchase by comparing the quality and price	Price was stable, without influence basically.
Cardiovascular System	Ginkgo ketone series	Ginkgo biloba leaf, etc.	With stable supply sources	Commitment purchase	The price was stable basically; the price of Ginkgo biloba leaf was stable with slight increase, without influence basically.

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

✓ Applicable ☐ Not applicable

The Company possesses 20 well-known or famous trademarks, including well known and famous trademarks (Sine, Lei's, Shenxiang, Dragon & Tiger and Dinglu), well known trademark (Guofeng and Cangsong) and famous trademarks (Huashi, Bifico, Nuoxinkang, Lisu, Xingling, Huguang, Ya, Zhongxi, Yutu, Eagle, 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	Main drug name	Operating income	Operating margin
Bifico	Live Combined Bifidobacterium	RMB348.53 million	RMB267.78 million
Nuoxinkang	Sodium tanshinon IIA silate injection	RMB330.01 million	RMB230.34 million
Ya	Cephalosporin Hydrochloride for Injection	RMB326.17 million	RMB192.46 million

Report of the Board of Directors

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

✓ Applicable □ Not applicable

Unit: RMB0'000

Treatment field	Operating income	Operating cost	Gross profit margin	Increase/decrease in operating income YOY (%)	Increase/decrease in operating cost YOY (%)	Increase/decrease in gross profit margin YOY(%)	Gross profit margin of the products in the same industry and field
Cardiovascular System	285,687	109,527	61.66%	0.47	-2.27	1.08	21.61%
Digestive and Metabolism	144,416	69,108	52.15%	0.65	-6.03	3.40	36.97%
Systemic Antiinfection	120,473	76,000	36.92%	-5.20	-5.37	0.11	32.12%
Neurological System	58,112	18,657	67.90%	12.15	10.32	0.53	84.14%
Antineoplastic drug and immunomodulator	80,485	14,290	82.25%	19.00	20.98	-0.29	69.97%
Musculoskeletal System	72,166	21,300	70.49%	3.04	0.46	0.76	/
Respiratory system	70,610	37,459	46.95%	7.76	7.61	0.07	/
Others	409,607	238,721	41.72%	9.97	3.23	2.43	/
Total	1,241,558	585,062	52.88%	5.01	0.54	2.10	/

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

Explanation

✓ Applicable □ Not applicable

- ① For the drugs on cardiovascular system in the same industry or filed, its gross profit margin data were sourced from the gross profit margin data recorded in 2015 annual report of HISUN.
- ② The data of gross profit rate of the same product field in the same industry of the digestive tract and metabolism, systemic anti-infective, anti-tumor and immunomodulatory agents come from the gross profit rate of “digestive system” “anti-infective” and “anti-tumor” products in the 2015 Annual Report of Harbin Pharmaceutical Group.
- ③ The data of gross profit rate of the same product field in the same industry of the central nervous system come from the gross profit rate of “central nervous system drugs” products in the 2015 Annual Report of Humanwell Medicine.
- ④ The data of gross profit rate of the same product field in the same industry of musculoskeletal system and the respiratory system still cannot be obtained from the data of the companies which have published in 2015 annual reports.

8. Main Manufacturing Sales Model Analysis of the Company

☒ Applicable ☐ Not applicable

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

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

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

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9. Sales Cost Analysis

(1). *Specific Compositions of Industrial Sales Cost*

☒ Applicable ☐ Not applicable

Unit: RMB0'000

Specific item name	The amount incurred in current period	Percentage of the amount incurred in current period accounting for total sales costs (%)
Employee Compensations and Relevant Welfares	64,746.59	20.18
Marketing Promotion and Advertising Costs	102,323.00	31.90
Travels and Conferences Costs	88,621.43	27.63
Transportation Costs	22,268.41	6.94
Rental Costs	2,462.86	0.77
Office Costs	7,700.30	2.40
Amortization of Intangible Assets	1,274.81	0.40
Depreciation of Fixed Assets	329.65	0.10
Others	31,054.85	9.68
Total	320,781.90	100.00

Report of the Board of Directors

(2). *Comparison in the same industry*

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Comparable Companies in the Same Industry	Sales Costs	Percentage of Sales Costs Accounting for Operating Income (%)
Baiyunshan Pharmaceutical	416,768.09	21.79
Fosun Pharmaceutical	281,514.14	22.33
Hengrui Medicine	352,497.87	37.84
Huarun Sanjiu Medical	267,728.33	33.89
Livzon Group	254,167.51	38.39
Average Sales Costs in the Same Industry		314,535.19
Total Sales Costs of the Company During the Reporting Period		320,781.90
Percentage of Sales Costs Accounting for Industrial Operating Income During the Reporting Period (%)		25.84

Note: ① The data of the above five comparable companies is derived from their respective 2015 annual reports. The average sales costs of the same industries are the arithmetic average of the five comparable companies in 2015.

② The above "total amount of the sales expenses of the Company during the Reporting Period" means "total amount of the industry sales expenses of the Company during the Reporting Period"; "sales expenses accounted for the proportion of revenue of the Company during the Reporting Period" means "industry sales expenses accounted for the proportion of revenue of the Company during the Reporting Period".

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

✓ Applicable ☐ Not applicable

During the Reporting Period, the total industrial sales costs of the Company was RMB3,207.8190 million, accounting for 25.84% of the industrial operating income, without significant changes compared with the same period of last year, and the sales cost margin was reasonable. The Company applies the approach of classification management for the cost of sales. There is scientific advance budgeting, strict budgetary control in the process and post analysis of the difference reasons. There are the special review and approval processes for the preparation, use and adjustment of the budget of cost of sales; at the same time, the external channel cooperation shall be strengthened and the cost shall be controlled, and the costs is cut internally in parallel; thus the cost of sales can be effectively controlled.

II. PHARMACEUTICAL RESEARCH AND DEVELOPMENT

✓ Applicable ☐ Not applicable

During the Reporting Period, the total amount of R&D investment of the Company (excluding the investment in the construction of interim test bases of the Company) was RMB670.55 million, accounting for 5.40% of manufacturing sales income of the Company. Among them, 23.12% was invested in R&D of innovative drugs, 20.77% was invested in the R&D of generic drugs, 48.20% was invested in the secondary development of existing products, and 7.91% was invested in the quality and efficacy consistent evaluation of generic drugs.

The Company constantly deeply optimized the research and development system, established research, development and management center, conducted line management towards research and development business of four core companies under the Group as pilot project and had made several phased achievements. Class-1.1 innovative drugs – “SPH3127 and its tablet” and “SPH1188-11 and its tablet” obtained clinical approvals and biological products for treatment purpose – “recombinant anti CD20 humanized monoclonal antibody injection” – obtained clinical approvals, class-1 biological products for treatment purpose – “recombinant anti HER2 humanized monoclonal antibody composition” used for injection purpose was under the progress of application as clinical drug. 17 varieties of generic drugs obtained clinical approvals, and production approvals were applied for 5 varieties. Class-1 new traditional Chinese medicine – “salvianolic acid A (SAA) and its powder-injection” obtained clinical approvals; Rosuvastatin Calcium obtained ANDA approval from U.S. FDA; and bulk pharmaceutical chemicals such as valaciclovir hydrochloride and ganciclovir passed the FDA certification. The sale volumes of the new products researched and developed and appeared in market in 2016 were RMB1.54 billion, accounting for 12.40% of total industrial sales volumes of the Company.

The Company strengthened the open cooperation, optimized research and development model, and started the cooperation project on researching and developing class-1 new type anti-pulmonary fibrosis drug with Sichuan University; promoted the construction of industrial pilot base of Shanghai Pharma (Benxi) North Pharmaceutical Co., Ltd. as per schedule; and completed the construction of production base of bulk pharmaceutical chemicals of SPH ZhongxiSunve Pharmaceutical Co., Ltd.

During the Reporting Report, the Company fully promoted quality and efficacy consistency evaluation for generic drugs. According to the directory of 289 generic drugs needed to complete the consistency evaluation before 2018 as latest released by CFDA, a total of 156 drugs are related to the subsidiaries of Shanghai Pharma (a total of 370 approvals). The Company planned to implement quality and efficacy consistency evaluation for 90 drugs, and currently the first batch of 70 drugs were applied for approval, including 21 drugs not listed in the directory of 289 generic drugs. The Company had employed 15 higher colleges and R&D companies as technical service provider, established reference product purchase warehouse for Shanghai Pharma, and signed strategic framework agreement with ten third-level class-A hospitals in Shanghai so as to carry out clinical test cooperation.

The main R&D field of the Company:

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

Demarcation of research phase and development phase:

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

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

The accounting policy for R&D:

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

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

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

1. R&D investment

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

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Drug (product)	R&D Investment amount	Expensed R&D Investment amount	Capitalized R&D investment amount	Percentage of R&D investment in the operating income (%)	Percentage of R&D investment in operating costs (%)	The YOY percentage of the current amount (%)	Explanation
Shenmai Injection	198.61	198.61	0	0.25	1.44	15.03	Secondary development
Hydroxychloroquine Sulfate Tablets	220.05	215.35	4.7	0.45	1.57	46.67	Secondary development
Live Combined Bifidobacterium	359.27	359.27	0	1.03	4.45	18.89	Secondary development
Sodium tanshinon IIA silate injection	159.65	159.65	0	0.48	1.60	137.40	Secondary development
Cephalosp-orin Hydrochloride for Injection	213.59	213.59	0	0.65	1.60	-4.90	Secondary development

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

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(2). *Table of R&D investment*

☒ Applicable ☐ Not applicable

	<i>Unit: RMB0'000</i>
Expensed R&D investment in the Reporting period	65,433
Capitalized R&D investment in the current period	1,622
Total investment in R&D	67,055
Percentage of the total amount of R&D investment in operation income (%)	5.40
Number of R&D personnel of the Company	853
Percentage of the number of R&D personnel in the total number of personnel of the Company (%)	2.09
Percentage of capitalized R&D investment (%)	2.42

Note: Percentage of R&D investment represents that in manufacturing operation 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 further increased investment in R&D and the proportion of R&D investment rose compared with that of last year.

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(3). *Comparison in the same industry*

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Comparable companies in the same industry	R&D investment amount	Percentage of R&D investment in the operating income (%)	Percentage of R&D investment in net assets
Humanwell Medicine	40,375	4.02	5.12
Harbin Pharmaceutical Group	20,084	1.27	2.85
Fosun Pharmaceutical	83,020	6.60	4.57
North China Pharmaceutical	17,043	2.16	3.22
Baiyunshan Pharmaceutical	31,574	1.65	3.64
Average amount of R&D investment in the same industry			38,419.45
Amount of R&D investment of the Company during the Reporting Period			67,055
Percentage of R&D investment in the manufacturing operation income of the Company during the Reporting Period (%)			5.40
Percentage of R&D investment in net assets of the Company during the Reporting Period (%)			3.64

Note: ① The data of the above 5 comparable companies were from the respective of 2015 annual report of that company; The average amount of R&D investment in the same industry was the arithmetic average of the above 5 comparable companies in 2015.

② Percentage of R&D investment of the above represents the percentage in manufacturing operation income and manufacturing net assets.

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

✓ Applicable ☐ Not applicable

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

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2. Main R&D projects and key R&D projects to be carried out in the new year

✓Applicable □Not applicable

Unit: RMB0'000

R&D project	Basic information of drug (product)	Phase of R&D (Registration)	Progress status	ccumulative R&D investment	Number of declared manufacturers	Number of approved domestic generic manufacturers	Work in 2017
Deuteporfin	Class 1 of chemical drugs, indications: Tumors	Clinical phase II	Clinical phase II	3,782.57	None	None	Under clinical phase II studies
SPH3127	Class 1 of chemical drugs, indications: Hypertension	CDE review	Approval for clinic	8,287.34	None	None	Carried out clinical phase I studies
SPH1188	Class 1 of chemical drugs, indications: Non-small-cell lung cancer	CDE review	Approval for clinic	2,276.21	None	None	Started clinical phase I studies
TNFα receptor Fc fusion protein	Class 7 of biological drugs, indications: Rheumatoid arthritis	Clinical phase I	Clinical phase I	6,161.95	None	None	Continued clinical phase I studies
Recombinant anti-CD20 humanized monoclonal antibody injection	Class 2 of biological drugs, indications: CD20 positive non-Hodgkin's lymphoma	Preclinical Studies	Approval for clinic	9,316.84	None	None	Started clinical phase I studies
Lei Teng Shu	Class 1.1 of biological drugs, indications: Rheumatoid arthritis	Clinical phase I	It has completed clinical phase I studies	3,227.01	None	None	Started clinical phase II declaration
Injectable recombinant anti-HER2 humanized monoclonal antibody composition	Class 1 of biological drugs, indications: Her2-positive breast cancer	Declared clinic	It has declared clinic and been accepted and is in review	8,889.37	None	None	Replied to review comments and completed supplementary 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.

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The impact of R&D projects on the Company

✓Applicable ☐Not applicable

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

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

✓Applicable ☐Not applicable

During the Reporting Period, a total of 7 drugs (including different varieties and specifications, see below) of the Company were submitted to the supervision department for approval, including 1 clinical trial approval document and 6 manufacturing approval documents.

(1). *Information about 7 drugs (products) submitted to the supervision department for approval:*

Drugs (products) submitted to the state drug supervision department for approval				
No.		Examination and approval matters	Indications	Classification of registration
1	Injectable recombinant anti-HER2 humanized monoclonal antibody composition	Clinical trial application	Breast cancer	Class 1 of biological drugs for treatment
2	Alfacalcidol	Manufacturing application	It applies to osteoporosis and rickets and osteomalacia caused by various reasons.	Class 4 of chemical drugs
3	Thyroid powder	Manufacturing application	It is used for treating cretinism and hypothyroidism, etc.	API
4	Ertai injection	Increase in specifications	It applies to parenteral nutrition of patients who needed glutamine including patients in catabolism and hypermetabolism.	Chemical drugs (supplementary application)

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No.	Drugs (products) submitted to the state drug supervision department for approval	Examination and approval matters	Indications	Classification of registration
5	Octreotide acetate for injection	Increase in specifications	1. Treating Gastric variceal bleeding of esophagus caused by liver cirrhosis; 2. Preventing the complication of postoperative pancreatitis 3. Alleviating symptoms and signs related with endocrine neoplasia in the stomach intestine.	Chemical drugs (supplementary application)
6	Desloratadine tablet	New drug certificate holders application documents	Anti-allergy	Chemical drugs (supplementary application)
7	Desloratadine capsule	New drug certificate holders application documents	Anti-allergy	Chemical drugs (supplementary application)

During the Reporting Period, the Company obtained 46 clinic trial approvals (8 new drugs and 38 generic drugs) and 1 approval for drug production; these approvals further enriched the product line of the Company and more effectively promoted the sustainable development of business of the Company. The Company will seize the opportunity to promote listing based on market changes.

(2). Information about 1 drug (product) that obtained manufacturing approval

No.	Drugs (products) that obtained the manufacturing approval	Approval No.	Indications	Classification of registration
1	Polymyxin B sulfate Injection	Guo Yao Zhun Zi H31022631	It mainly applies to wound caused by pseudomonas aeruginosa and other pseudomonades and infections of urinary tract, eyes, ears and windpipe as well as sepsis and peritonitis.	Chemical drugs (agreed to resume production)

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

☐Applicable ☒Not applicable

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

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

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

6. Significant government R&D subsidy obtained

In 2016, it obtained 3 kinds of funds including, Shanghai SASAC (State-owned Assets Supervision and Administration Commission of the State Council) 2016 enterprise innovation and technological level upgrade project, biomedical science and technology support programs and Industry-University-Research-Medicine Collaboration programs of Shanghai Municipal Science and Technology Commission with a total of RMB40.7 million, major grants for R&D projects used are as follows:

Unit: RMB0'000

Major project name	Amount of subsidy	Receivables in 2016	Receiving date	Used amount	Residual amount
The construction of integrated platform of big data integration of group pharmaceutical enterprises	3,920	3,920	December 2016	0	3,920
Preclinical development of selective inhibitor SPH3348 of c-Met kinase	50	40	June 2016	24	16
Clinical revaluation research of cisatracurium Besilate (Kutai) for injection	100	80	November 2016	66	14

See the Note(III) to Financial Statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Note 36 to Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards for details of tax preference.

7. R&D awards

During the Reporting Period, the “R&D and Industrialization of Recombinant Human Adenovirus Type 5 Injection (Oncorine), Drug for Treating Malignant Tumour” of Shanghai Sunway Biotech Co., Ltd., a subsidiary of the Company, was granted the second prize of 2015 Shanghai Science and Technology Award. The “analysis of ingredients of Yinxing Tongzhi” of Shanghai Xingling SCI.&Tech. Pharmaceutical Co., Ltd., a subsidiary of the Company, was granted the Gold Award of Geneva International Invention Exhibition jointly awarded by Swiss Federal Government, the Government of the Canton of Geneva, the Government of Geneva City and World Intellectual Property Organization.

■ Pharmaceutical Services

1. Pharmaceutical Distribution

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB108.618 billion, representing an increase of 15.90% on a YOY basis, with a gross profit margin of 5.89%, representing a decrease of 0.13 percentage point as compared with the corresponding period of last year. The costs of sales and administration accounted for 3.42%, representing a decrease of 0.02 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting the sales and administration expenses was 2.47%, representing an decrease of 0.11 percentage point as compared with the corresponding period of last year.

During the Reporting Period, in a bid to maintain the gross profit margin of distribution business, the Company continued to optimize its product structure, maintain reasonable direct sale proportion and to implement Lean Six Sigma management in order to strengthen cost control. The Company also further expanded innovative services on hospital supply chain, entrusting a total of 129 hospital pharmacies currently.

During the Reporting Period, among the distribution regions of the Company, the proportion of sales in the areas of East China, North China and South China was 66.61%, 27.26% and 5.18% respectively. The distribution business of the Company maintained reasonable proportions, 60.79% for direct hospital sales.

As at the end of the Reporting Period, the Company’s distribution business covered 25,139 medical institutions, of which 24,553 were hospitals and 586 were centres of disease control (CDC). Among the hospitals, 1,332 were graded as class 3.

2. Pharmaceutical retail

During the Reporting Period, the Company's sales revenue from the pharmaceutical retail business was RMB5.153 billion, representing an increase of 7.47% on a YOY basis; its gross profit margin was 15.52%. The operating profit margin after deducting sales and administration costs was 1.45%. As at end of the Reporting Period, the Company had 1,807 chain pharmacies of which 1,173 were direct-sale stores. The Company together with medical institutions jointly set up 40 pharmacies.

Focusing on prescription drugs and taking "Becoming the leader and innovator of retail market of Chinese prescription drug" as development vision, pharmaceutical e-commerce of Shanghai Pharmaceuticals were devoted to offering professional, convenient and valuable "one-stop" service for purchase of prescription drugs and health service of patients.

Hanging onto obtaining, management and distribution of prescription drug and concentrating on offering patients value-added service, Shanghai Pharma Health Commerce Co., Ltd positively explored potential opportunities and solutions of drug retails and pharmaceutical electricity suppliers, initiated "Yiyao•Electronic Prescription" program by cooperation with many medical institutions, gathered and distributed outpatient prescriptions by circulation system of electronic prescription established by the Company to create convenience for patients' timely treatment and getting medicine in 2016. Meanwhile, the Company started "Yiyao Station" program on the platform of retail pharmacy to provide drug delivery service for hospitals of communities and Health service centers in Shanghai to meet requirements of medical reform. The Company pushed ahead the construction of "Yiyao Pharmacy" across the country. As at the end of 2016, drug stores of the Company had already been founded in 22 cities.

During the Reporting Period, Shanghai Pharma Health Commerce Co., Ltd continuously improved its circulation system of electronic prescription and increased docking medical institutions. By the end of 2016 electronic prescriptions increased by 217,000, a year-on-year growth of 600%. Docking hospitals increased by 30 all over the country with a year-on-year growth of 1400%, which laid foundation for the expansion of innovative business of Shanghai Pharmaceuticals.

■ Equity Investment, Fixed Asset Investment and Intensive Management

1. Equity Investment

During the Reporting Period, Shanghai Pharmaceuticals made full use of capital market to plan for mergers and acquisitions and expanded international and grand health business as new growth point. New breakthroughs were made in mergers and acquisitions of industry and commerce and strategic layout of the whole industrial chain of Chinese medicine was advanced.

(1) *Commercial M&A to expand sales network layout*

The Company made breakthroughs in Yunnan and Heilongjiang by purchasing Yunnan Pharmaceutical Co., Ltd., SPH Keyuan Xinhai Pharmaceutical Heilongjiang Co., Ltd., SPH Jiangxi Shangrao Pharmaceutical Co., Ltd., Shanghai Pharma Zhenjiang Co., Ltd. and SPH Keyuan Xinhai Pharmaceutical Hebei Co., Ltd.. The Company also participated in minority interests in three medical companies such as Hubei Chuhan Jingcheng Pharmaceutical Co., Ltd. with sales network expanded from 18 provinces and cities to 20 provinces and cities. In respect of mergers and acquisitions of retail, the Company completed the acquisition of Beijing Hean Changtai Pharmacy and Nantong Subo Pharmacy (南通蘇博大藥房), which enhanced the retail network and competitiveness in Beijing and Jiangsu.

(2) *Breakthroughs in industry M&A to expand internationalization*

During the Reporting Period, "Healthy China 2030" plan was upgraded to national strategy and industries concerning grand health entered flourishing development stage. The Company entered grand health industry through international merger and acquisition, finished privatization program of an Australia company Vitaco Holdings Limited ("Vitaco") and acquired 60% equity of Vitaco with consideration equal to approximately RMB930 million. The acquisition was an important action for layout of Shanghai Pharmaceuticals in health industry and promoted international development of the Company while sharing interests brought by future industry growth.

(3) *Comprehensive advancement in strategic layout of the whole industry chain of TCM*

After establishing Yunnan Dali Middle Taxus Biology Co., Ltd., the Company established Shanghai Pharmaceutical (Liaoning) Ginseng Resource Development Co., Ltd., Hunan SPH Traditional Chinese Medicine Development Co., Ltd. and greatly promoted the plantation of 10 varieties like taxus, saffron, dendrobium, ginseng and base construction. The Company together with TSUMURA&CO. of Japan founded a joint venture with a consideration equal to RMB306 million and conducted the production of traditional Chinese medicine formula granule by learning from modern pharmaceutical technology of Tsumura&Co. The Company also formulated broth standard through cooperation with Institute of Chinese Material of China academy of Chinese medical sciences. The first Chinese medicine store of the Company was opened up in Shanghai and adopted "Renowned Doctors plus Good Medicines" to gain new growth point.

(4) *Utilization of capital market to integrate industry with finance*

The Company finished the establishment of the fifth phase of US Baipeisi Venture Capital and Shanghai Lianyi Investment Center (Limited Partnership) and fully utilized capital market to lay foundation for advancing company merger and acquisition.

2. Fixed asset investment

During the Reporting Period, the Company initiated fine production line construction and service standardization of distribution logistics to upgrade industry energy level. The Company made fixed asset investment of RMB1.098 billion in 2016 mainly used for GMP transformation, the improvement of manufacturing energy level and construction of medicine logistics. The Company made a trial to propel fine production line construction and made progress in streamlining, automation and informatization of production. During the Reporting Period, the Company bettered modern medicine logistics network and promoted the construction of logistics centers in East China, Central China and South China and service standardization in the distribution logistics system on the basis of national logistics center of Shanghai and Beijing etc. Shanghai Pharmaceutical logistics became the first national standardized enterprise in medicine logistics service industry.

3. Intensive management

(1) *Advancing the integration of internal resources*

During the Reporting Period, the Company accelerated intensive development and resource integration, deepened system optimization in research and development, organized research and development management centers with project manager system covering all projects of the research institutes, effectively promoting integration of research and development resources and raising research and development efficiency. Major progress was made in evaluation of the consistency of quality and effect of generic drugs and in research and development project of innovative drugs. The Company enhanced layout adjustment of the industry and medicine quality control in manufacturing, made gradient transfer of some products among subsidiaries, adjusted structures of many production bases to reduce cost and increase benefits, which laid solid foundation for the growth of gross margin of the Company.

(2) *Strengthening the construction of marketing centers and functions of market access platform*

During the Reporting Period, marketing centers of the Company advanced the integration of marketing system, emphasized therapy field and key species and promoted the implementation of the product strategy "One Policy for One Product". The Company conducted a series of promotion like the development of hospitals in key areas, academic promotion, brand building, the improvement of layout of agents, refined pipeline management and cheap drugs, which ensured the execution of product strategies. Relying on industrial and commercial enterprises of various regions, the market access platform of headquarters established the market access network of "ten measures for four regions", created favorable market access environment, improved the success rate of bidding and promoted the industrial sales growth.

(3) *Deepening lean six sigma management and highlighting lean system, talents and outcomes*

During the Reporting Period, work goals set at the beginning of the year were finished in lean six sigma management and lean projects were deepened with improvements continuously made. The coverage involved research and development, production, quality, sales, storage, transportation, payment days, stock and e-commerce etc. From part to whole, lean management systematically supported strategy implementation and operations management of the Company. With quantity and quality of finished projects creating new high, the Group entirely completed 118 lean six sigma projects which was expected to generate annualized returns of RMB40 million. Lean six sigma management bettered 6S and TPM system and matured lean talents team.

(4) *Constantly promoting centralized purchasing and increasing purchased varieties*

During the Reporting Period, instruments of small laboratory, software, equipment and consumables of laboratory were purchased in a centralized manner and contracts of framework agreement concerning reagent purchasing were renewed. Centralized purchasing of instruments of small laboratory like gas/liquid, network version software, balance, moisture meter and PH meter was completed, saving several millions of RMB in purchasing.

(5) *Optimizing the construction of cash pooling and reducing financial cost*

During the Reporting Period, the construction of cash pooling was optimized and internal financing scale reached RMB3.05 billion which reduced financial costs of RMB112 million.

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I. MAIN FINANCIAL POSITION DURING THE REPORTING PERIOD

The main financial data of the company during the Reporting Period are as follows:

(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 last year	Change (%)	Reasons for changes
Operating Income	120,764,660,339.93	105,516,587,303.26	14.45	Increase of sales income during the Reporting Period
Operating costs	106,530,890,618.77	92,715,327,844.15	14.90	Increase of sales income during the Reporting Period
Sales costs	6,067,497,152.02	5,348,229,674.74	13.45	Increase of sales income during the Reporting Period
Management costs	3,567,949,663.95	3,234,123,882.17	10.32	Increase of management costs resulting from the increase in the scale of operation during the Reporting Period
Finance costs	586,736,493.95	564,888,310.76	3.87	Increase of interest expense during the Reporting Period
Earnings from changes in fair value	-78,771.00	314,575.80	-125.04	Decrease of fair value of trade financial assets during the Reporting Period
Earnings from investment	978,793,662.85	646,611,828.14	51.37	Increase of gains on the investment in Joint Venture during the Reporting Period
Non-business expenditure	205,161,439.26	115,653,874.77	77.39	Increase of relocation expenditure during the Reporting Period
Net cash flow generated from operating activities	1,946,666,985.00	1,349,162,853.33	44.29	Increase in collection of receivables during the Reporting Period
Net cash flow generated from investing activities	-2,889,540,523.88	-1,908,913,327.37	-51.37	Increase of expense for mergers and acquisitions during the Reporting Period
Net cash flow generated from financing activities	647,402,905.17	636,435,279.05	1.72	Due to the issuance of the corporate bonds during the Reporting Period
R&D expenses	670,550,000.00	617,690,774.00	8.56	Increase of the R&D investment during the Reporting Period

Report of the Board of Directors

2. Income and Cost Analysis

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

Unit: RMB

Principal business by Industry						
By industry	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income YOY (%)	Increase/decrease in operating cost YOY (%)	Increase/decrease in gross profit margin YOY (%)
Manufacturing	12,415,578,147.69	5,850,617,940.80	52.88	5.01	0.54	+2.10 percentage points
Distribution	108,617,750,221.90	102,070,413,247.23	6.03	15.90	16.04	-0.11 percentage points
Retail	5,153,243,099.62	4,337,014,479.11	15.84	7.47	7.66	-0.15 percentage points
Others	58,564,545.84	17,148,874.67	70.72	5.84	16.17	-2.60 percentage points
Offsetting	-5,953,309,011.94	-5,954,279,000.61				

Principal business by region						
By region	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income YOY (%)	Increase/decrease in operating cost YOY (%)	Increase/decrease in gross profit margin YOY (%)
Domestic	119,563,246,221.42	105,777,005,068.57	11.53	14.63	15.04	-0.32 percentage points
Overseas	728,580,781.69	543,910,472.63	25.35	-4.69	-4.91	+0.18 percentage points

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

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

Report of the Board of Directors

(2). Table of Cost Analysis

Unit: RMB0'000

By Industry							Explanation
By Industry	Items of Cost Structure	Amount for the Reporting Period	Percentage of the cost to the total cost of the Reporting Period (%)	Amount for the corresponding period of last year	Percentage of the cost to the total cost of the corresponding period of last year (%)	Percentage change of the amount at the Reporting Period compared to that of the corresponding period of last year (%)	
Manufacturing	Raw materials, ancillary materials and packaging materials	415,824.52	71.08	424,361.38	72.92	-2.01	/
	Utilities and power expenses	23,774.49	4.06	23,569.62	4.05	0.87	/
	Depreciation charges	29,315.13	5.01	25,526.04	4.39	14.84	/
	Salaries	55,743.93	9.53	52,518.70	9.03	6.14	/
	Other manufacturing cost	60,403.72	10.32	55,944.42	9.61	7.97	/
	Total manufacturing cost	585,061.79	100.00	581,920.16	100.00	0.54	/
Commercial and others	Cost	10,663,459.45	100.00	9,220,480.60	100.00	15.65	/
	Offsetting total cost	-595,432.18	/	-530,867.98	/	12.16	/
	Total operating cost	10,653,089.06	100.00	9,271,532.78	100.00	14.90	/

(3). Major Customers and Major suppliers

The sales of products to the largest customer of the Company accounted for 1.6% of the total sales; the aggregate sales to the five largest customers was RMB5,202.8116 million, accounting for 4.31% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB1,931.7664 million, accounting for 1.60% of the total sales for the year.

The purchase from the largest supplier of the Company accounted for 2.52% of the total purchase; the aggregate purchase from the five largest suppliers was RMB8,045.0095 million, accounting for 7.55% 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, 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

(1). Expense Analysis Table

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

(2). Exchange Rate Fluctuation Risk and Any Hedging

Shanghai Pharma 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 assets and liabilities in foreign currencies and foreign currency transactions are US dollar and Hong Kong dollar, Australian dollar and New Zealand dollar).

(3). Tax Deductions:

See the Note(III) to Financial Statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Note36 to Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards for details.

4. R&D Investments

See "Discussion and Analysis on Operation during the Reporting Period" in Chapter IV of Report of Board of Directors for details.

Report of the Board of Directors

5. Cash Flow

The net amount of cash flow generated by Shanghai Pharma from its operating activities is RMB1.947 billion during the Reporting Period, representing an increase of 44.29% on a year-on-year basis, providing a better cash inflow from the operating activities; the net amount of cash flow generated from the investing activities is RMB-2.890 billion; and the net amount of cash from generated from financing activities is RMB647 million. The net cash flow from operating activities accounted for 50.83% of net profit, representing a increase of 10.73 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

1. Assets and Liabilities

Unit: RMB

Items	Ending Amount	Percentage of Ending Amount to Total Assets (%)	Last Ending Amount	Percentage of Last Ending Amount to Total Assets (%)	Ratio of Current Ending Amount to Last Ending Amount (%)	Explanations
Financial assets measured at fair value and of which changes are recorded into current profit and loss	4,060,270.54	0.005	820,234.80	0.001	395.01	Due to mergers and acquisitions during the Reporting
Notes receivable	1,586,533,454.66	1.92	1,132,570,144.23	1.52	40.08	Due to the the business growth during the Reporting Period
Interest receivables	2,525,803.98	0.003	7,460,418.56	0.01	-66.14	Due to the decrease of bank interest receivable during the Reporting Period

Report of the Board of Directors

Items	Ending Amount	Percentage of Ending Amount to Total Assets (%)	Last Ending Amount	Percentage of Last Ending Amount to Total Assets (%)	Ratio of Current Ending Amount to Last Ending Amount (%)	Explanations
Dividends receivable	2,606,115.48	0.003	12,536,032.48	0.02	-79.21	Dividends recovered from associates during the Reporting period
Assets classified as held for sale			56,206,044.44	0.08	-100.00	Due to the disposal of assets held for sale during the Reporting Period
Other current assets	898,150,273.05	1.09	559,288,629.65	0.75	60.59	Due to the increase in tax deductions and pre-paid taxes during the Reporting Period
construction in progress	1,308,125,663.10	1.58	741,611,620.55	1.00	76.39	Due to the increase of investment in construction projects during the Reporting Period
construction materials			251,927.33	0.0003	-100.00	Due to transfer into construction in progress during the Reporting Period
Intangible assets	2,750,893,639.94	3.32	1,984,203,293.51	2.67	38.64	Due to the increase in number of acquisition of subsidiaries
Development expenditure	16,218,892.97	0.02			/	Due to the increase of capitalized R&D investment during the Reporting Period

Report of the Board of Directors

Items	Ending Amount	Percentage of Ending Amount to Total Assets (%)	Last Ending Amount	Percentage of Last Ending Amount to Total Assets (%)	Ratio of Current Ending Amount to Last Ending Amount (%)	Explanations
Deferred income tax assets	468,315,914.93	0.57	316,257,566.32	0.43	48.08	Due to the increase of deductible temporary difference during the Reporting Period
Financial liabilities measured at fair value and of which changes are recorded into current profit and loss	869,871.15	0.001			/	Due to mergers and acquisitions during the Reporting Period
Interests payable	94,637,405.49	0.11	40,719,369.61	0.05	132.41	Due to the increase of interest payable to bank loans during the Reporting Period
Other payables	3,303,531,891.80	3.99	2,432,612,072.57	3.27	35.80	Due to growth in other Trade payables during the Reporting Period
Non-current liabilities due within one year	18,930,860.37	0.02	290,071,796.07	0.39	-93.47	Due to the decrease of compensation for demolition and relocation due within one year during the Reporting Period
Long-term loan	837,692,373.74	1.01	93,409,191.67	0.13	796.80	Due to the expanded range of consolidation
Bonds payable	1,998,591,596.54	2.42			/	Due to bonds issuance during the Reporting Period

Report of the Board of Directors

Items	Ending Amount	Percentage of Ending Amount to Total Assets (%)	Last Ending Amount	Percentage of Last Ending Amount to Total Assets (%)	Ratio of Current Ending Amount to Last Ending Amount (%)	Explanations
long-term payables	692,536,892.13	0.84	61,994,899.06	0.08	1,017.09	Due to the increase of amount of long-term equity during the Reporting Period
Dedicated Payables			300,000.00	0.0004	-100.00	Due to the use of specific-purpose appropriation during the Reporting Period
Deferred Income	589,680,096.86	0.71	367,866,511.57	0.49	60.30	Due to the increase in the compensation for demolition and relocation

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

☒Applicable ☐Not applicable

On 31 December 2016, the Company's housing and buildings and machinery equipment with the book value of RMB247,626,768.54 (original price: RMB347,273,111.86), and 12,031,829.65 square meters of land use right (original price of RMB112,276,852.95 and book value of RMB94,281,593.60) were set as collateral for short-term borrowings of RMB328,400,000.00, long-term borrowings of RMB6,504,544.00 and long-term borrowings due within one year of RMB9,000,000.00.

On 31 December 2016, accounts receivable of RMB215,033,342.90 was pledged to the bank as a guarantee for short-term borrowing of RMB184,956,467.91.

As at 31 December 2016, the balance of the Group's restricted monetary funds was RMB987,080,418.44, which was mainly the margin deposit for security for applying to the bank for issuing bank acceptance bills and letters of credit.

Report of the Board of Directors

3. Other information

(1). Capital Structure

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 55.48% as at 31 December 2016 (54.52% as at 31 December 2015), representing an increase of 0.96% on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 8.19 times (2015: 7.80 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 25.30%.

(2). Explanations on Assets Measured at Fair Value and Changes in Measurement Attributes of Assets

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

(3). Information on Loans and Borrowings

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 2016 was RMB10.478 billion and RMB1.999 billion respectively, including RMB0 converted from loans in US dollar, RMB0 converted from loans in HK dollar, and RMB0.238 billion converted from loans in New Zealand Dollar, the balance of borrowings and bonds payable at a fixed ratio amounted to RMB8,550 million. The net amount of accounts receivable and notes receivable at 31 December 2016 was RMB28.879 billion (RMB25.348 billion at 31 December 2015), representing an increase of 13.93% on a YoY basis. The increased receivable is mainly due to business expansion and M&A. On 31 December 2016, the balance of accounts payable and notes payable was RMB25.985 billion (on 31 December 2015, it was RMB24.437 billion) has been increased by 6.34%. The main reason resulting in increase in accounts payable was the business growth and the expanded range of consolidation. See Notes (26), (36) and (37) to Appendix IV of the Financial Statements prepared in accordance with the Chinese accounting standards for business enterprises and Note 25 to Financial Statements prepared in accordance with Hong Kong Reporting Standards for details on loans and borrowings of the Company.

(4). Property, Plant, Equipment and Invested Properties

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

(5). (Fair Value of) Properties

The revaluation value of investment properties of Shanghai Pharmaceuticals was RMB826.64 million as of 31 December 2016.

Report of the Board of Directors

(6). Particulars on Contingent Liabilities

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

Guarantor	Secured Party	Amount Secured (RMB'000)	Starting Date	Expiry Date
Shanghai Pharma Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	8,500.00	2016/8/29	2017/5/23
Shanghai Pharma Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	6,500.00	2016/12/21	2017/12/1
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	987.09	2016/11/24	2017/5/24
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	840.38	2016/11/24	2017/2/24
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	4,659.53	2016/12/15	2017/3/15
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	941.65	2016/12/15	2017/6/15
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	207.54	2016/12/21	2017/3/21
Shanghai Pharma Zhenjiang Co., Ltd.	Yunyang people's hospital of Danyang	30,000.00	2015/8/14	2018/8/14

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

(7). Assets collateral

For details, refer to " (III)-2. Major assets restriction at the end of the Reporting Period" of the report.

Report of the Board of Directors

(IV) Industrial Operational Information Analysis

According to the provisions of the Guidelines on Industrial Information Disclosure of Listed Companies No. 7, please refer to Chapter 3 and 4 for the disclosures contained in the annual statements.

(V) Analysis on Investment Conditions

1. Overall Analysis on External Equity Investments

✓Applicable ☐Not applicable

Unit: RMB0'000

Amount of Investments within Reporting Period	320,112.06
Increase or Decrease in Amount of Investments	133,966.30
Amount of Investment in Same Period of Prior Year	186,145.76
Percentage of Increase or Decrease in Amount of Investments (%)	71.97

(1) Significant Equity Investments

Unit: RMB

Acquiree	Time of acquisition	Purchasing cost	Main business activities	Proportionate interest acquired	Acquisition method	Capital source	Partner	Acquisition date	Basis for determination of acquisition date	Income of acquiree from acquisition date to the year end	Net profit of acquiree from acquisition date to the year end	whether involved in appeal
Vitaco Holdings Limited	31 December 2016	1,552,665,219.79	Sales of nutrition and health products	100.00%	Acquisition from third parties	Own funds and bank loans	Third parties	31 December 2016	Controlled the financial and operating policies of the acquiree, and enjoyed the variable return through the participation in the related activities of the investees, and had the ability to use the powers of the investees to affect the return amount.	0.00	0.00	No
Yunnan Pharmaceutical Co., Ltd (雲南上藥醫藥有限公司)	1 November 2016	146,720,000.00	Sales of drugs	70.00%	Acquisition from third parties	Own funds	Third parties	1 November 2016		75,208,041.21	3,566,139.90	No

(2) Significant Non-equity Investments

☐Applicable ✓Not applicable

Report of the Board of Directors

(3) Financial Assets Measured at Fair Value

✓Applicable ☐Not applicable

Unit: RMB

Code	Name	Initial Investment Cost	Ending Carrying Amount	Profit or Loss during Reporting Period	Change in Owners' Equity during Reporting Period	Change in Fair Value	Source of Capital	Purchase or Sales during Reporting Period
600618	Shanghai Chlor-Alkali Chemical	186,500.00	741,463.80	-78,771.00		-78,771.00	Own fund	No
600377	JIANGSHU EXPRESSWAY	1,000,000.00	8,550,000.00	400,000.00	-200,000.00	-200,000.00	Own fund	No
600329	ZHONGXIN PHARMACEUTICALS	91,473.00	1,595,271.68	22,868.00	-342,105.28	-342,105.28	Debt Expiration	No
000931	ZHONGGUANCUN DEVELOPMENT GROUP	99,300.00	213,444.00		-106,596.00	-106,596.00	Own fund	No
600675	CHINA ENTERPRISE	390,000.00	5,029,607.34		-1,101,948.40	-1,101,948.40	Own fund	No
601328	BANK OF COMMUNICATIONS	4,720,101.05	3,308,898.82	154,835.82	-384,222.22	-384,222.22	Own fund	No
000048	Shenzhen Kcondar	134,547.00	5,741,505.12		230,144.72	230,144.72	Merger	No
000166	Shenwan Hongyuan Securities	1,250,000.00	14,850,000.00	264,000.00	-3,999,600.00	-3,999,600.00	Transformation	No
06881 (HK)	China Galaxy Securities	50,000,000.00	62,525,550.00	3,281,880.00	3,043,170.00	3,043,170.00	Transformation	No
00455 (HK)	Tianda Holdings	87,851,852.85	110,406,165.83	652,119.55	-7,099,903.58	-7,099,903.58	Own fund	No
	forward foreign exchange contracts		3,317,417.39					Enterprises merged and acquired increase during the Reporting Period
	interest rate swaps contracts		1,389.35					Enterprises merged and acquired increase during the Reporting Period
Total		145,723,773.90	216,280,713.33	4,696,932.37	-9,961,060.76	-10,039,831.76	/	

Report of the Board of Directors

(VI) Sales 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: RMB0'000

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Owners' Equity	Business Income	Net Profit
Shanghai Pharma Co., Ltd.	Sales of drugs	100%	339,312.78	3,608,652.83	828,994.94	7,512,977.12	122,459.52
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100%	130,000.00	1,600,792.74	378,186.84	2,773,551.18	23,676.87
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100%	119,161.13	296,984.02	186,208.74	319,244.37	18,748.98
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	22,500.00	180,747.57	146,282.27	100,155.87	26,000.98
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	105,242.91	179,687.31	113,266.41	197,990.51	6,075.12
Shanghai TCM Co., Ltd.	Production and sales of drugs	100%	64,847.00	480,806.15	199,956.37	478,546.99	52,458.21
SPH Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75%	12,850.00	135,142.19	119,976.51	123,901.59	16,411.89
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	7,879.03	348,063.07	164,840.07	527,651.41	15,184.69
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	54,580.00	246,425.91	201,417.46	81,240.17	30,203.81
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	9,300.00	89,010.57	54,811.51	96,904.31	-329.79
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	5,316.00	61,733.84	46,029.86	39,012.28	19,798.52
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	8,403.00	36,903.11	30,582.67	33,358.95	4,424.44
Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	5,100.00	66,722.04	37,640.64	50,771.58	4,522.12
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	9,364.18	39,088.44	20,945.86	29,107.01	4,692.55

Report of the Board of Directors

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Owners' Equity	Business Income	Net Profit
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs.	100.00%	7,139.00	18,467.02	10,976.15	20,290.87	625.13
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	12,700.00	60,746.41	37,592.61	29,420.40	-541.86
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	90.25%	14,132.19	38,966.61	34,358.64	17,033.50	5,324.00
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	5,000.00	41,018.95	12,774.63	82,797.10	2,456.20
Shanghai Hutchison Production and sales of drugs Pharmacy Co., Ltd.	Production and sales of drugs	50.00%	22,900.00	170,089.67	104,714.28	152,542.03	80,092.68

(VIII) The structural entity controlled by the Company

☐ Applicable ☒ Not applicable

II. DISCUSSIONS AND ANALYSIS OF THE COMPANY ON FUTURE DEVELOPMENT

(I) Industry competitive landscape and development trends

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

(II) Development Strategy of the Company

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

In the new development period, the Company will actively grasp the national strategic opportunities, follow the development trend of the industry, and incorporate into the development strategy of the SIIC. Besides, the Company will establish an international view and vision by focusing on health industry, and driven by innovation development, intensive development, international development and combination with production, to maintain the leading position in the pharmaceutical industry in China and strive to enter into the top 500 enterprises in the world by the end of the "13th Five-year Plan" period.

For pharmaceutical industry, in the areas of chemical medicine and biological medicine, the Company will focus on key products and medical treatment fields in which the Company has an advantage. The Company will continue to optimize the R&D system, open doors for cooperation and improve the R&D chain based on the integration of generic drugs and innovative drugs. The Company will attach importance to the development of biological medicine, and strength the secondary development of existing products, quality and efficacy consistency evaluation of generic drugs, innovation of preparations and internalization work. Adhering to the dual-drive development, the Company has formed its own features and advantageous areas. In the future, the Company will adhere to the quality-first concept, strengthen domestic and foreign mergers and acquisitions for expansion, and strengthen the competitiveness in cardiovascular, nervous, rheumatism and immunity, alimentary canals and anti-tumor areas. With respect to the traditional Chinese medicine, the Company will build a total-industry chain covering upstream, middle stream and downstream by grasping the historical development opportunity and based on our quality resources. We will focus on the control of sources of TCM materials and establish whole-process quality traceability management, expand the business of TCM formula granule, and deepen the integration with medical service terminals and retail stores to promote the overall competitiveness of the industrial chain.

With respect to the pharmaceutical distribution, the Company will continue to improve the national commercial network and provincial platform construction, and accelerate the development and expansion of strategic areas, especially Southwest, Northeast and Central China markets in addition to the enhanced coverage of East China, North China and South China. We will strengthen the interaction between industry and commerce and business mode innovation, adhere to the provisions of services and comprehensive promote the lean operation and risk control level of the supply chain.

With respect to pharmaceutical retail, the Company will speed up the three-layer retail store network layout and focus on building the "electronic prescription cloud platform" based on big data through internal resource Integration optimization and external expansion to constantly promote B2B and B2C new business development and create a pharmaceutical retail mode integrating online and offline services.

At the same time, the Company will focus on expanding major health and other new frontier business to promote the layout and substantial contribution of medical services, medical equipment, health care products and other areas to achieve complementary advantages of the industry chain.

(III) Operating Plan

In 2017, the new three-year strategic development planning of the Company will be advanced and policies of pharmaceuticals industry intensively issued in the past two years will be carried out. Reforms of the industry entered from quantitative change to qualitative change, which is both opportunity and challenge. With the working policy of “Complying with industrial reform, accelerating transformation development and ensuring leading industrial position” set in 2017, under the leadership of board of directors and management team all staff will adhere to innovative development, intensive development, international development and the integration of finance and industry, seize opportunities and overcome challenges to realize operation target and double-digit growth of sales and maintain earnings growth and good operation quality.

(IV) Possible Risks

1. Industrial Policy Risk: With the deepening of medical system reform and the issuance of a number of industrial policies and laws in respect of medical charge control, lower drugs prices due to a new round of bidding, new policies on drug review, consistency evaluation of generic drugs, two-invoice system and conversion of business tax to VAT, significant effect has been brought to the future development of the pharmaceutical industry, bringing policy risks to the Company;
2. Some drugs may suffer risks of policy-oriented price reduction, tender price reduction, loss of tender and secondary negotiation, so the drug prices will further be adjusted down, resulting in a small profitability margin;
3. The fluctuations in prices of build medicinal materials have brought significant effect on the cost of the Company's TCM products;
4. Exchange risk may arise from the settlement currency used in overseas purchase of drugs;
5. Risk of fluctuation in export prices of APIs;
6. Environmental Protection Risk: With the issuance of new environmental protection law and regulations, the environmental protection requirements will become stricter and the control of pollutants from the production of APIs will be strengthened, resulting in increase in expenses paid by the Company for work safety, compliance and environmental protection.
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.

Report of the Board of Directors

Countermeasures:

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

III. EXPLANATIONS ON FACTS NOT DISCLOSED IN ACCORDANCE WITH THE STANDARDS AND REASONS SUCH AS INAPPLICABILITY OF STANDARDS OR SPECIAL REASONS INCLUDING STATE SECRETS AND BUSINESS SECRETS

☐Applicable ☒Not applicable

IV. OTHER DISCLOSURES

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

No significant change during the reporting year.

(II) Relationship with employees, customers, suppliers and other stakeholders

The Group understands that different stakeholders (including employees, customers and suppliers) are the key to the success of the Group. The Group is committed to the realisation of corporate sustainable development through maintaining contact and cooperation and fostering stable relationship with the stakeholders.

The Group is of the view that it is crucial to attract, recruit and retain high quality employees. Differentiated remuneration systems have been established for management, marketing, R&D, technical quality management and production personnel based on the characteristics of such posts to effectively arouse the work enthusiasm and creativity of all staff. Centering on the corporate strategy and work focus for the year, the Company has provided professional, efficient and personalised training courses and solutions for staff in accordance with the their post and career development needs. Meanwhile, the Company has also proactively improved the relationship with employees through company website, company magazine and other communication channels.

The Group maintains good relationship with existing and potential customers. Throughout the year, the Company proactively carried out various customer training sessions and seminars to enhance the recognition of customers and doctors on our products and popularise safe and reasonable drug use. The Company provides after-sales services to customers and performs customer satisfaction survey.

The Group collaborates with suppliers in proactive communication on the industry, provision of business training, establishment of a platform for business exchange and cooperative evaluation. The Company has prepared the Measures for Management of Procurement Tender, specifying comprehensive standards on the Group's procurement tender, which ensures open and transparent tender and effectively reduces the cost of procurement.

(III) Charity and other Donations

See the 2016 Social Accountability Report of Shanghai Pharmaceutical Group Co., Ltd. disclosed by the company for details.

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

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

(V) Share Capital

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

(VI) List of Directors and Personal Information

Particulars on list of directors and their personal information of the Company are set out in the following section of "Chapter 8 Particulars on Directors, Supervisors and Senior Management".

(VII) Service Contracts of Management

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

(VIII) 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).

(IX) 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 2016, the Company hasn't entered into any equity-linked agreement.

Report of the Board of Directors

(X) Permitted Indemnity Provisions Approved for Directors and Supervisors

The Company has maintained the responsibility insurances for directors, supervisors and officers in accordance with Article A.1.8 of the Corporate Governance Code, which effected and remaining effective during the financial year ended 31 December 2016. Except for such insurances, the Company has no valid permitted indemnity provisions (See Companies (Directors' Report) Regulation of the Chapter 622D of Laws of Hong Kong for the definition) approved during the Reporting Period and at the time of approval of the Report.

(XI) Interest of Directors and Supervisors in Competing Business

As of 31 December 2016, 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.

(XII) Profit distribution of Ordinary Shares

The Company's profit distribution plan for 2016 is shown below in "Significant Events I – Plan For Profit Distribution of Ordinary Shares or Conversion of Capital Reserve Fund into Share Capital".

Significant Events

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

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

☒ Applicable ☐ Not applicable

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

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

Calculated on the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2016 was RMB1,250,722,000 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 2016 are set out in the Note 11 to the financial statements prepared under Accounting Standard for Business Enterprises of China and Note 46 to the financial statements prepared under the Hong Kong Financial Reporting Standards.

According to the resolution as resolved at the 5th meeting of the sixth session of the board of directors of Shanghai Pharmaceuticals, the 2016 annual profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB3.60 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares of Shanghai Pharmaceuticals as at the end of 2016, subject to approval by the shareholders' annual general meeting of the Company for 2016. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, fully protected the legal interests of minority investors. The independent non-executive directors of the Company have provided their view in this regard.

Significant Events

Cash dividend of H shares expected to be paid before 30 August 2017. About withholding of tax for non-PRC resident shareholders and investors of Northbound Trading:

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

3. For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A Shares of the Company listed on the Shanghai Stock Exchange (the “Northbound Trading”), their dividends will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited as the nominee account holding such Shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may authorise a withholding agent to, apply to the competent tax authorities 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.
4. For investors of the Shanghai Stock Exchange (including enterprises and individuals) investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the “Southbound Trading”), the Company has entered into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive the cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in RMB. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Northbound Trading (關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2014] No.81), for dividends received by mainland investors from investing in H shares listed on the Hong Kong Stock Exchange through Northbound Trading, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by mainland securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Northbound Trading, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold or pay the income tax of dividends for mainland enterprise investors and those enterprise investors shall report and pay the relevant tax themselves.

Significant Events

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

Unit: Yuan Currency: 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 (%)
2016	0	3.60	0	968,007,793.68	3,196,394,644.62	30.28
2015	0	3.30	0	887,340,477.54	2,876,989,142.22	30.84
2014	0	2.90	0	779,784,056.02	2,591,129,073.77	30.09

- (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 and positive in the parent company's distributable profit to ordinary shareholders, but no proposal for any distribution of cash dividend for ordinary shares during the Reporting Period

☐ Applicable ☒ Not applicable

II. FULFILLMENT STATUS OF COMMITMENTS

(I) Commitments by De facto Controller, Shareholders, Related Parties, Acquirers and the Company and other commitments related parties during or lasting to the Reporting Period

✓ Applicable ☐ Not applicable

For details, please refer to the Announcement of Shanghai Pharmaceuticals in relation to the Fulfillment Status of Commitments by De facto Controller, Shareholders, Related Parties, Acquirers and the Company (Company's announcement Lin No. 2014-001), the Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment of Shanghai Pharmaceuticals (Group) regarding Land and Premises (Company's announcement Lin No. 2014-006), the Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment of Shanghai Pharmaceuticals (Group) regarding the Shares held by Employees and the Employee Share Ownership Committee (Company's announcement Lin No. 2014-007), the Announcement of Shanghai Pharmaceuticals on the Progress of Commitment Resolution (Company's announcement No. Lin 2014-008, No. Lin 2014-010 and No. Lin 2014-017), and the Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment regarding the Shares held by Employees and the Employee Share Ownership Committee (Company's announcement Lin No. 2017-012).

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

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

The Company has received the respective statements of Shanghai Pharmaceutical (Group) and SIIC confirming their compliance with their commitments pursuant to the respective non-competition deeds during the period of the year 2016.

Significant Events

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

☐ Achieved ☐ Not achieved ☒ Not applicable

III. APPROPRIATION AND SETTLEMENT OF FUNDS DURING THE REPORTING PERIOD

☐ Applicable ☒ Not applicable

IV. STATEMENT OF THE COMPANY ON THE “NON – STANDARD AUDIT REPORT” PREPARED BY THE AUDITOR

☐ 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

- (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

VI. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

Unit: RMB0'000 Currency: RMB

Current engagement	
Name of the domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP(special general partnership)
Remuneration for the domestic accounting firm (overseas accounting firm inclusive) ^{note}	RMB21 million
Number of years of service of the domestic accounting firm	6 years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration for the overseas accounting firm (domestic accounting firm inclusive) ^{note}	RMB21 million
Number of years of service of the overseas accounting firm	6 years

	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP (special general partnership)	RMB1.30 million

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

Appointment and dismissal of accounting firms

☐ Applicable ☒ Not applicable

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

1. *Equity incentives*

☐ Applicable ☒ Not applicable

2. *Employee share schemes*

☐ 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 (Disclosed pursuant to the requirements of the Shanghai Stock Exchange)*

✓ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Daily Connected Transactions in 2016 and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of the 21st Meeting of the Fifth Session of the Board of Directors	Please refer to Company's announcement Lin No. 2016-013 and Lin No. 2016-015 disclosed by the Company on 19 March 2016 for details.
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Renewal of the Financial Services Agreement and Related/ Connected Transactions of Shanghai Shangshi Group Finance Co., Ltd. and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of Shareholders' General Meeting for 2015	Please refer to Company's announcement Lin No. 2016-010 and Lin No. 2016-043 disclosed by the Company on 4 February 2016 and 29 June 2016, respectively, for details.
The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Renewal of the Daily Connected Transactions Framework Agreement and Daily Connected Transactions/Continuing Connected Transactions with Jiangxi Nanhua Medicines Co., Ltd., the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of Shareholders' General Meeting for 2015 and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Additional Subscription of the Excess Portion of Daily Connected/Continuing Connected Transactions for 2016	Please refer to the Company's announcement Lin No. 2016-016, Lin No. 2016-043 and Lin No. 2017-009 disclosed by the Company on 19 March 2016, 29 June 2016, and 22 March 2017, respectively for details.

Significant Events

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. *Confirmation of continuing connected transactions between Shanghai Pharmaceuticals and its connected persons in 2016 (Disclosed pursuant to the requirements of the Hong Kong Listing Rules)*
 - (1) Connected transactions between the Group and SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries)

The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Daily Connected Transactions/Continuing Connected Transactions in 2016 was approved at the 21st meeting of the fifth session of the Board of Directors held on 18 March 2016. From January to December 2016, the amount receivable from the sales of products and the provision of services by the Company to SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) shall not exceed RMB10 million; the amount payable for the procurement of products and the acceptance of services from SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) shall not exceed RMB30 million; the amount payable by the Group for leasing premises and production equipment from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB100 million. Such transactions constitute the continuing connected transactions as defined under Chapter 14A of the Listing Rules of Hong Kong. The directors of the Company (including the independent non-executive directors) confirmed that the above transactions were in compliance with the disclosure requirements under Chapter 14A of the Listing Rules of Hong Kong. The actual amount of daily connected transactions in 2016 between the Group and SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) did not exceed the amount as approved by the aforesaid Board in respect of each of the aforesaid items.

- A. Sales of products and provision of services by the Group to SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries)

In 2016, the relevant percentage ratios (as defined under Chapter 14 of the Hong Kong Listing Rules, the same below) other than profits ratio corresponding to the actual amount of the transactions in relation to the sale of products and the provision of services by the Group to SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) were less than 0.1%; the relevant percentage ratios (as defined under Chapter 14 of the Hong Kong Listing Rules, the same below) other than profits ratio corresponding to the actual amount of the transactions in relation to the procurement of products and the acceptance of services from SIIC and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries) were less than 0.1%;

- B. Properties and production equipment leasing between the Group (including the Company and its subsidiaries) and Shanghai Pharmaceutical Group and its subsidiaries

As one of the Controlling Shareholders of the Company, Shanghai Pharmaceutical (Group) and its subsidiaries are all connected persons of the Company. The continuing connected transactions between the Company and Shanghai Pharmaceutical (Group) and its subsidiaries in respect of properties and production equipment leasing are exempt from independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules, but shall be subject to reporting, annual review and announcement requirements. The relevant percentage ratios other than profits ratio corresponding to the actual amount of the transactions in relation to such properties and production equipment leasing in 2016 were higher than 0.1% but less than 5%. During the period from January to December 2016, the amount of premises and equipment leasing payable by the Company as a lessee was RMB44,468,100.

Significant Events

Unit: RMB0'000 Currency: RMB

Date of transaction	Lessee	Lessor	Connected relationship	Transaction	Actual amount	Annual cap
During the period from January to December 2016	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.		Parent company		6.49	/
	Shanghai Fahrenheit Pharmacy Distribution Co., Ltd.		Parent company		401.97	/
	Wholesale Department of Shanghai Medical Instrument Co., Ltd.		Parent company		46	/
	Shanghai Zhongxi Surve Pharmaceutical Co., Ltd.		Parent company		51.53	/
	Shanghai Surve Yangtze River Biochemical Pharmaceutical Factory		Parent company		15.35	/
	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical (Group)	Parent company		228.71	/
	Shanghai Huayu Pharmaceutical Co., Ltd.		Parent company	Property	322.77	/
	Shanghai Leiyunshang Pharmaceutical Co., Ltd.		Parent company		171.01	/
	Shanghai Traditional Chinese Medicine Co., Ltd.		Parent company		11.7	/
	Shanghai Pharmaceuticals Holding Co., Ltd.		Parent company		50.84	/
	Shanghai Pharmaceuticals Holding Co., Ltd.		Parent company		541.03	/
	Shanghai Medical Instruments Co., Ltd.		Parent company		134.9	/
	Shanghai Haichang Medical Plastic Plant		Parent company		30.45	/
	Shanghai Leiyunshang Pharmaceutical Co., Ltd.		Parent company		323.07	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				9.91	/
	Shanghai Pharmaceuticals Holding Co., Ltd.	Shanghai Indu-Land	Wholly-owned		141.66	/
	Shanghai Pharmaceuticals Holding Co., Ltd.	Real Estate Management Co., Ltd.	subsidiary of parent company	Property	113.18	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				274.62	/
	Shanghai Zhonghua Pharmaceutical Co., Ltd.				2.19	/
	Shanghai SPH New Asiatic Pharmaceutical Co. Ltd	Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of parent company	Property and equipment	1,569.43	/
	Total	/	/	/	4,446.81	10,000.00

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

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

(2) Connected Transactions between the Group and the Finance Company

The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Renewal of Financial Services Agreement and Daily Connected Transactions/Continuing Connected Transactions was approved at the 2015 annual general meeting held on 28 June 2016. The transactions under the agreement constitutes the Continuing Connected Transactions as defined in the Chapter 14A of the Hong Kong Listing Rules. The directors of the Company (including the independent non-executive directors) confirmed that the above transactions were in compliance with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules. For the period from the effective date of the above agreement to the date of 2018 annual general meeting of Shanghai Pharmaceuticals, the maximum daily balance of deposits by the Group with Shanghai Shangshi Group Finance Co., Ltd. (the "Finance Company") shall not exceed RMB2 billion; for the period from the effective date of the above agreement to the date of 2018 annual general meeting of Shanghai Pharmaceuticals, maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group shall not exceed RMB3 billion. As at 31 December 2016, neither the maximum daily balance of deposits by the Group with the Finance Company nor the comprehensive credit facilities actually provided by the Finance Company to the Group have exceeded the aforesaid amounts approved at the annual general meeting.

A. Loan and Settlement and Other Financial Services under the Financial Services Agreement between the Group and the Finance Company

Actual loan services between the Group and the Finance Company were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for such loan services; the relevant percentage ratios other than profits ratio for actual settlement and other financial services, calculated on an annual basis, were less than 0.1%.

Significant Events

- B. Deposits services under the Financial Services Agreement between the Group and the Finance Company

Shanghai Shangshi, the Company, Shanghai Industrial Capital Co., Ltd. ("SI Capital") and SIIC Dongtan Investment & Development (Holdings) Co., Ltd. ("SIIC Dongtan") respectively hold 40%, 30%, 20% and 10% of equity interests in the Finance Company. Shanghai Shangshi is one of the Controlling Shareholders of the Company, and SI Capital and SIIC Dongtan are wholly-owned subsidiaries of Shanghai Shangshi. Both Shanghai Shangshi and the Finance Company are connected persons of the Company. On 28 June 2016, the Company renewed the Financial Services Agreement with Finance Company after the approval at the 2015 annual general meeting. The deposit services under the Financial Services Agreement was subject to reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. In 2016, the relevant percentage ratios other than profits ratio for actual deposit services, calculated on an annual basis, were higher than 5%;

Date of transaction	Connected person	Connected relationship	Transaction	Actual amount	Daily cap
During the period from January to December 2016	The Finance Company	Subsidiary of Controlling Shareholder	Deposit services	RMB1.984 billion	RMB2 billion

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

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

- ① The Company can further expand its financing channels through business cooperation with the Finance Company;
- ② The favourable interest rates for deposits and loans provided by the Finance Company are conducive to improving the Company's deposit income and lowering financing costs;

- ③ Services provided by the Finance Company to the Company, including the provision of financing sources, involve more efficient processing procedures, and enable the Company to make economical arrangements in respect of the financing term; and
 - ④ Through its business corporation with the Finance Company, the Company can further strengthen its bargaining power against external banks.
- (3) Continuing Connected Transactions Framework Agreement between the Group and Jiangxi Nanhua Medicines Co., Ltd.

Jiangxi Nanhua (Shanghai Pharma) Medicines Co., Ltd. ("Nanhua Shanghai Pharma") is an indirectly non wholly-owned subsidiary of the Company. Since Jiangxi Nanhua Medicines Co., Ltd. ("Jiangxi Nanhua") holds 49% of equity interests in Nanhua Shanghai Pharma, it is a substantial shareholder of Nanhua Shanghai Pharma and Jiangxi Nanhua is a connected party of the Company in the subsidiary level.

The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Renewal of the Daily Connected Transactions Framework Agreement and Daily Connected Transactions/ Continuing Connected Transactions with Jiangxi Nanhua Medicines Co., Ltd. was approved at the 2015 annual general meeting held on 28 June 2016. From January to December 2016, the Group (including the newly established Nanhua Shanghai Pharma) would sell products and render services to Jiangxi Nanhua Medicines amounting to no more than RMB1.8 billion. In 2016, the relevant percentage ratios other than profits ratio for actual transaction amount, calculated on an annual basis, were higher than 5%. Pursuant to Rule 14A.101 of the Hong Kong Listing Rule, such transaction of the aforesaid is exempt from independent shareholders' approval, but subject to reporting, annual review and announcement requirements under the Hong Kong Listing Rules.

Significant Events

As at 31 December 2016, the annual transaction amount of the Group's sales of products and provision of services to Jiangxi Nanhua was RMB1.932 billion, slightly higher than the annual cap for 2016.

Date of transaction	Connected person	Connected relationship	Transaction	Actual amount	Annual cap
During the period from January to December 2016	Jiangxi Nanhua	Substantial shareholder of subsidiaries	Sale of products and provision of services	RMB1.932 billion	RMB1.8 billion

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

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

As the amount for 2016 has slightly exceeded the 2016 annual cap previously set by the Group, directors approved and confirmed the transaction amount actually generated from the sales of products and provision of services under the agreement in 2016 at the board meeting held on 21 March 2017. For details, please refer to the announcement issued by the Company on the same day. Based on the operating results and financial performance of Nanhua Shanghai Pharma in 2015 and 2016, the Company currently expects that Nanhua Shanghai Pharma will be a non-significant subsidiary of the Company in the foreseeable future. Therefore, the Company considers that it is no longer necessary to regard Jiangxi Nanhua as a connected person (as defined under the Hong Kong Listing Rules). In the future, the transactions between the Group and Jiangxi Nanhua will not be subject to the requirements of the continuing connected transactions of the Hong Kong Listing Rules provided that Nanhua Shanghai Pharma is a non-significant subsidiary of the Company.

(4) Confirmation of Continuing Connected Transactions

The directors of the Company (including independent non-executive directors) confirm that, all of the above (1)B, (2)B and (3) connected transactions for the year ended 31 December 2016 are conducted in the daily and ordinary course of business of the Group on normal commercial terms in compliance with the relevant connected transaction agreements, and are fair and reasonable and in the interest of the shareholders of the Company as a whole. PricewaterhouseCoopers, the overseas auditor of the Company, has been engaged to report on the above continuing connected transactions subject to report, annual review and announcement for the year ended 31 December 2016 in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information) issued by the Hong Kong Institute of Chartered Public Accountants and with reference to Practice Note No. 740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules). It has also confirmed that any of the above (1)B, (2)B and (3) continuing connected transactions was (1) approved by the board of directors of the Company; (2) priced basing on the pricing policy of the Group, as regard to the continuing connected transaction of provision products or services by the Group; (3) carried out in accordance with the relevant agreement regulating the transaction; and (4) in addition to the annual transaction amount under the Daily Connected Transactions Framework Agreement signed with Jiangxi Nanhua Medicines Co., Ltd. in 2016 amounting to RMB1.932 billion, exceeding the originally set annual cap of RMB1.8 billion, the amount of other continuing correlations has not exceeded the respective annual cap amount for such continuing connected transactions as announced on 4 February 2016 and 19 March 2016.

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

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

✓ Applicable ☐ Not applicable

Overview of Events	Search Index
The announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the A+ Round Financing and Connected Transaction of Shanghai Pharma Health Commerce Co., Ltd., its controlling subsidiary	Please refer to Company's announcement Lin No. 2016-020 disclosed by the Company on 19 March 2016 for details.

Significant Events

2. *Events disclosed in interim announcements with subsequent development or changes during implementation*
☐ Applicable ☒ Not applicable
3. *Events not disclosed in interim announcements*
☐ Applicable ☒ Not applicable
4. *Performance with agreed target shall be disclosed during the Reporting Period*
☐ Applicable ☒ Not applicable

(III) Material connected transaction relating to joint external investment

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

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Joint Establishment of Shanghai Lianyi Investment Management Co., Ltd. (Limited Partnership) and Related/Connected Transactions	Please refer to Company's announcement Lin No. 2016-019 disclosed by the Company on 19 March 2016 for details.

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

Significant Events

3. Events not disclosed in interim announcements

✓ Applicable ☐ Not applicable

In order to meet their business development needs and the guarantee financing needs of the Company, related parties has the following guarantees for the Company:

Guarantor	Value of guarantee (RMB'000)	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Shanghai Shangshi Group Finance Co., Ltd.	12,000.00	13 January 2016	12 March 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	10,000.00	13 December 2016	12 August 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	7,000.00	7 July 2016	6 September 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	7,000.00	9 May 2016	8 July 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	6,000.00	12 June 2016	11 August 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	6,000.00	8 March 2016	7 May 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	6,000.00	9 September 2016	8 May 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	6,000.00	11 April 2016	10 June 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	6,000.00	15 February 2016	14 April 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	5,000.00	9 August 2016	8 April 2017	No
Shanghai Shangshi Group Finance Co., Ltd.	4,000.00	9 November 2016	8 July 2017	No
Shanghai Pharmaceutical (Group)	1,430.00	20 September 2003	19 September 2018	No
Total	76,430.00	/	/	/

Significant Events

(V) Others

☒ Applicable ☐ Not applicable

1. *Significant related parties*

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

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 2016 was approved at the 21st Meeting of the Fifth Session of the Board of Directors and the 2015 annual general meeting, respectively. (For more details, refer to the Company's announcement Lin No. 2016-017 and Lin No. 2016-043 disclosed by the Company on 19 March 2016 and 29 June 2016, respectively).

Unit: Yuan Currency: RMB

External guarantees provided by the Company and its subsidiaries (excluding those provided to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed-company	Guarantee	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of Guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter Guarantee	Guarantee provided to related parties	Connect-ed relationship
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd	8,500,000.00		2015/8/31	2016/8/26	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd	6,500,000.00		2015/12/22	2016/12/21	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd	8,500,000.00		2016/8/29	2017/5/23	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd	6,500,000.00		2016/12/21	2017/12/21	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,107,000.00		2015/7/17	2016/2/17	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	490,000.00		2016/1/20	2016/7/18	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	987,091.47		2016/1/24	2017/5/24	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	840,383.02		2016/1/24	2017/2/24	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	4,659,531.12		2016/12/15	2017/3/15	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	941,646.39		2016/12/15	2017/6/15	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	207,537.68		2016/12/21	2017/3/21	Joint guarantee	No	No		No	No	Associate
Hangzhou Kailun Pharmaceutical Co., Ltd.	Holding subsidiary	Hangzhou Yuha-ng Oil Co., Ltd.	10,000,000.00		2014/5/26	2016/5/8	Joint guarantee	Yes	No		No	No	Others
Hangzhou Kailun Pharmaceutical Co., Ltd.	Holding subsidiary	Hangzhou Yuha-ng Oil Co., Ltd.	10,000,000.00		2014/11/25	2016/6/27	Joint guarantee	Yes	No		No	No	Others
Shanghai Pharma Zhenjiang Co., Ltd.	Holding subsidiary	Danyang People's Hospital of Danyang	30,000,000.00		2015/8/14	2018/8/14	Joint guarantee	No	No		No	No	Others
Shanghai Pharma Zhenjiang Co., Ltd.	Holding subsidiary	Center for Disease Control and Prevention of Dantu District, Zhenjiang City (镇江市丹徒区疾病预防控制中心)	8,000,000.00		2015/12/18	2016/12/18	Joint guarantee	Yes	No		No	No	Others
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													23,126,189.68
Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)													37,936,189.68
Guarantees provided by the Company and its subsidiaries to its subsidiaries													
Total value guaranteed for its subsidiaries during the Reporting Period													3,662,859,920.89
Total balance guaranteed for its subsidiaries at the end of the Reporting Period (B)													2,156,784,848.56
Total value guaranteed by the Company (including those provided to its subsidiaries)													
Total value guaranteed (A+B)													2,194,721,038.24
Percentage of total value guaranteed in the Company's net assets (%)													6.94
Among which:													
Value guaranteed for shareholders, de facto controller and related parties (C)													
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D)													1,475,877,839.31
Amount of total value guaranteed exceeding 50% of net assets (E)													
Total of value guaranteed for the above three items (C+D+E)													1,475,877,839.31
Details of possible joint and several settlement liabilities for undue guarantee													
Details of guarantee													

Note: Shanghai Pharma Zhenjiang Co., Ltd. is a newly acquired company by the group during the reporting period, whose guarantees have already occurred before the acquisition.

Significant Events

(III) Appoint custodian for management of funds

1. *Asset management mandates*
☐ Applicable ☒ Not applicable
2. *Entrusted loans*
☐ Applicable ☒ Not applicable
3. *Other asset management mandates and investment in derivatives*
☒ Applicable ☐ Not applicable

Other asset management mandates and investment in derivatives

During the year, the Company gained total profits of RMB9,213,921.50 by transaction of state bonds buy-back.

During the year, the newly acquired enterprise held the net forward foreign exchange contract of AUD487,977.00 (approximately equivalent to RMB2,447,546.24) and the interest rate swap contract of AUD277 (approximately equivalent to RMB1,389.35).

(IV) Other material contracts

- ☐ Applicable ☒ Not applicable

XVI. STATEMENTS ABOUT OTHER SIGNIFICANT EVENTS

- ☒ Applicable ☐ Not applicable

1. Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd (hereinafter referred to as "Pien Tze Huang" sued Xiamen Traditional Chinese Medicine Co., Ltd (hereinafter referred to as "Xiamen Traditional Chinese Medicine"), Xiamen Evening News Media Development Co., Ltd and Xiamen Daily at Zhangzhou Municipal Intermediate People's Court (hereinafter referred to as "Zhangzhou Intermediate Court") for unfair competition, but Xiamen Traditional Chinese Medicine filed an application for objection to jurisdiction to Zhangzhou Intermediate Court on 13 March 2014. On 4 April 2014, Xiamen Traditional Chinese Medicine received Civil Judgment (2014) Zhang Min Chu Zhi No. 35-3, in which Zhangzhou Intermediate Court through the first trial rejected the objection to the case's jurisdiction by Xiamen Traditional Chinese Medicine. On 13 April 2014, Xiamen Traditional Chinese Medicine appealed to Fujian Provincial Higher People's Court (hereinafter referred to as "Fujian Higher Court) for objection to jurisdiction. On 23 June 2014, Fujian Higher Court issued Civil Judgment (2014) Min Min Zhong Zi No. 660 to revoke Civil Judgment (2014) Zhang Min Chu Zi No. 35-3 issued by Zhangzhou Intermediate Court and transferred the case to the jurisdiction of Xiamen Municipal Intermediate People's Court (hereinafter referred to as "Xiamen Intermediate Court"). On 18 August 2014, Xiamen Traditional Chinese Medicine received (2014) Xia Min Chu Zi No. 937 Notice from Xiamen Municipal Intermediate People's Court, Fujian Province.

It was noted that Fujian Higher Court further transferred the case to the jurisdiction of Fuzhou Municipal Intermediate People's Court (hereinafter referred to as "Fuzhou Intermediate Court"). On 22 October 2014, Xiamen Traditional Chinese Medicine received notice from Fuzhou Intermediate Court that the time period for producing evidence on the case was extended to 7 November 2014. On 5 December 2014, Xiamen Traditional Chinese Medicine received Notice on Members of Collegial Panel from Fuzhou Intermediate Court and the statement of claim submitted by Pien Tze Huang. Some amendments were made to the ordinary statement of claim. On 19 December 2014, Xiamen Traditional Chinese Medicine filed an objection to the jurisdiction of Fuzhou Intermediate Court for the reason that the amended claims were beyond its scope of jurisdiction. According to the Civil Judgment (2014 Rong Min Chu Zi No. 1431-1) received by Xiamen Traditional Chinese Medicine on 9 January 2015, its objection to the jurisdiction was rejected by the Fuzhou Intermediate Court through the first trial. On 19 January 2015, Xiamen Traditional Chinese Medicine further submitted its appeal for objection to the jurisdiction to the Fujian Higher Court. On 4 March 2015, the Civil Judgment (2015 Min Min Zhong Zi No. 446) was issued by the Fujian Higher Court as a final verdict, which repealed the aforesaid appeal and affirmed that the lawsuit shall be governed by the Fuzhou Intermediate Court. On 8 May 2015, Fuzhou Intermediate Court convened pretrial conference against the case. On 3 August 2015, Fuzhou Intermediate Court convened pretrial conference against the case again. On 31 August 2015, Fuzhou Intermediate Court convened the third pre-trial conference against the case. The case was separately judged by Fuzhou Intermediate Court on 22 December 2015 and 5 January 2016.

2. On 18 June 2014, regarding the application 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 by Pien Tze Huang, Xiamen Traditional Chinese Medicine applied to Trademark Bureau of State Administration for Industry and Commerce for the rejection of registering these two contentious trademarks according to relevant regulations. On 30 October 2015, Trademark Bureau of State Administration for Industry and Commerce made decisions that trademarks were not allow to register, including trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683990 [(2015) Shang Biao Yi Zi No.0000052574] and trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683929 [(2015) Shang Biao Yi Zi No.0000052569], and the registration of the two trademarks of Pien Tze Huang was rejected. On 21 March 2016, Xiamen Traditional Chinese Medicine received from the Trademark Review and Adjudication Board of State Administration for Industry and Commerce the application of case review made by Pien Tze Huang against the decisions of rejection of registering. On 18 April 2016, Xiamen Traditional Chinese Medicine submitted defense materials against case review on decisions of rejection of registering started by Pien Tze Huang to the Trademark Review and Adjudication Board of State Administration for Industry and Commerce.

Significant Events

3. On 17 August 2015, Xiamen Traditional Chinese Medicine filed with Fuzhou Intermediate Court to claim against Pien Tze Huang, Railway Station Pharmacy of Fuzhou Huichun Medicine Chain Co., Ltd.(referred as to “Huichun Medicine Railway Station Pharmacy”), Fuzhou Huichun Medicine Chain Co., Ltd. (referred as to “Huichun Medicine”) for unfair competition, demanding to issue an order to Pien Tze Huang to stop infringing false propaganda on Babaodan series products of Xiamen Traditional Chinese Medicine; compensate economic loss and reasonable rights fee totaling RMB2.997 million to Xiamen Traditional Chinese Medicine; to issue a public statement on provincial press and its official website for consecutive six months clarifying the facts and eliminating adverse effects to Xiamen Traditional Chinese Medicine; to issue an order to Huichun Medicine Railway Station Pharmacy and Huichun Medicine to jointly and severally compensate Xiamen Traditional Chinese Medicine economic loss of RMB3,000; and to issue an order to the three defendants to jointly assume to legal costs to case. Fuzhou Intermediate Court accepted the case with case (2015) Rong Min Chu Zi No.1518. Pien Tze Huang submitted its objection to the jurisdiction to the Fuzhou Intermediate Court, claiming Fuzhou Intermediate Court was beyond its scope of jurisdiction and asking for transfer the case to Zhangzhou Municipal Intermediate People’s Court (hereinafter referred to as “Zhangzhou Intermediate Court”). On 22 September 2015, Fuzhou Intermediate Court issued Civil Judgment (2015) Rong Min Chu Zi No.1518 and rejected the objection to the jurisdiction of Pien Tze Huang. Pien Tze Huang was not satisfying the Judgment, and appealed to Fujian Provincial Higher People’s Court (referred to as “Fujian Higher Court”). On 7 December 2015, Fujian Higher Court issued Civil Judgment (2015) Min Min Zhong Zi No. 2095 to revoke Fujian Intermediate Court Civil Judgment and transferred the case to the jurisdiction of Zhangzhou Municipal Intermediate People’s Court, and the litigations involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy still under trial by Fuzhou Intermediate Court. 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; afterwards, Xiamen Traditional Chinese Medicine instituted an appeal within the appeal period; the evidence exchange of the litigation involving Pien Tze Huang was held by Zhangzhou Intermediate Court on 18 September 2016 and the litigation has been heard on 13 October 2016; on the same day, Zhangzhou Intermediate Court issued a civil ruling on the preservation of evidence related to the case.

XVII. POSITIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) Poverty alleviation work of the listed company

☒ Applicable ☐ Not applicable

Details are set out in the "2016 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

(II) Performing social responsibilities

☒ Applicable ☐ Not applicable

Details are set out in the "2016 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

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

☒ Applicable ☐ Not applicable

Details are set out in the "2016 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

XVIII. CONVERTIBLE CORPORATE BONDS

(I) Conversion and issuance

☐ Applicable ☒ Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Table of changes in ordinary share capital

1. Table of changes in ordinary share capital

During the Reporting Period, there was no change in the total number of shares and share capital structure of the Company. At the end of the Reporting Period, the total share capital of the Company was 2,688,910,538 Shares, comprising 1,923,016,618 A Shares and 765,893,920 H Shares.

2. Descriptions of changes in Ordinary shares

☐ Applicable ☒ Not applicable

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

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

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities during the Reporting Period

☒ Applicable ☐ Not applicable

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

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

☐ Applicable ☒ Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

(III) Details of Shares Held by the Company's employees

☐ Applicable ☒ Not applicable

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders

Aggregate number of ordinary shareholders as at the end of the Reporting Period	72,695
Aggregate number of ordinary shareholders as at the end of the month prior to the disclosure date of the annual report	73,593
The total number of shareholders of preference shares (with the voting right restored) as at the end of the reporting period	0
The total number of shareholders of preference shares (with the voting right restored) as at the end of the month prior to the disclosure date of the annual report	0

Note 1: Among the aggregate 72,695 shareholders as at the end of the Reporting Period, 70,360 were A-share holders and 2,335 were H-share holders;

Note 2: Among the aggregate 73,593 shareholders as at the end of the month prior to the disclosure date of the annual report, 71,272 were A-share holders and 2,321 were H-share holders.

Changes in Ordinary Share Capital and Information about Shareholders

(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

Name of shareholder (in full)	Shareholdings of top ten shareholders				Pledged or frozen		
	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	Status	Number	Nature of shareholders
HKSCC NOMINEES LIMITED	12,700	748,152,420	27.82%	0	Unknown		Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	26.65%	0	Unknown		State-owned legal person
SILC and its wholly-owned subsidiaries and Shanghai Shangshi	0	238,586,198	8.87%	0	Unknown		State-owned legal person and foreign shareholders
China Securities Finance Corporation Limited	-695,032	66,531,492	2.47%	0	Unknown		Unknown
Shanghai Guosheng and Shanghai Shengrui	-30,803,243	37,212,947	1.38%	0	Unknown		State-owned legal person
NSSF 604 Combination	3,762,936	26,815,410	1.00%	0	Unknown		Unknown
Central Huijin Investment Ltd.	0	24,891,300	0.93%	0	Unknown		Unknown
Shenergy (Group) Co., Ltd.	-58,000,000	23,199,520	0.86%	0	Unknown		State-owned legal person
China Construction Bank Co., Ltd. HuaXia Medical Health Hybrid Securities Investment Fund	10,802,739	16,728,238	0.62%	0	Unknown		Unknown
China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	1,701,232	16,711,130	0.62%	0	Unknown		Unknown

Changes in Ordinary Share Capital and Information about Shareholders

Shareholdings of top 10 shareholders without trade restrictions			
Name of shareholder	Number of Shares without trade restrictions	Class and number of Shares	
		Class	number of Shares
HKSCC NOMINEES LIMITED	748,152,420	Overseas listed foreign shares	748,152,420
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	66,531,492	RMB ordinary shares	66,531,492
Shanghai Guosheng and Shanghai Shengrui	37,212,947	RMB ordinary shares Overseas listed foreign shares	35,828,447 1,384,500
NSSF 604 Combination	26,815,410	RMB ordinary shares	26,815,410
Central Huijin Investment Ltd.	24,891,300	RMB ordinary shares	24,891,300
Shenergy (Group) Co., Ltd.	23,199,520	RMB ordinary shares	23,199,520
China Construction Bank Co., Ltd. HuaXia Medical Health Hybrid Securities Investment Fund	16,728,238	RMB ordinary shares	16,728,238
China Life Insurance Company Limited – traditional – ordinary insurance products-005L – CT001 Shanghai	16,711,130	RMB ordinary shares	16,711,130
Note on connected relations or concerted actions of the above shareholders	SIIC is the De Facto Controller of Shanghai Shangshi, which is a controlling shareholder of Shanghai Pharmaceutical (Group). Shanghai Shengrui is a wholly-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	/		

Changes in Ordinary Share Capital and Information about Shareholders

Number of and the trade restrictions on the Shares held by the top 10 Shareholders holding trade-restricted Shares

☒ Applicable ☐ Not applicable

Unit: Share

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

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

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

☐ Applicable ☒ Not applicable

Changes in Ordinary Share Capital and Information about Shareholders

IV DETAILS IN CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Controlling Shareholders

1 Legal person

☒ Applicable ☐ Not applicable

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

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

Changes in Ordinary Share Capital and Information about Shareholders

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, production, 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

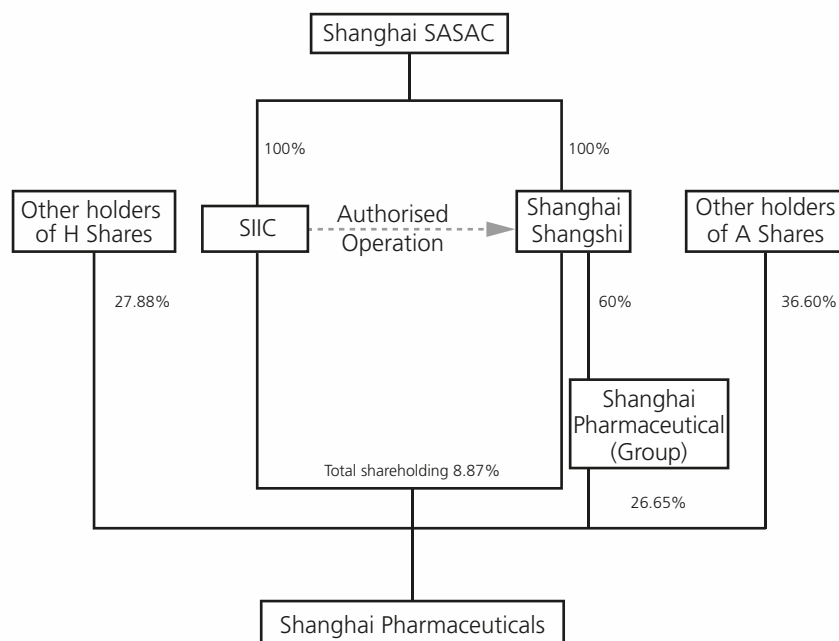
1. *Legal person*

✓ 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



Changes in Ordinary Share Capital and Information about Shareholders

V. DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

(I) Director's interests

Directors' interests are set out "Chapter VIII Directors, Supervisors, Senior Management and Employees" below.

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

As at 31 December 2016, according to the information available to the Company and to the knowledge of the directors, the following Shareholders had interests or short positions in the Shares or underlying shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the shareholders' general meetings of the Company:

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/ A Shares held as at the end of the Reporting Period to the entire issued H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group ^{Note 1 (1)}	A shares/ H shares	Interests of controlled corporation	955,102,237(L)	48.82 (A shares)/ 2.13 (H shares)	35.52
Shanghai Shangshi Group ^{Note 1 (2)}	A shares	Beneficial owner/Interests of controlled corporation	938,317,837(L)	48.79	34.90
Shanghai Pharmaceutical (Group)	A shares	Beneficial owner	716,516,039(L)	37.26	26.65
Credit Suisse (Hong Kong) Limited	H shares	Interests commonly held with another person	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
Credit Suisse AG	H shares	Interests of controlled corporation	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
JPMorgan Chase & Co.	H shares	Beneficial owner/ investment manager/ custodian/approved lending agent	84,542,867(L) 100,000(S) 72,871,893(P)	11.03(L) 0.01(S) 9.51(P)	3.14(L) 0.00(S) 2.71(P)

Changes in Ordinary Share Capital and Information about Shareholders

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 (%)
National Council for Social Security Fund	H shares	Beneficial owner	66,633,400(L)	8.70(L)	2.48(L)
BlackRock, Inc.	H shares	Interests of controlled corporation	46,133,988(L) 22,600(S)	6.02(L) 0.00(S)	1.72(L) 0.00(S)
The Capital Group Companies, Inc.	H shares	Interests of controlled corporation	45,805,100(L)	5.98(L)	1.70(L)
AllianceBernstein L.P.	H shares	Investment Manager/ Interests of controlled corporation	38,572,010(L)	5.03(L)	1.43(L)

(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).

Changes in Ordinary Share Capital and Information about Shareholders

- 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 2016, 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.

VI. PRE-EMPTIVE RIGHTS

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

VII. PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2016, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

Information Related to Preference Shares

☐ Applicable ☒ Not applicable

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND REMUNERATION

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

✓Applicable □Not applicable

Unit: Share

Name	Position (Note)	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/decrease of Shares during the year	Reasons for change	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)	Whether obtained salary from corporate related part
Zhou Jun	Chairman, Non-Executive Director	Male	48	20 October 2016	28 June 2019	0	0	0	/	0.00	Yes
Cho Man	Executive Director, President	Male	56	5 June 2013	28 June 2019	20,009 A Shares	20,009 A Shares	0	/	291.57	No
Li Yongzhong	Executive Director, Vice President	Male	47	28 June 2016	28 June 2019	0	0	0	/	52.84	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	44	28 June 2016	28 June 2019	71,700 A Shares	71,700 A Shares	0	/	217.56	No
Li An	Non-Executive Director	Female	56	28 June 2016	28 June 2019	0	0	0	/	0.00	Yes
Wan Kam To	Independent Non-Executive Director	Male	64	5 June 2013	28 June 2019	0	0	0	/	25.00	No
Tse Cho Che, Edward	Independent Non-Executive Director	Male	61	5 June 2013	28 June 2019	0	0	0	/	23.00	No
Cai Jiangnan	Independent Non-Executive Director	Male	60	28 June 2016	28 June 2019	0	0	0	/	10.00	No
Hong Liang	Independent Non-Executive Director	Male	42	28 June 2016	28 June 2019	0	0	0	/	11.50	No
Xu Youli	Chief Supervisor	Male	43	28 June 2016	28 June 2019	0	0	0	/	0.00	Yes
Chen Xin	Supervisor	Female	54	31 March 2010	28 June 2019	10,000 A Shares	10,000 A Shares	0	/	0.00	Yes
Xin Keng	Supervisor	Male	50	5 June 2013	28 June 2019	0	0	0	/	0.00	Yes
Liu Yanjun	Vice President	Male	52	5 June 2013	28 June 2019	60,000 A Shares	60,000 A Shares	0	/	200.89	No
Ren Jian	Vice President	Male	52	31 March 2010	28 June 2019	81,518 A Shares	81,518 A Shares	0	/	204.16	No
Shu Chang	Vice President	Male	59	8 October 2012	28 June 2019	4,600 A Shares	4,600 A Shares	0	/	183.62	No
Mao Jianyi	Vice President	Male	49	19 November 2013	28 June 2019	0	0	0	/	178.07	No
Gu Haojiang	Vice President	Male	55	25 August 2016	28 June 2019	0	0	0	/	28.19	No
Liu Dawei	Vice President, Secretary of the board of directors and the joint Company Secretary	Male	37	28 June 2016	28 June 2019	0	0	0	/	35.40	No
Lou Dingbo	No longer as Chairman, Executive Director	Male	55	5 June 2013	5 May 2016	40,000 A Shares	40,000 A Shares	0	/	0.00	Yes
Zhou Jie	No longer as Chairman, Executive Director	Male	50	5 June 2013	25 August 2016	0	0	0	/	0.00	Yes
Hu Fengxiang	No longer as Executive Director	Male	61	5 June 2013	28 June 2016	20,000 A Shares	20,000 A Shares	0	/	0.00	Yes
Jiang Ming	No longer as Non-Executive Director	Male	60	31 March 2010	28 June 2016	0	0	0	/	0.00	Yes
Chen Naiwei	No longer as Independent Non-Executive Director	Male	60	31 March 2010	28 June 2016	0	0	0	/	11.50	No
Li Zhenfu	No longer as Independent Non-Executive Director	Male	54	31 May 2012	28 June 2016	0	0	0	/	10.00	No
He Chuan	No longer as Chief Supervisor	Male	56	16 December 2014	28 June 2016	12,500 A Shares	12,500 A Shares	0	/	0.00	Yes
Total	/	/	/	/	/	320,327 A Shares	320,327 A Shares	0	/	1,483.30	/

Directors, Supervisors, Senior Management and Employees

- Note 1: Save as disclosed above, as at 31 December 2016, according to the information available to the Company and to the knowledge of the directors, none of the directors, supervisors and senior management of the Company had any interest or short position in the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.
- Note 2: During the Reporting Period, none of the Company's directors and supervisors had any material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business entered into by the Company or any of its subsidiaries.
- Note 3: None of the current and resigned (during the Reporting Period) directors, supervisor and senior executives had been punished by securities regulators in the past three years.
- Note 4: The Company has, pursuant to Rule 3.13 of the Hong Kong Listing Rules, received from each of the 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.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Zhou Jun	Mr. Zhou Jun, born in March 1969, obtained a bachelor's degree of Arts from Nanjing University and a master's degree of Economics in International Finance from Fudan University. He is qualified as an economist. He has over 20 years of professional experience in securities, merger and acquisition, financial investment, real estate, project planning and corporate management. He is currently the chairman of the Board and a non-executive director of the Company without any directorship in any subsidiaries of the Company. He has been a president and an executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since September 2016 and May 2012, respectively. He has also been the vice chairman and the chief executive officer and the executive director of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code of 00363) since August 2016 and April 2009, respectively. He also served as the chairman of Shanghai Shengtai Investment and Management Limited, an affiliate of Shanghai Charity Foundation since June 2014, and has been the independent non-executive director of Zhejiang Expressway Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code of 00576; London Market for Hong Kong Stocks code of ZHEH; United States ADR code of ZHEXY) since July 2012. He was also the executive chairman of SIIC Environment Holdings Ltd. (a company listed on the Singapore Stock Exchange with stock code of BHK) since May 2012; the chairman of SIIC Management (Shanghai) Ltd. since November 2010; the executive director of Shanghai Industrial Urban Development Group Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code of 00563) since July 2010; the chairman of Shanghai Shen-Yu Development Co., Ltd. since November 2009; the chairman of Shanghai Galaxy Investments Co., Ltd. since July 2009; the chairman of Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Luqiao Development Co., Ltd. since April 2009; the chairman of S.I. Infrastructure Holdings Limited since March 2009. Meanwhile, Mr. Zhou Jun is a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai. He held the positions of a deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., deputy chief executive officer of Shanghai Industrial Holdings Limited, deputy general manager of Shanghai United Industrial Co., Ltd., managing director of Shanghai Galaxy Investments Co., Ltd and general manager of investment planning department as well as vice president of Shanghai Industrial Investment (Holdings) Co., Ltd., etc as well.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Cho Man	Mr. Cho Man, born in May 1961, has a bachelor's degree in pharmacy from Sichuan University (former West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho is currently an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company. He served as vice chairman and chief executive officer of The Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, general manager and chairman of Sanjiu Economic Trading Co., Ltd., general manager and chairman of Nine Stars Printing and Packaging Co., Ltd., head of sales department and vice director of Shenzhen South Pharmaceutical Factory, and pharmacist, head of transfusion medicine department and head of the drug injection department of Nanfang Hospital, First Military Medical University, Guangzhou, etc.
Li Yongzhong	Mr. Li Yongzhong, born in February 1970, an executive master of business administration from the China Europe International Business School. He is qualified as an pharmacist. He is currently the executive director and vice president of the Company and the general manager and director of Shanghai Pharma Co., Ltd., a subsidiary of the Company. He is also taking directorship in other subsidiaries of the Company. His previous positions included deputy manager of the New Drug Branch of, deputy general manager and general manager of pharmaceutical distribution business department of, and general manager assistant and deputy general manager of Shanghai Pharmaceutical Co., Ltd. and vice president of Shanghai Pharmaceuticals Holding Co., Ltd., etc.
Shen Bo	Mr. Shen Bo, born in March 1973, obtained a bachelor's degree majoring in accounting from Shanghai Institute of Construction Materials Industry and master of professional accountancy from Chinese University of Hong Kong. He has passed the PRC Certified Public Accountants examination. He is currently the executive director, vice president and chief financial officer of the Company, and holds directorships at subsidiaries of the Company. He has been a non-executive director of Tianda Pharmaceuticals Co., Ltd. (a company listed on The stock Exchange of Hong Kong Limited with stock code 00455) since August 2015. He has been a non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01349) since June 2012. His previous positions included the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd, etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Li An	Ms. Li An, born in July 1961, obtained a bachelor's degree in Engineering from Shanghai University of Science and Technology and is an engineer. She is currently a non-executive director of the Company without any directorship in any subsidiaries of the Company. She has been the vice president of Shanghai Guosheng (Group) Co. Ltd, a director of Shanghai Lengguang Industrial Co., Ltd (changed its name to East China Construction Group Co., Ltd (華東建築集團股份有限公司) in October 2015 and a company listed on the Shanghai Stock Exchange with stock code 600629) and a director of Shanghai Tunnel Engineering Co., Ltd (a company listed on the Shanghai Stock Exchange with stock code 600820) since September 2014, July 2015 and September 2015, respectively. She previously served as the deputy director of the Institute of Information Technology in Hongkou District, a senior staff member of Industry District of the Planned Economy Committee in Hongkou District, the section chief of the Grass-roots Work Division of the Economic Committee in Hongkou District (虹口區經濟委員會基層工作科), a principal staff member of Shanghai Municipal State-owned Assets Supervision and Administration Office, a deputy director of the Property Rights Division of the Municipal State-owned Assets Supervision and Administration Office, a deputy director and the director of the Property Rights Division of the Municipal State-owned Assets Supervision and Administration Commission and the director of the Center of Property Rights, etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Wan Kam To	Mr. Wan Kam To, born in January 1953, graduated from the Accounting Department of Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma. He is a certified accountant in Hong Kong, and a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Hong Kong Institute of Directors. He is currently an independent non-executive director of the Company and does not hold any directorship in any subsidiaries the Company. Mr. Wan Kam To has extensive experience in auditing, finance, advisory and management for over 30 years. He has been an independent non-executive director of China International Trade Center Co., Ltd (a company listed on The Stock of Shanghai Limited Listed with stock code 600007) since November 2016. He has been an independent non-executive director of Target Insurance (Holdings) Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 06161) since November 2014; an independent non-executive director of Harbin Bank Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 06138) since October 2013, an independent non-executive director of Kerry Logistics Network Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00636) since November 2013, an independent non-executive director of S. Culture International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01255) since May 2013, an independent non-executive director of KFM Kingdom Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 03816) since September 2012, an independent non-executive director of Dalian Port (PDA) Company Limited (a company listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange with stock code 02880 and 601880 respectively) since June 2011, an independent non-executive director of Huaneng Renewables Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00958) since August 2010, an independent non-executive director of Fairwood Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00052) since September 2009, an independent non-executive director of China Resources Land Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01109) since March 2009. He once served as an independent director of Mindray Medical International Limited (a company listed on the New York Stock Exchange under the ticker symbol MR), an independent director of RDA Microelectronics, Inc. (a company listed on NASDAQ under the ticker symbol RDA), an independent non-executive director of Greater China Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08193) and a partner of PricewaterhouseCoopers in Hong Kong (from May 1992 to June 2008), etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
TSE Cho Che, Edward	Mr. Tse Cho Che, Edward, born in June 1956, holds a bachelor's degree and a master's degree in civil engineering from the Massachusetts Institute of Technology, the United States, and a master of business administration as well as a Ph.D. in civil engineering from the University of California, Berkeley, the United States. Mr. Tse is currently an independent non-executive director of the Company and does not hold any directorship in any subsidiaries of the Company. He has been engaged in management consultancy and corporate senior management for nearly 30 years, with extensive experience and expertise in definition and implementation of corporate transformation, establishment of organizations, business strategy and overseas expansion. He holds the position of Chairman in Gao Feng Advisory Company since April 2014. He was the chairman of the board in Greater China region of Booz & Company, an independent director of Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600019), director of Shanghai Automotive Industry Corporation (Group), executive vice president of corporate planning and development division and business president of Greater China region of HKT Limited, a part-time member of the Central Policy Unit of the Hong Kong Special Administrative Region, and president of Greater China region of Boston Consulting Group, etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Cai Jiangnan	Mr. Cai Jiangnan, born in June 1957, obtained a bachelor's degree in Economics from East China Normal University, a master's degree in Economics from Fudan University and a Ph.D. in Social Politics from Brandeis University in the United States of America. Mr. Cai is currently an independent non-executive director of the Company without any directorship in any subsidiaries of the Company. Mr. Cai has been engaged in teaching, researching and consulting in respect of health economics and health policy in universities, consulting companies and government departments in both China and the United States of America for more than 20 years, and published a large number of influential research results. Mr. Cai has been awarded Sun Yefang Economic Science Paper Award in 1990, the NHRI Most Outstanding Abstract Award in 2002, the Outstanding Paper Award at the Annual Meeting of Shanghai Academy of Social Sciences in 2009 (上海市社會科學界年會優秀論文獎), as well as a nominee of 2013 Top Ten Big News on Health Care Reform (十大醫改新聞人物提名) organized by "Chinese Health" magazine (《中國衛生》). Mr. Cai was also one of the main founders of the School of Business in East China University of Science and Technology. He has been the director of Health Management and Policy Center in and an adjunct professor of economics in China Europe International Business School since May 2012. He also has been an independent director of Zhejiang Dian Diagnostics Co., Ltd (a company listed on the Shenzhen Stock Exchange with stock code 300244) and Harmonicare Medical Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 01509) since 2014 and 2015, respectively. He previously served as the first head of the Department of Public Economics in School of Economics, Fudan University and the director of the Institute of Economic Development, East China University of Science and Technology, etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Hong Liang	Mr. Hong Liang, born in December 1975, obtained a bachelor's degree in Economic Law from East China University of Political Science and Law and a master's degree in International Comparative Law from Chicago-Kent College of Law in the United States of America. Mr. Hong Liang is currently the independent non-executive director of the Company without any directorship in any subsidiaries of the Company. Mr. Hong has extensive experience in corporate law, finance law, state assets and state-owned enterprises and other related law fields. He has been a managing partner of Shanghai Everbright Law Firm, an independent non-executive director of Shanghai Winner Information Technology Co., Inc. (a listed company on the Shenzhen Stock Exchange Co., Ltd with stock code 300609) and an external director of Shanghai Hongfang (Group) Co. Ltd (上海虹房(集團)有限公司) and Shanghai Changyuan Culture (Group) Co. Ltd (上海長遠文化(集團)有限公司) since July 1999, November 2014 and January 2015, respectively. Meanwhile, he also serves as a member of China Youth Federation, a standing committee member of Shanghai Youth Federation, a member of Shanghai Lawyers Association, the director of State Assets and State-owned Enterprises Business Research Commission (國資國企業務研究委員會), an adjunct professor of East China University of Political Science and Law and Shanghai Institute of Political Science and Law, and an arbitrator of Shanghai International Economic and Trade Arbitration Commission and Lianyungang Arbitration Commission. He previously worked at Shanghai Municipal People's Government and The Stock Exchange of Hong Kong Limited, etc.
Xu Youli	Mr. Xu Youli, born in April 1974, obtained a bachelor's degree in Economics from the University of Finance and Economics in Shanghai and a master's degree of Business Administration degree from Fudan University. He is a senior accountant, certified public accountant and an international certified internal auditor. Mr. Xu is currently the chief supervisor of the Company without any directorship in any subsidiaries of the Company. Mr. Xu serves as the vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. since April 2016; director of Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) since November 2012; and general manager of the audit department of Shanghai Industrial Investment (Holdings) Co., Ltd. since September 2011. He was the director of the Shanghai Shidongkou Second Power Plant, deputy manager and manager of the supervision and audit department of East China Branch of China Huaneng Group, deputy general manager of the audit department of and president assistant of Shanghai Industrial Investment (Holdings) Co., Ltd., etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Chen Xin	Ms. Chen Xin, born in May 1963, holds an undergraduate degree in economic management from the Open College of Party School of the Central Committee of the Communist Party of China ("CCCPC") and a graduate degree (part-time) in politics from the Party School of the CCCPC, and is a senior political engineer. She joined the Company as an employee supervisor of the Company in March 2010 and holds no concurrent office of director in any of the Company's subsidiaries. She has been Deputy Secretary of the Party Committee of the Shanghai Pharmaceutical (Group) Co., Ltd. and the Party Committee of Shanghai Pharmaceutical Group Limited by Share Ltd since April 2016. She has been the chairman of Shanghai Industrial Holdings Limited Union since March 2015. Ms. Chen has been the chairman of Shanghai Pharmaceutical Trade Union, a member of the standing committee of Shanghai Federation of Trade Unions, and a member of the standing committee of China Energy Chemistry Trade Union since August 2001. Her previous positions included director of the department of organisation of Shanghai Pharmaceutical (Group) Co., Ltd. and vice chairman of Shanghai Pharmaceutical Trade Union, etc.
Xin Keng	Mr. Xin Keng, born in December 1967, has a bachelor's degree in engineering and a master's degree in engineering from Shanghai Jiao Tong University. He is an engineer. He is currently the supervisor of the Company and does not hold any directorship in any subsidiaries of the Company. He has served as principal of the finance management department of Shenergy (Group) Co., Ltd. since August 2009. His previous positions included principal of securities department of Shenergy Company Limited, investment principal of state-owned assets department of Wenhui Xinmin United Press Group, deputy general manager of Wenxin Investment Co., Ltd. (文新投資有限公司), and deputy manager of financing division of investment banking department of Haitong Securities Co., Ltd. (海通證券股份有限公司), etc.
Liu Yanjun	Mr. Liu Yanjun, born in February 1965, holds a bachelor's degree in Naval Medicine, a master's degree in surgery and a PhD in surgery from Second Military Medical University. He is currently a vice president of the Company and chairman of Shanghai Jiaolian Medicine Research and Development Co., Ltd., a subsidiary of the Company. He holds a concurrent office of director in the Company's other subsidiaries. Mr. Liu was previously deputy general manager of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Ltd. with stock code 01349), research director and research associate in cancer research office of molecular biology institute of Second Military Medical University, visiting scholar at San Diego Sidney Kimmel Cancer Center in California, United States, and attending physician and lecturer in Eastern Hepatobiliary Surgery Hospital subordinated to Second Military Medical University, etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Ren Jian	Mr. Ren Jian, born in March 1965, obtained a bachelor's degree in Inorganic Materials from East China Institute of Chemical Technology, and an EMBA of China Europe International Business School and is an engineer. He is currently a vice president of the Company and holds a concurrent office of director in the Company's subsidiaries. Mr. Ren was the head of the human resources department, the head of the organization cadre department, the head of the leader management department and vice president of Shanghai Pharmaceutical (Group) Co., Ltd, etc.
Shu Chang	Mr. Shu Chang, born in September 1958, obtained a bachelor's degree in arts majoring in French from Beijing International Studies University and master's degree of Economics from the Graduate School of New York University, United States. He is currently a vice president of the Company and holds no concurrent office of director in any of the Company's subsidiaries. He was the assistant to the chairman of CibaGeigy Corp., a Swiss pharmaceuticals company; investment banking manager of Morgan Stanley, United States; vice president of Asia-Pacific region, Landsat, an international satellite company, United States; chairman of Shenzhen Zhengguo (Jun'an) Investment Company, Ltd. (深圳正國(君安)投資有限公司); vice president of China Minsheng Credit Guarantee Investment Company (中國民生投資信用擔保有限公司); managing director of Huachen Wuzhou Electronic Commerce Co., Ltd (華晨五洲電子商務有限公司); director, executive of the strategy committee under the board of directors, chief financial officer and chief asset management officer of SAIC Motor Corporation, Ltd.; director, chief investment and development officer and deputy general manager of the finance division of JinJiang International Holdings Co., Ltd., vice president of Beijing Automobile Investment Co., Ltd.; assistant executive president of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Listed with stock code 00363), and vice president of Shanghai Industrial Urban Development Group Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00563).
Mao Jianyi	Mr. Mao Jianyi, born in May 1968, was a college graduate at medical faculty of Shanghai Second Medical University, and obtained a MBA degree from Shanghai PCEC East Asia College and a Ph.D. in economics from Shanghai University of Finance and Economics (International Open University of Washington in the United States of America (美國華盛頓國際公開大學)). Mr. Mao is a physician. He is currently a vice president of the Company and holds a concurrent office of director in subsidiaries of the Company. He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd. and Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and director of Shenzhen Kondarl (Group) Co. Ltd. (a company listed on the Shenzhen Exchange with stock code 000048), etc.

Directors, Supervisors, Senior Management and Employees

Name	Main Work Experience
Gu Haoliang	Mr. Gu Haoliang, born in February 1962, obtained a bachelor's degree of Industrial Accounting in Shanghai University of Finance and Economics, a Ph.D. of business administration of ESC RENNES School of Business, France. He is qualified as a senior accountant. He is currently the vice president of the Company, the general manager of the Company's subsidiary, SPH Sine Pharmaceutical Factory Co., Ltd., the chairman of the Company's subsidiary SPH New Asia Pharmaceutical Co., Ltd., the head of the marketing center of the Company, and holds directorship of other subsidiaries of the Company. He was also the former chief financial officer of the prescription medicine business department of Shanghai Pharmaceutical (Group) Co., Ltd., the general manager of Shanghai Sine Tianyi Pharmaceutical Co., Ltd., the deputy general manager of Shanghai Honglian Electric Appliance Co., Ltd., the deputy general manager of Shangling Tian'an Refrigerator Co., Ltd., the deputy general manager of Hengtai Textile Co., Ltd., the finance director of Shanghai Aerospace Bureau 802 Institute, etc.
Liu Dawei	Mr. Liu Dawei, born in August 1980, obtained a bachelor's degree in Economics with a major in Taxation from the Shanghai University of Finance and Economics and a master's degree of Business Administration degree with a major in Finance and Financial Management from the W. P. Carey School of Business at Arizona State University in the United States of America and is an accountant. He currently serves as vice president, secretary of the Board, joint company secretary and general manager of the strategic operations department of the Company and holds directorships in subsidiaries of the Company. He previously served as the deputy general manager of the investment development department of the Company, chief financial officer, the general manager of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd., and the general manager, assistant to the department head and financial management officer of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd, etc.

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

☐Applicable ☒Not applicable

Directors, Supervisors, Senior Management and Employees

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 Shangshi (Group) Co., Ltd.	Vice Chairman and president	September 2016	up to today
Zhou Jun	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director and president	February 2017	up to today
Li An	Shanghai Guosheng Group Co., Ltd.	Vice Chairman	September 2014	up to today
Li An	Shanghai Shengrui Investment Co., Ltd.	Executive director	January 2016	up to today
Chen Xin	Shanghai Pharmaceutical (Group) Co., Ltd.	Supervisor	February 2017	up to today
Xin Keng	Shenergy (Group) Co., Ltd.	Principal of the finance department	August 2009	up to today
Ren Jian	Shanghai Pharmaceutical (Group) Co., Ltd.	Director	February 2017	up to today
Lou Dingbo	Shanghai Industrial Investment (Holding) Co., Ltd.	Director	August 2012	April 2016
Lou Dingbo	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman and executive director	July 2012	May 2016
Lou Dingbo	Shanghai Pharmaceutical (Group) Co., Ltd.	President	October 2012	May 2016
Zhou Jie	Shanghai Industrial Investment (Holding) Co., Ltd.	Executive director	May 2008	September 2016
Zhou Jie	Shanghai Industrial Investment (Holding) Co., Ltd.	President	April 2012	September 2016
Zhou Jie	Shanghai Shangshi (Group) Co., Ltd.	Vice Chairman	April 2012	September 2016
Zhou Jie	Shanghai Shangshi (Group) Co., Ltd.	President	April 2012	September 2016
Zhou Jie	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman and president	May 2016	February 2017

Directors, Supervisors, Senior Management and Employees

Name	Name of shareholder entity	Position held in the shareholder entity	Starting date of term of office	Expiry date of term of office
Hu Fengxiang	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director	June 2013	February 2017
Hu Fengxiang	Shanghai Pharmaceutical (Group) Co., Ltd.	Vice president	July 2010	December 2016
Jiang Ming	Shanghai Guosheng Group Co., Ltd.	Vice president	May 2008	up to today
He Chuan	Shanghai Pharmaceutical (Group) Co., Ltd.	Chief supervisor	December 2008	May 2016
Explanation of positions in Shareholder Entities	None			

(II) Positions in subsidiaries

✓Applicable □Not applicable

Name	Name of subsidiary	Position held in the subsidiary	Starting date of term of office	Expiry date of term of office
Cho Man	Shanghai Pharma Co.,Ltd.,	Chairman	August 2016	up to today
Cho Man	Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	June 2013	up to today
Cho Man	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	June 2013	up to today
Cho Man	Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	Chairman	June 2013	up to today
Cho Man	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Cho Man	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Zeus Investment Limited	Director	July 2016	up to today
Cho Man	SPH Changzhou Pharmaceutical Co., Ltd	Chairman	June 2013	August 2016

Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position held in the subsidiary	Starting date of term of office	Expiry date of term of office
Cho Man	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	June 2013	August 2016
Cho Man	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Vice Chairman	March 2015	May 2016
Cho Man	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Chairman	May 2016	August 2016
Li Yongzhong	Shanghai Pharma Co.,Ltd.,	Director	April 2010	up to today
Li Yongzhong	Shanghai Pharma Co.,Ltd.,	General manager	October 2012	up to today
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	up to today
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	up to today
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	August 2016	up to today
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	Director	August 2014	up to today
Li Yongzhong	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Vice Chairman	March 2015	August 2016
Li Yongzhong	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Chairman	August 2016	up to today
Li Yongzhong	Zeus Investment Limited	Director	July 2016	up to today
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chairman	April 2011	December 2016
Shen Bo	Shanghai Pharma Co.,Ltd.,	Supervisor	April 2010	up to today
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Director	June 2007	up to today
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today

Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position held in the subsidiary	Starting date of term of office	Expiry date of term of office
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 Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd.	Director	July 2013	up to today
Shen Bo	China International Pharmaceutical (Holding) Corporation Limited	Director	May 2014	up to today
Shen Bo	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Chief supervisor	March 2015	August 2016
Shen Bo	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Director	August 2016	up to today
Shen Bo	Shanghai Hefeng Pharmaceutical Co., Ltd.	Chairman	November 2015	up to today
Shen Bo	Shanghai Industrial Group Pharmaceutical Co. Ltd.	Executive director	October 2015	up to today
Shen Bo	Shanghai Huarui Investment Co. Ltd.	Executive director	October 2015	up to today
Shen Bo	Shanghai Pharmaceutical Yisheng Medical Investment and Management Co., Ltd.	Chairman	February 2016	up to today
Shen Bo	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	August 2016	up to today
Shen Bo	Zeus Investment Limited	Director	July 2016	up to today
Liu Yanjun	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	February 2014	up to today
Liu Yanjun	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director and general manager	November 2014	up to today

Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position held in the subsidiary	Starting date of term of office	Expiry date of term of office
Liu Yanjun	Shanghai Yichuang Research and Development Centre of Traditional Chinese Medicine Co., Ltd.	Chairman	October 2015	up to today
Liu Yanjun	Shanghai Healthcare Industry Equity Investment Fund	Member of the advisory committee	December 2016	up to today
Ren Jian	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Ren Jian	Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd.	Chairman	February 2011	up to today
Ren Jian	Shanghai Sunve Co., Ltd.	Chairman	September 2016	up to today
Ren Jian	Shanghai Pharmaceutical Group (Dali) Red Yew Co., Ltd.	Chairman	February 2015	up to today
Mao Jianyi	Shanghai Pharmaceutical Group Pharma Sales Co., Ltd.	Executive director	June 2014	September 2016
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Mao Jianyi	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	October 2013	August 2016
Mao Jianyi	Shanghai Sunve Co., Ltd.	Chairman	December 2009	September 2016
Mao Jianyi	SPH Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd.	Director	July 2013	September 2016
Mao Jianyi	Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	Director	December 2014	September 2016
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Director	November 2010	up to today
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	General manager	December 2008	up to today
Gu Haoliang	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	October 2014	up to today

Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position held in the subsidiary	Starting date of term of office	Expiry date of term of office
Gu Haoliang	SPH Changzhou Pharmaceutical Co., Ltd.	Director	August 2016	up to today
Gu Haoliang	Shanghai Pharmaceutical Group Pharma Sales Co., Ltd.	Chairman	September 2016	up to today
Gu Haoliang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	August 2016	up to today
Gu Haoliang	Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	Director	September 2016	up to today
Liu Dawei	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Director	March 2015	up to today
Liu Dawei	Shanghai Ruijian Capital Management Co., Ltd.	Director	September 2016	up to today
Liu Dawei	Shanghai Lianyi Investment Center	Member of the investment committee	September 2016	up to today
Liu Dawei	Shanghai Healthcare Industry Equity Investment Fund	Member of the investment and decision-making committee	October 2015	up to today
Liu Dawei	Shanghai Pharmaceuticals Co., Ltd	Chief financial officer	August 2012	July 2016
Liu Dawei	Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	Director	June 2013	February 2017
Lou Dingbo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	October 2012	May 2016
Lou Dingbo	Shanghai Pharmaceuticals Co., Ltd	Chairman	June 2013	May 2016
Lou Dingbo	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	June 2013	May 2016
Lou Dingbo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	December 2014	May 2016
Lou Dingbo	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	December 2014	May 2016

Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position held in the subsidiary	Starting date of term of office	Expiry date of term of office
Lou Dingbo	Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd.	Chairman	March 2015	May 2016
Zhou Jie	Shanghai Pharmaceuticals Co., Ltd	Chairman	May 2016	August 2016
Zhou Jie	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	May 2016	August 2016
Zhou Jie	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	May 2016	August 2016
Zhou Jie	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	May 2016	August 2016
Zhou Jie	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	May 2016	August 2016
Explanation of positions in other entities	None			

(III) Service Contracts of Directors and Supervisors

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

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 that actually paid.

Total remuneration actually received by all directors, supervisors and senior management at the end of the Reporting Period

The remuneration actually received by the directors, supervisors and senior management of the Company in 2016 is RMB14.833 million in total.

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

☒Applicable ☐Not applicable

Name	Position	Change situation	Reasons for changes
Lou Dingbo	Chairman and executive director	Resignation	Personal reason
Zhou Jie	Chairman and executive director	Resignation	Job Arrangement
Hu Fengxiang	Executive director	Resignation	Re-election
Jiang Ming	Non-executive director	Resignation	Re-election
Chen Naiwei	Independent non-executive director	Resignation	Re-election
Li Zhenfu	Independent non-executive director	Resignation	Re-election
He Chuan	Chief Supervisor	Resignation	Re-election
Zhou Jun	Chairman and non-executive director	Appointment	Job Demand
Li Yongzhong	Executive director and vice president	Appointment	Re-election
Shen Bo	Executive director and vice president	Appointment	Re-election
Li An	Non-executive director	Appointment	Re-election
Cai Jiangnan	Independent non-executive director	Appointment	Re-election
Hong Liang	Independent non-executive director	Appointment	Re-election
Xu Youli	Chief Supervisor	Appointment	Re-election
Gu Haoliang	Vice president	Appointment	Job Demand
Liu Dawei	Vice president, Secretary of the board of directors and Joint Company Secretary	Appointment	Re-election

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

☐Applicable ☒Not applicable

VI. EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the parent company	149
Number of in-service employees of the major subsidiaries	40,703
Total number of in-service employees	40,852
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	66
Composition of professions	
Type of profession	Number of staff in the profession
Production staff	13,812
Sales staff	16,307
Technical staff	4,543
Finance staff	1,473
Administrative staff	3,099
Others (Service staff)	1,618
Total	40,852
Education level	
Type of education level	Number of persons
PhD	48
Master	924
University graduate	8,183
College graduate	11,603
Specialized secondary school (high school) graduate	11,576
Below specialized secondary school graduate	8,518
Total	40,852

Directors, Supervisors, Senior Management and Employees

(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 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 carried out payment market research, 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 Company participates in various employee welfare schemes, such as pension, medical insurance, housing fund, maternity and unemployment insurance organized by the provincial and municipal governments in accordance with the relevant regulations of China.

Directors, Supervisors, Senior Management and Employees

(III) Training Program

☒Applicable ☐Not applicable

Around the Company's strategy and the annual priorities, combined with the staff's own positions and career development needs, the Company provided professional, efficient and personalized training courses and solutions for the staff. According to the requirements of the national regulatory authorities, the Company organized employees to receive GMP, GSP, operation skills, occupational safety, environmental protection and other systematic training every year. According to the requirements for the compliance of listed companies, the Company organized management at all levels to receive legal, internal control, risk management and other special training. In order to improve the management level and leadership ability, the Company carried out the senior management leadership development project and the new manager learning project. In combination with the construction of the digital Shanghai Pharma and the implementation of the R&D project manager system, the Company carried out mixed learning project of IT project managers and R&D project managers. Around the constant development of the project of Lean Six Sigma, the Company organized more than 350 employees to participate in the green belt and black belt training courses, and completed the corresponding examinations; to strengthen the new employees' corporate culture identification and corporate ownership, the Company organized 176 new employees with an undergraduate degree or more to participate in the Fledgling Goose Fly High – New College Entrance Vocational Training. The Company has organized special training such as strategy and culture lectures, medical policy interpretations, biopharmaceutical technology, computerized system verification, generic medicine quality and efficacy consistency evaluation, replacement of business tax with value-added tax, etc. to adapt to new developments and policies. Through cooperation with training institutions, it carries out human resource, legal audit, internal lecturer, high-skilled personnel, grass-roots team leader and other systematic training.

(IV) Pension Scheme

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

(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.

Directors, Supervisors, Senior Management and Employees

(VI) FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals during the relevant periods ended 31 December 2016 were as follows:

	Unit: RMB'000
Wages and salaries	4,720.15
Bonus	9,485.31
Contribution by the employer to the pension scheme	294.49
Total	14,499.95

For the year ended 31 December 2016, the remuneration bands were as follows:

Remuneration bands (HKD)	Number of persons
HKD2,000,001–HKD2,500,000	0
HKD2,500,001–HKD3,000,000	1
HKD3,000,001–HKD3,500,000	3
HKD3,500,001–HKD4,000,000	1
HKD4,000,001–HKD4,500,000	0
HKD4,500,001–HKD5,000,000	0
HKD5,000,001–HKD5,500,000	0
HKD5,500,001–HKD6,000,000	0
HKD6,000,001–HKD6,500,000	0

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

In 2016, Shanghai Pharmaceuticals did not pay any award to any directors or the above five highest paid individuals for joining the Group or as compensation for the loss of office. None of the directors waived or agreed to waive his/her remunerations as above.

Corporate Governance

I. CORPORATE GOVERNANCE

☒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 of the Company. There is no discrepancy between the actual situation of corporate governance and that required in the Company Law of the PRC and relevant provisions of CSRC.

1. In relation to shareholders and general meetings: The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised. The Company convened general meetings strictly in accordance with the laws and regulations, such as the Company Law of the People's Republic of China and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, and the requirements of the Articles of Association and the Rules of Procedure for the General Meeting.
2. In relation to the controlling shareholders and the listed companies: the code of conduct of the Company's controlling shareholders does not exceed directly or indirectly the power of shareholders' general meetings to intervene the Company's decision-making and business activities; the Company and controlling shareholders are independent in the business, personnel, asset, institution, finance and other aspects, and the Company has independent and complete business and self-management capacity. The board of directors, the board of supervisors and the internal management institutions of the companies are independent in operation;
3. In relation to directors and the Board of Directors: see the "Corporate Governance Report" hereunder for details;
4. In relation to supervisors and the Board of Supervisors: see the "Corporate Governance Report" hereunder for details;
5. In relation to the relevant stakeholders: the Company can fully respect and maintain legitimate rights and interests of the bank, other creditors, employees, consumers and other relevant stakeholders to jointly promote the Company's sustained and sound development;
6. In relation to the information disclosure and transparency: the Company makes true, accurate, complete and timely disclosure of relevant information strictly in accordance with laws, regulations and Articles of Association provisions; in order for further standardization of information disclosure, the Company also develops the Information Disclosure Service Management System, Connected Transaction Management System, Cumulative Voting System Implementation Details and other information disclosure systems. The Company appoints the secretary of the board of directors to be responsible for the information disclosure, receiving investor visits and consultation;

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

Session	Date of convening	Websites designated for information disclosure of resolutions	Date of information disclosure of resolutions
2015 Annual General Meeting of Shanghai Pharmaceuticals Holding Co., Ltd	28 June 2016	Company's announcement Lin No. 2016-043	29 June 2016
The first extraordinary General Meeting of Shanghai Pharmaceutical Holding Co., Ltd in 2016	20 October 2016	Company's announcement Lin No. 2016-063	21 October 2016

Explanation of the Annual General Meeting

☐Applicable ☒Not applicable

III. DUTY PERFORMANCE OF DIRECTORS

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

Name of director	Independent Director or not	Required attendance for the year	Attendance at the board meetings				Any failure in attending in person for two consecutive meetings	Attendance at the general meetings
			Attendance in person	Attendance by way of communication	Attendance by proxy	Absence		
Zhou Jun ^{Note 1}	No	2	2	1	0	0	No	/
Cho Man	No	8	8	3	0	0	No	2
Li Yongzhong ^{Note 1}	No	4	4	1	0	0	No	1
Shen Bo ^{Note 1}	No	4	4	1	0	0	No	1
Li An ^{Note 1}	No	4	4	3	0	0	No	1
Wan Kam To	Yes	8	8	5	0	0	No	2
Tse Cho Che, Edward	Yes	8	8	5	0	0	No	2
Cai Jiangnan ^{Note 1}	Yes	4	4	2	0	0	No	1
Hong Liang ^{Note 1}	Yes	4	4	2	0	0	No	1
Lou Dingbo ^{Note 2}	No	3	3	2	0	0	No	/
Zhou Jie ^{Note 2}	No	6	6	3	0	0	No	1
Hu Fengxiang ^{Note 2}	No	4	4	2	0	0	No	1
Jiang Ming ^{Note 2}	No	4	4	2	0	0	No	1
Chen Naiwei ^{Note 2}	Yes	4	4	2	0	0	No	1
Li Zhenfu ^{Note 2}	Yes	4	4	2	0	0	No	1

Note 1: Due to the re-election of the Board of Directors, Mr. Li Yongzhong, Mr. Shen Bo, Ms. Li An, Mr. Cai Jiangnan and Mr. Hong Liang have been appointed as directors of the Company since 28 June 2016; due to job demand, Mr. Zhou Jun has been appointed as a director of the Company since 20 October 2016.

Note 2: For personal reasons, Mr. Lou Dingbo has ceased to be a director of the Company since 5 May 2016. Due to the re-election of the Board of Directors, Mr. Hu Fengxiang, Mr. Jiang Ming, Mr. Chen Naiwei and Mr. Li Zhenfu have ceased to be directors of the Company since 28 June 2016. Due to the reasons for the job re-arrangement, Mr. Zhou Jie has ceased to be a director of the Company since 25 August 2016.

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

☐Applicable ☒Not applicable

Number of board meetings held in the year	8
Including: Number of on-site meetings	2
Number of meetings held by way of communication	3
Number of meetings held on-site with attendance by way of communication available	3

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

☐Applicable ☒Not applicable

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

☐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 “Self-evaluation Report on Internal Control” disclosed by the Company.

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

☐ Applicable ☒ Not applicable

IX. MATTERS RELATING TO THE AUDIT REPORT ON INTERNAL CONTROL

☒ Applicable ☐ Not applicable

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

Whether to disclose Audit Report on Internal Control: Yes

X. OTHER

☒Applicable ☐Not applicable

(I) CORPORATE GOVERNANCE REPORT

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

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

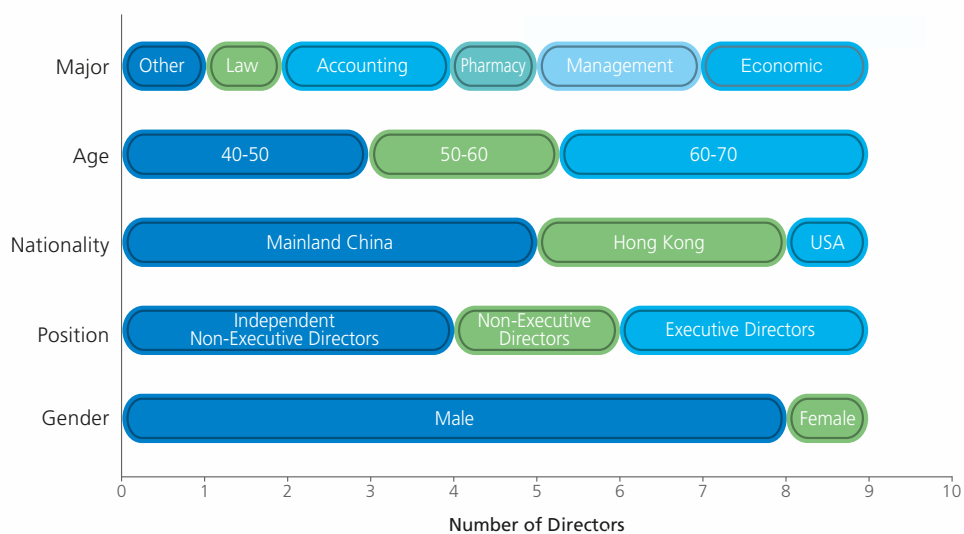
The Company's board of directors comprises nine directors, including three executive directors, namely Mr. Cho Man (also the president), Mr. Li Yongzhong (also the vice president), and Mr. Shen Bo (also the vice president and the chief financial officer); two non-executive directors, namely Mr. Zhou 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 and Senior Management" in this annual report.

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

Pursuant to the Articles of Association, the term of office of the directors (including independent non-executive directors) is three years, renewable upon re-election at its expiry, provided that the term of office of the independent non-executive directors shall not exceed a consecutive period of six years. The board of directors or shareholder(s) individually or collectively holding over 3% of the Company's Shares may nominate directors. The nomination method and procedures for independent non-executive directors shall also comply with the relevant requirements of laws, administrative regulations and departmental rules, if any.

Corporate Governance

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



(2). Primary duties of the board of directors

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

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

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

(3). Board meetings

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

During the Reporting Period, the board of directors held a total of eight meetings, at which proposals were considered in relation to the Company's business results, re-election of the board, policies formulation, guarantee plan for 2016, credit facilities for 2016, mergers and acquisitions as well as the performance of the corporate governance function, etc. Attendance details of the directors during the Reporting Period are set out in the paragraph headed "Attendance of directors at the board meetings and shareholders' general meetings" above.

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

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. The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating and implementing the performance review standards for directors, the president and other senior management members of the Company, and formulating and reviewing the remuneration policies and proposals for directors, the president and other senior management.

During the Reporting Period, the remuneration and assessment committee held three meetings, at which the performance review report on senior management for 2015 and the proposal for assessment on management responsibilities of the senior management for 2016 were discussed. Set out below is the attendance record of the members of the remuneration and assessment committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Hong Liang (independent non-executive director) ^{Note 1}	2/2	100%
Mr. Wan Kam To (independent non-executive director)	3/3	100%
Mr. Cai Jiangnan (independent non-executive director) ^{Note 1}	2/2	100%
Mr. Chen Naiwei (independent non-executive director) ^{Note 2}	1/3	100%
Mr. Li Zhenfu (independent non-executive director) ^{Note 2}	1/3	100%

Note 1: Due to re-election of the board, Mr. Hong Liang and Mr. Cai Jiangnan were appointed as directors of the Company since 28 June 2016.

Note 2: Due to re-election of the board, Mr. Chen Naiwei and Mr. Li Zhengfu have resigned from their position as directors of the Company since 28 June 2016.

(2). Audit committee

The audit committee under the board of directors of the Company consists of three directors, including Mr. Wan Kam To, acting as its convener/chairman, Mr. 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.

Corporate Governance

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 for 2015, summary of audit division for 2016 and internal audit plan for 2017, audit schedule on financial report for 2016, etc. Set out below is the attendance record of the members of the audit committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Wan Kam To (independent non-executive director)	6/6	100%
Mr. Tse Cho Che, Edward (independent non-executive director)	6/6	100%
Mr. Hong Liang (independent non-executive director) ^{Note 1}	3/3	100%
Mr. Chen Naiwei (independent non-executive director) ^{Note 2}	3/3	100%

Note 1: Due to re-election of the board, Mr. Hong Liang was appointed as a director of the Company since 28 June 2016.

Note 2: Due to re-election of the board, Mr. Chen Naiwei has resigned his position as a director of the Company since 28 June 2016.

Pursuant to the requirements under the Announcement ([2008] No. 48) of CSRC and the work rules of independent directors, the audit committee held two meetings with the certified public accountants and the accounting firm for annual audit respectively before their on-site audit and after the issuance of preliminary opinions, to confirm the audit schedule and arrangements, and to review Shanghai Pharmaceuticals' financial statements for 2016. On such basis, the audit committee is of the opinion that Shanghai Pharmaceuticals' financial reports for 2016 are prepared in accordance with the Accounting Standards for Business Enterprises of the PRC, and give a true and fair view in all material aspects of Shanghai Pharmaceuticals' business results for 2016 and its financial position as at 31 December 2016, and is resolved to submit the same to the board of directors for consideration and approval.

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

Pursuant to the Rule 14A.55 of the Hong Kong Listing Rules, the audit committee and independent non-executive directors have reviewed the continuing connected transactions of the Company.

(3). Strategy committee

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

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

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Cho Man (executive director and president)	2/2	100%
Mr. Tse Cho Che, Edward (independent non-executive director)	2/2	100%
Mr. Cai Jiangnan (independent non-executive director) ^{Note 1}	1/1	100%
Mr. Lou Dingbo (chairman and executive director) ^{Note 2}	1/1	100%

Note 1: Due to re-election of the board of directors, Mr. Cai Jiangnan has been appointed as a director of the Company since 28 June 2016.

Note 2: Due to personal reasons, Mr. Lou Dingbo has resigned from his position as a director of the Company since 5 May 2016.

(4). Nomination committee

The nomination committee under the board of directors consists of three directors, including Mr. Tse Cho Che, Edward, acting as its convener/chairman, Mr. Zhou Jun and Mr. Hong Liang. 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.

Corporate Governance

During the Reporting Period, the nomination committee held three meetings, at which matters were considered in relation to the diversification policy for board members, the structure of the board and the election of board members etc. Set out below is the attendance record of the members of nomination committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Tse Cho Che, Edward (Independent Non-Executive Director)	3/3	100%
Mr. Zhou Jun (Chairman and Non-Executive Director) ^{Note 1}	/	/
Mr. Hong Liang (Independent Non-Executive Director) ^{Note 1}	1/1	100%
Mr. Lou Dingbo (Chairman and Executive Director) ^{Note 2}	2/2	100%
Mr. Chen Naiwei (Independent Non-Executive Director) ^{Note 2}	2/2	100%

Note 1: Due to changes in board membership, Mr. Zhou Jun has been appointed as a director of the Company since 20 October 2016.

Note 2: Due to re-election of the board of directors and personal reasons, Mr. Chen Naiwei and Mr. Lou Dingbo have resigned from their positions as directors of the Company, since 28 June 2016 and 5 May 2016, respectively.

4. Board of supervisors

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

- to review the financial information such as the financial reports, business reports and plans for distribution of profits prepared by the board of directors and to be submitted to the general meetings and to make the comments in writing after review;
- to review the Company's financial position;
- to supervise the behaviours of the directors, president and any other member of the senior management in performing their duties, and to advise on the dismissal of directors, president or any other member of the senior management who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the general meetings;

- to demand the directors, president and any other member of the senior management to rectify their error if they have acted in a way detrimental to the Company's interest;
- to propose to convene an extraordinary general meeting, and where the board of directors fails to perform the duties in relation to convening or presiding over a general meeting as required by the Company Law of the PRC, to convene and preside over the general meeting;
- to propose resolutions at a general meeting;
- to initiate litigations against directors, the president and any other member of the senior management in accordance with the provisions of the Company Law of the PRC;
- to investigate into any abnormalities in operation of the Company; and if necessary, to employ professional institutions such as accounting firms and law firms to assist in its work, and the expenses shall be borne by the Company;
- to act on behalf of the Company in negotiations with or in bringing actions against directors;
- other functions and powers as authorized by the laws, administrative regulations, departmental rules and the provisions of the Articles of Association or by the general meetings.

During the Reporting Period, the board of supervisors held a total of six meetings, at which the Company's performance, financial statements & budgets, 2015 profit distribution plan, engagement and expense of auditors, the re-election of the members of the board of supervisors and other matters were supervised and reviewed. Set out below is the attendance of the board of supervisors during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Xu Youli ^{Note 1}	3/3	100%
Ms. Chen Xin	6/6	100%
Mr. Xin Keng	6/6	100%
Mr. He Chuan ^{Note 2}	3/3	100%

Note 1: Due to re-election of the board of supervisors, Mr. Xu Youli has been appointed as a supervisor of the Company since 28 June 2016.

Note 2: Due to re-election of the board of supervisors, Mr. He Chuan has resigned from his position as a supervisor of the Company since 28 June 2016.

5. *Remuneration of Auditors*

With reference to the Company's actual situation of business development, the audit fee payable to PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers by Shanghai Pharmaceuticals for 2016 was set at RMB21.0 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.3 million (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers. In 2016, a non-audit service fee of approximately RMB6.171 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.

6. *Emoluments of Senior Management*

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

7. *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. 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.

The Audit Committee (on behalf of the Board) oversees the management's design, implementation and monitoring of the risk management and internal control system, and the management has confirmed to the Audit Committee and the Board that as of 31 December 2016, the risk management and internal control system of the Company was running effectively.

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.

- Risk identification: systematic and regular identification of internal and external risks;
- Risk assessment: assessment of the possibility and effects of risk;
- Risk response: determination of risk response strategy and implementation of response solutions;
- Risk report: regular and systematic report of 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 management needs of the Company. The Company continuously upgraded and optimized the internal control management system in terms of the control environment, risk assessment, control 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 confidential procedures. For more details, please see "I. Corporate Governance" in this section.

8. *Accountability and Audit*

The directors have completed the annual review of 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. During the review, the directors take full consideration of the resources for accounting, internal review, financial report and the qualification of the employee and their experience and make sure the employees receive enough training with sufficient budget. For the year ended 31 December 2016, the Company considers that the current internal control system of the Group is effective and sufficient.

The directors are responsible for overseeing the preparation of financial report for each accounting period to give a true and fair view of the financial position, business results and cash flows of the Group. During the Reporting Period, the Company disclosed its annual report for 2015, interim report for 2016 and the first and third quarterly reports for 2016 in accordance with relevant laws and regulations and the listing rules of the places where the Company is listed.

In preparing the financial report for the year ended 31 December 2016, the directors have adopted and consistently applied appropriate accounting policies, and have made judgements and estimates that are prudent and reasonable. As far as the directors are aware, there was no event, condition or material uncertainty that may cast doubt upon the Group's ability to continue its operation as a going concern.

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

9. *About Shareholders*

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

10. *Investor Relations*

The Company attaches great importance to the management of investor relations. During the Reporting Period, the Company further refined the work according to the three-year plan of investor relation management. The Company convened four analyst meetings and global investor call meetings after the release of the annual report, interim report, first quarter report, and third quarter report; the Company’s management made two global institutional investors’ road show activities after the release of the first quarter report and third quarter report; through the “SSE e interactive” network platform, telephone and e-mail, the Company strengthened communication with investors. With a variety of ways for communication, the Company and investors enhanced mutual understanding and trust. Chinese and foreign professional analysts have published a total of dozens of articles on the Company’s in-depth analysis reports and comments to maintain a good corporate image of the Company, so that its market value has also been stable and improved.

11. *Company Secretary*

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Mr. Liu Dawei and Ms. Mok Ming Wai are the joint company secretaries of the Company and received relevant training not less than 15 hours in 2016, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. Ms. Mok Ming Wai (a director of KCS Hong Kong Limited) is one of the joint company secretaries of the Company, while Mr. Liu Dawei, the board secretary of the Company, serves as her internal main contact person of the Company.

12. *Training for Directors*

During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills. Among the directors, Mr. Zhou Jun, Mr. Cho Man, Mr. Li Yongzhong, Mr. Shen Bo, Ms. Li An, Mr. Wan Kam To, Mr. Tse Cho Che, Edward, Mr. Cai Jiangnan and Mr. Hong Liang all participated in the training provided by Freshfields Bruckhaus Deringer LLP engaged by the Company in respect of Hong Kong-listed companies and directors' continuing obligations; Mr. Zhou Jun and Mr. Hong Liang also participated in the training for the directors and supervisors of the listed companies in the third phase of 2016 in Shanghai, which was sponsored by the Shanghai Listed Companies Association and authorized by China Securities Regulatory Commission. Mr. Li Yongzhong, Mr. Shen Bo, Ms. Li An and Mr. Cai Jiangnan studied on their own the newspapers, publications and updated information on the duties of directors. Mr. Wan Kam To also participated in the training courses provided by other third parties such as the Risk Monitoring Seminar, Director Responsibility Lecture, and Non-Executive Director Training Seminar. The Company has kept training log to assist the directors to record the training sessions they participated in.

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

13. *Articles of Association*

The amendments to the Articles of Association of the Company have been approved at the shareholders' general meeting which was held on 28 June 2016 and 20 October 2016, respectively. For details of the amendments, please refer to the meeting documents/circular of the 2015 general meeting/annual general meeting of the Company dated 13 May 2016 and the meeting documents/circular of the first extraordinary general meeting of 2016 held on 2 September 2016. The revised Articles of Association have been published on the website of the Shanghai Stock Exchange www.sse.com.cn, the website of the Hong Kong Stock Exchange www.hkexnews.hk and the website of the Company.

Relevant Information of the Corporate Bonds

☒ Applicable ☐ Not applicable

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: Yuan Currency: RMB0,000

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

Information of payment of interest of Corporate Bonds

☒ Applicable ☐ Not applicable

The date of the first payment of interest for the corporate bonds of this tranche is 26 January 2017, and the Company has completed the payment of the interest of the bonds, which was RMB59.60 million in total.

Other information of Corporate Bonds

☐ Applicable ☒ Not applicable

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

Bond Custodian	Name	Credit Suisse Founder Securities Limited
	Office Address	15/F, South Tower, Financial Street Centre, No. 9A, Financial Street, Xicheng District, Beijing
	Contact Person	Liu Changjiang, Zhang Haibin
	Contact Number	010-6653 8666
Credit Rating Agency	Name	Zhong Cheng Xin Credit Rating Co., Ltd. (中誠信證券評估有限公司)
	Office Address	21/F, Anji Building, No. 760 South Tibet Road, Huangpu District, Shanghai

III. USE OF RAISED FUNDS FROM THE CORPORATE BONDS

☒Applicable ☐Not applicable

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

IV. INFORMATION OF THE CREDIT RATING OF THE CORPORATE BONDS

☒Applicable ☐Not applicable

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

During the period of track rating, ZCX Rating completed the regular track rating of the year on 16 May 2016, 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, bond credit level, or announce the credit rating to be temporarily void. Relevant information including the results of regular and irregular track rating conducted by ZCX Rating will be published on website specified by regulatory institutions.

Relevant Information of the Corporate Bonds

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 credit increasing mechanism, repayment plan and other relevant information of 16 SPH 01.

VI. MEETINGS OF HOLDERS OF CORPORATE BONDS

☒Applicable ☐Not applicable

During the reporting period, no meeting of holders of corporate bonds was convened.

VII. PERFORMANCE OF THE CUSTODIAN OF THE CORPORATE BONDS

☒Applicable ☐Not applicable

The custodian of the bonds of “16 SPH 01” is Credit Suisse Founder Securities Limited. During the Reporting Period, Credit Suisse Founder Securities Limited strictly follows requirements of laws and regulations such as “Administration Measures for the Issuance and Dealing of Corporate Bonds” and “Practice Code for the Custodian of the Corporate Bonds” and obligations of the “Bonds Custody Agreement” to perform its responsibilities as the custodian of bonds. On 29 June 2016, it issued the custody “Report of Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2016 Corporate Bonds (first tranche) (2015)”, and disclosed on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn/>) on 30 June 2016.

Relevant Information of the Corporate Bonds

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

☒Applicable ☐Not applicable

Unit: Yuan Currency:RMB

Major indicator	2016	2015	Increase or decrease over the same period of the previous year (%)	Reason for Changes (over 30%)
Earnings before interest, tax, depreciation and amortization	6,108,096,246.12	5,530,952,844.19	10.43	/
Current ratio	1.47	1.41	4.26	/
Quick Ratio	1.04	1.01	2.97	/
Asset-liability Ratio	55.48%	54.52%	increase of 0.96 percentage point	/
Total debt to EBITDA ratio	7.52	7.33	2.59	/
Interest Coverage Ratio	8.19	7.80	5.00	/
Cash interest coverage ratio	6.32	4.61	37.09	/
EBITDA Interest Coverage Ratio	9.47	9.02	4.99	/
Loan Repayment Ratio	100%	100%	/	/
Interest coverage	100%	100%	/	/

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

☐Applicable ☒Not applicable

Relevant Information of the Corporate Bonds

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

☒Applicable ☐Not applicable

The Company keeps good credit records with each major bank and other financial institutions, and maintains long-term cooperative partnership with domestic major commercial banks, which make it enjoys strong ability in indirect debt financing. As of 31 December 2016, the total banking facilities granted by the banks to the Group was RMB44.1 billion, of which RMB13.3 billion has been utilized. The Company may carry out financing activities up to the Group's total amount of facilities above to support the business development.

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

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

☒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

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 accounting manager
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: 21 March 2017

Shanghai Pharmaceuticals Holding Co., Ltd.

Revised information

☐ Applicable ☒ Not applicable

www.sphchina.com



Shanghai Pharmaceuticals Holding Co., Ltd.*

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2016

Independent Auditor's Report

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 8 to 124, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- 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 2016, 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

Key Audit Matters

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

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

- Goodwill impairment assessment
- Impairment of trade and other receivables
- Inventory obsolescence

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to notes 5 (Critical accounting estimates and judgements) and 10 (Intangible assets) to the consolidated financial statements. At 31 December 2016, the Group held goodwill amounted to RMB5,961 million, against which a provision of RMB113 million was set aside. Management applied significant judgements in determining the value in use of the Group's Cash Generating Units (the "CGUs"). The key assumptions adopted in the calculation of value in use include: • growth rates of revenue to extrapolate cash flows within and beyond the budget period; • gross margin; and • discount rates We focused on this area due to the magnitude of goodwill balance and significance of management judgements.	For the relevant CGUs, we compared the current year (2016) actual results with the corresponding forecast results prepared during the prior year forecast to consider whether management's cash flow forecasts are reliable. We assessed the appropriateness of 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 also assessed management's key assumptions by: • Comparing the growth rates of revenue within the budget period with the Group's historical growth rates of revenue and industry historical data; • Comparing the growth rates beyond budget period with our independent expectation based on economic data; • Comparing the gross margin with the Group's past performance, taking into consideration of market trends; and • Assessing the discount rate by considering and recalculating the weighted average cost of capital for the individual CGU and comparable companies in the pharmaceutical industry, as well as considering territory specific factors, such as risk free interest rate and debt ratio prevailing in China 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 trade and other receivables Refer to notes 5 (Critical accounting estimates and judgements) and 18 (Trade and other receivables and other current assets) to the consolidated financial statements. At 31 December 2016, the Group held trade and other receivables amounted to RMB31,609 million, against which a provision of RMB1,781 million was set aside. For receivable balances with objective evidence of impairment, individual provision was made based on management's estimate of discounted future cash flows. Receivable balances without objective evidence of impairment are grouped based on their credit risk characteristics for evaluation. The collective provision was determined based on the historical loss experience, aging analysis, taking into consideration of the current circumstances. We focused on this area due to the magnitude of trade and other receivable balances and the significance of management judgements applied in determining the provision for impairment of such balances.	We evaluated and validated management's controls to review, assess and determine the impairment of receivables, including controls over identification of objective evidence of impairment and calculations of the impairment provisions. We checked the accuracy of aging analysis of accounts and other receivables prepared by management on sample basis and tested the Information Technology ("IT") automated controls related to the maintenance of aging analysis where relevant. We independently assessed the recoverability of a sample of accounts and other receivable balances, focusing on significant or high risk balances. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of these customers, and external lawyers' letters. We assessed the appropriateness of the Group's grouping and calculation of estimating collective provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers' credit and market condition. Based on the procedures performed, we considered management's judgments in assessing the recoverability of trade and other receivables were supported by the evidence we gathered.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory obsolescence Refer to notes 5 (Critical accounting estimates and judgements) and 17 (Inventories) to the consolidated financial statements. At 31 December 2016, the Group held inventories amounted to RMB16,845 million, against which a provision of RMB429 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 approaching expiry date taking into consideration of goods return arrangement with suppliers and estimated probability of selling. We focused on this area due to the magnitude of inventory balances and the complexity of the calculation of inventory provisions.	We evaluated and validated management's controls to monitor inventory approaching expiry dates, its aging analysis and estimated probability of selling for such inventories. We checked the accuracy of aging analysis of inventories prepared by management on sample basis and tested the IT automated controls related to the maintenance of inventory aging analysis where relevant. We selected a sample of inventories approaching expiry dates for which no provision was made and examined the contracts with the suppliers for the return arrangements. For inventories approaching expiry dates for which provision was made, we assessed the appropriateness of estimated probability of selling 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 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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, 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, 21 March 2017

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2016	2015
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights	7	1,401,636	1,186,988
Investment properties	8	258,863	262,065
Property, plant and equipment	9	7,200,689	6,317,493
Intangible assets	10	7,283,573	5,684,769
Investments in jointly controlled entities	12	720,549	476,488
Investments in associates	13	3,506,657	3,160,418
Deferred income tax assets	26	468,316	316,258
Available-for-sale financial assets	14	269,366	278,484
Other non-current prepayments	15	940,809	743,080
Other long-term receivables	16	425,362	332,929
		<u>22,475,820</u>	<u>18,758,972</u>
Current assets			
Inventories	17	16,415,757	15,090,624
Trade and other receivables and other current assets	18	31,880,256	28,398,588
Derivative financial instruments		3,318	-
Financial assets at fair value through profit or loss		742	820
Restricted cash	19	987,080	761,146
Cash and cash equivalents	19	10,979,744	11,277,855
		<u>60,266,897</u>	<u>55,529,033</u>
Assets classified as held for sale	7, 9	-	56,206
		<u>60,266,897</u>	<u>55,585,239</u>
Total assets		<u>82,742,717</u>	<u>74,344,211</u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	2,688,910	2,688,910
Share premium	22	14,123,228	14,075,517
Other reserves	22	671,997	1,204,902
Retained earnings	23	14,138,422	11,960,985
		<u>31,622,557</u>	<u>29,930,314</u>
Non-controlling interests		<u>5,211,908</u>	<u>3,877,725</u>
Total equity		36,834,465	33,808,039

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2016	2015
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Borrowings	25	2,836,284	93,409
Deferred income tax liabilities	26	492,061	392,133
Termination benefit obligations	29	61,204	64,159
Other non-current liabilities	27	712,810	497,922
Other long-term payables	28	692,537	61,995
		<u>4,794,896</u>	<u>1,109,618</u>
Current liabilities			
Trade and other payables and other current liabilities	24	31,130,225	28,629,549
Derivative financial instruments		870	-
Current income tax liabilities		341,499	398,018
Borrowings	25	9,640,762	10,398,987
		<u>41,113,356</u>	<u>39,426,554</u>
Total liabilities		<u>45,908,252</u>	<u>40,536,172</u>
Total equity and liabilities		<u>82,742,717</u>	<u>74,344,211</u>

The notes on pages 15 to 124 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 14 were approved by the Board of Directors on 21 March 2017 and were signed on its behalf.

Name of Director

Name of Director

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
Revenue	6	120,764,660	105,516,587
Cost of sales	33	<u>(106,867,749)</u>	<u>(92,979,052)</u>
Gross profit		<u>13,896,911</u>	<u>12,537,535</u>
Distribution and selling expenses	33	(6,067,497)	(5,348,230)
General and administrative expenses	33	<u>(4,044,858)</u>	<u>(3,558,145)</u>
Operating profit		<u>3,784,556</u>	<u>3,631,160</u>
Other income	30	293,852	204,945
Other gains – net	31	132,610	221,904
Gains on disposal of subsidiaries and associates	32	-	5,652
Finance income	35	171,997	138,613
Finance expenses	35	(697,484)	(647,220)
Share of profit of jointly controlled entities	12	425,225	122,112
Share of profit of associates	13	<u>528,240</u>	<u>494,688</u>
Profit before income tax		4,638,996	4,171,854
Income tax expense	36	<u>(809,284)</u>	<u>(807,486)</u>
Profit for the year		<u>3,829,712</u>	<u>3,364,368</u>
Profit attributable to:			
Owners of the Company		3,196,394	2,876,989
Non-controlling interests		<u>633,318</u>	<u>487,379</u>
		<u>3,829,712</u>	<u>3,364,368</u>
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
-Basic and diluted	37	<u>1.19</u>	<u>1.07</u>

The notes on pages 15 to 124 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Profit for the year		3,829,712	3,364,368
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Change in value of available-for-sale financial assets			
-Gross	14	(9,961)	29,211
- Tax	26	715	111
Share of other comprehensive income of investments in an associate		381	605
Currency translation differences		<u>(11,846)</u>	<u>(12,670)</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(20,711)</u>	<u>17,257</u>
Total comprehensive income for the year		<u>3,809,001</u>	<u>3,381,625</u>
Attributable to:			
– Owners of the Company		3,182,169	2,899,616
– Non-controlling interests		<u>626,832</u>	<u>482,009</u>
Total comprehensive income for the year		<u>3,809,001</u>	<u>3,381,625</u>

The notes on pages 15 to 124 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015		2,688,910	14,081,665	1,042,233	10,009,325	3,277,019	31,099,152
Comprehensive income							
Profit for the year		-	-	-	2,876,989	487,379	3,364,368
Other comprehensive income							
Available-for-sale financial assets							
- Gross	14	-	-	28,813	-	398	29,211
- Tax	26	-	-	210	-	(99)	111
Currency translation differences, net	22	-	-	(7,001)	-	(5,669)	(12,670)
Share of other comprehensive income of investments in an associate		-	-	605	-	-	605
Total other comprehensive income		-	-	22,627	-	(5,370)	17,257
Total comprehensive income		-	-	22,627	2,876,989	482,009	3,381,625
Transactions with owners							
Capital injections from non-controlling interests		-	-	-	-	181,205	181,205
Acquisitions of subsidiaries		-	-	-	-	190,271	190,271
Changes in ownership interests in subsidiaries without change of control		-	(11,834)	-	-	(31,764)	(43,598)
Dividends		-	-	-	(779,784)	(217,184)	(996,968)
Appropriation to statutory reserves	22, 23	-	-	140,042	(140,042)	-	-
Disposal of subsidiaries		-	-	-	-	(78)	(78)
Others		-	5,686	-	(5,503)	(3,753)	(3,570)
Total transaction with owners		-	(6,148)	140,042	(925,329)	118,697	(672,738)
Balance at 31 December 2015		2,688,910	14,075,517	1,204,902	11,960,985	3,877,725	33,808,039

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016		2,688,910	14,075,517	1,204,902	11,960,985	3,877,725	33,808,039
Comprehensive income							
Profit for the year		-	-	-	3,196,394	633,318	3,829,712
Other comprehensive income							
Available-for-sale financial assets		-	-	-	-	-	-
- Gross	14	-	-	(9,677)	-	(284)	(9,961)
- Tax	26	-	-	644	-	71	715
Currency translation differences, net	22	-	-	(5,573)	-	(6,273)	(11,846)
Share of other comprehensive income of investments in an associate		-	-	381	-	-	381
Total other comprehensive income		-	-	(14,225)	-	(6,486)	(20,711)
Total comprehensive income		-	-	(14,225)	3,196,394	626,832	3,809,001
Transactions with owners							
Capital injections from non-controlling interests		-	55,942	-	-	253,504	309,446
Acquisitions of subsidiaries	43	-	-	(635,831)	-	727,891	92,060
Transaction with non-controlling interests	42	-	(8,231)	-	-	(4,611)	(12,842)
Dividends		-	-	-	(887,340)	(258,530)	(1,145,870)
Appropriation to statutory reserves	22, 23	-	-	117,151	(117,151)	-	-
Others		-	-	-	(14,466)	(10,903)	(25,369)
Total transaction with owners		-	47,711	(518,680)	(1,018,957)	707,351	(782,575)
Balance at 31 December 2016		2,688,910	14,123,228	671,997	14,138,422	5,211,908	36,834,465

The notes on pages 15 to 124 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	39(i)	2,782,448	2,060,673
Interest paid		(556,189)	(598,402)
Income tax paid		(1,007,778)	(851,381)
Net cash generated from operating activities		1,218,481	610,890
Cash flows from investing activities			
Cash paid in respect of acquisition of subsidiaries and associates	43	(1,751,105)	(630,857)
Cash injection in associates		-	(89,741)
Proceeds from redemption of treasury bills		2,609,214	1,809,120
Purchases of treasury bills		(2,600,000)	(1,800,000)
Purchases of property, plant and equipment ("PP&E") and investment properties		(1,874,941)	(1,581,919)
Proceeds from disposal of PP&E and investment properties	39(ii)	215,971	367,642
Proceeds from disposal of land use rights and intangible assets	39(iii)	219	20,582
Purchases of land use rights and intangible assets		(244,344)	(138,544)
Interest received		171,997	139,871
Dividends received		490,172	233,604
Proceeds from disposal of available-for-sale financial assets	39(iv)	-	12,691
Proceeds from disposal of subsidiaries and associates	39(v)	12,396	28,196
Proceeds received/paid in respect of plant relocation, net		37,817	(5,362)
Compensation received from the parent of an associate in respect of its business scope change		-	72,068
Deposit paid in respect of business combination		(8,640)	(67,284)
Change of restricted cash of a fixed deposit		150,000	(150,000)
Other cash flows generated from investing activities		73,700	10,891
Net cash used in investing activities		(2,717,544)	(1,769,042)
Cash flows from financing activities			
Cash injection from non-controlling interests		905,627	301,445
Proceeds from borrowings		19,984,775	20,529,954
Repayments of borrowings		(18,309,491)	(18,367,451)
Dividends paid by the Group		(1,156,239)	(1,029,560)
Acquisitions of non-controlling interests		(67,549)	(246,323)
Other cash flows generated from financing activities		(153,531)	46,772
Net cash generated from financing activities		1,203,592	1,234,837
Net (increase)/decrease in cash and cash equivalents		(295,471)	76,685
Cash and cash equivalents at beginning of year		11,277,855	11,190,420
Exchange gains on cash and cash equivalents		(2,640)	10,750
Cash and cash equivalents at end of year		<u>10,979,744</u>	<u>11,277,855</u>

The notes on pages 15 to 124 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

1.1 History and group reorganisation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information (continued)

1.1 History and group reorganisation (continued)

On 20 May 2011, the Company issued 664,214,000 overseas-listed shares (“H Shares”) of RMB1 par value at a price of Hong Kong Dollars (HKD) 23 per share. On 17 June 2011, the Company partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued). Thereby, the Company totally issued 696,267,200 H Shares in 2011. Pursuant to certain regulations and agreements, 69,626,720 state-owned A Shares of the Company held by the controlling shareholders were transferred to the National Council for Social Security Fund of the PRC (the “NSSF”) and converted into H Shares on a one-for-one basis. As at 31 December 2015 and 2016, the Company totally had 765,893,920 H Shares and 1,923,016,618 A Shares respectively.

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

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

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2017.

2 Principal activities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies

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

3.1 Basis of preparation

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

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

3.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2016:

HKAS 1 (Amendments) "Disclosure initiative": The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

- (b) Standards, amendments and interpretations to existing standards effective in 2016 but not relevant to the Group

		Effective for annual periods beginning on or after
HKAS 16 (Amendment)	Property, plant and equipment	1 January 2016
HKAS 19 (Amendment)	Employee benefits	1 January 2016
HKAS 27 (Amendment)	Separate financial statements	1 January 2016
HKAS 28 (Amendment)	Investment in associates	1 January 2016
HKAS 34 (Amendment)	Interim financial reporting	1 January 2016
HKAS 38 (Amendment)	Intangible assets	1 January 2016
HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations	1 January 2016
HKFRS 7 (Amendment)	Financial instruments: Disclosures - Application of the disclosure requirements to service contracts and interim financial statements	1 January 2016
HKFRS 10 (Amendment)	Consolidated financial statements	1 January 2016
HKFRS 11 (Amendment)	Joint operations	1 January 2016
HKFRS 12 (Amendment)	Disclosure of interests in other entities	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016

- (c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted

		Effective for annual periods beginning on or after
HKAS 7 (Amendment)	Statement of cash flows	1 January 2017
HKAS 12 (Amendment)	Income taxes	1 January 2017
HKAS 28 (Amendment)	Investment in associates	To be determined
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 10 (Amendment)	Consolidated financial statements	To be determined

The Group is assessing the full impact of the above new standards, new interpretations and amendments to standards and interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) Consolidation (continued)

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

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

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

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

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

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

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

(iv) Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(b) Separate financial statements

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

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

(c) Jointly controlled entities and associates

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) Jointly controlled entities and associates (continued)

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

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

3.4 Segment reporting

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

3.5 Foreign currency translation

(a) Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.5 Foreign currency translation (continued)

(b) Transactions and balances

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

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

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

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

(c) Group companies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.7 Investment properties

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

3.8 Land use rights

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

3.9 Intangible assets

(a) Goodwill

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.9 Intangible assets (continued)

(c) Trademarks and patent rights

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

(d) 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.9 Intangible assets (continued)

(g) Research and development (continued)

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

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

(h) Computer software

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

(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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or 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.

3.13 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables included in 'trade and other receivables and other current assets' and 'cash and cash equivalents' in the balance sheet (Notes 3.18 and 3.19).

(iii) Available-for-sale financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

(b) Recognition and measurement

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.14 Offsetting financial instruments

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

3.15 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available for sale

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.15 Impairment of financial assets (continued)

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

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

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

3.16 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.

3.17 Inventories

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

3.18 Trade and other receivables

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

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

3.19 Cash and cash equivalents

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

3.20 Share capital

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.21 Trade payables

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

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

3.22 Borrowings

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

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

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

3.23 Borrowing costs

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

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

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

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

3.24 Current and deferred income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.24 Current and deferred income tax (continued)

(a) Current income tax

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

(b) Deferred income tax

(i) Inside basis differences

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

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

(ii) Outside basis differences

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

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

(c) Offsetting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.25 Employee benefits

(a) Pension obligations

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

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

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

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

(c) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.26 Provisions

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

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

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

3.27 Government grants

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

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

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

3.28 Revenue recognition

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

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

(a) Sales of goods - wholesale

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.28 Revenue recognition (continued)

(b) Sales of goods – retail pharmacy operations

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

(c) Rental income

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

(d) Interest income

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

(e) Sales of services

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

(f) Dividend income

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

3.29 Leases (as a lessee)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.30 Dividend distribution

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

3.31 Financial guarantee contracts

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

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

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

3.32 Put option liabilities

A contract that contains an obligation for the Group to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount. When the financial liability is recognised initially, its fair value (the present value of the redemption amount) is reclassified from equity. Subsequently, the financial liability is measured at amortised cost using the effective interest method with changes to profit or loss. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management

4.1 Financial risk factors

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

(a) Foreign exchange risk

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

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

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

As at 31 December 2016, 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 RMB10,256,000 (2015: higher/lower RMB27,593,000), mainly as a result of foreign exchange gains/losses arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

As at 31 December 2016, if RMB had strengthened/weakened by 5% against the AUD with all other variables held constant, the Group's profit before income tax for the year would have been higher/lower by approximately RMB31,791,549.49, mainly as a result of foreign exchange gains/losses arising from the translation of AUD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(b) Cash flow and fair value interest rate risk

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

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates exposed the Group to fair value interest rate risk. In general, the Group raises borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2016, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB3,927,100,000 and RMB8,549,946,000 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 2016, 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 RMB7,234,000 (2015: lower/higher RMB8,403,000) respectively, mainly as a result of higher/lower interest expenses on borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Credit risk

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

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

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

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

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

(d) Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016					
Borrowings (Note 25)	9,640,762	210,646	2,615,624	11,422	12,478,454
Interests payments on borrowings	90,330	87,928	29,483	-	207,741
Other Long-term payables	-	6,150	1,727,782	259,694	1,993,626
Financial liabilities as included in trade and other payables	29,453,962	-	-	-	29,453,962
	<u>39,185,054</u>	<u>304,724</u>	<u>4,372,889</u>	<u>271,116</u>	<u>44,133,783</u>
At 31 December 2015					
Borrowings (Note 25)	10,398,987	18,233	63,754	11,422	10,492,396
Interests payments on borrowings	200,495	3,549	2,102	-	206,146
Financial liabilities as included in trade and other payables	26,990,792	5,468	20,470	267,374	27,284,104
	<u>37,590,274</u>	<u>27,250</u>	<u>86,326</u>	<u>278,796</u>	<u>37,982,646</u>

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

Loan guarantee provided to certain parties exposes the Group to liquidity risk and could be called within one year at the respective balance sheet dates. Management monitors the possible loss of the guarantee on a regularly basis. As at 31 December 2016 and 2015, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44(d).

4.2 Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Capital management (continued)

The gearing ratios are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Total borrowings	12,477,046	10,492,396
Total equity	36,834,465	33,808,039
Total capital	49,311,511	44,300,435
Gearing ratio (%)	25%	24%

4.3 Fair value estimation

- (a) The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2015 and 2016.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2015				
Financial assets at fair value through profit or loss	820	-	-	820
Available-for-sale financial assets	162,700	59,482	-	222,182
	<u>163,520</u>	<u>59,482</u>	<u>-</u>	<u>223,002</u>

There were no transfers between Levels 1 and Level 2 during the year.

- (i) Financial instruments in level 1

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

- (ii) Financial instruments in level 2

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

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

Specific valuation techniques used to value financial instruments include:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

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

The fair value of other long-term receivables, other long-term payables and non-current borrowings as at 31 December 2015 and 2016 approximated to their carrying amount.

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

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

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

5 Critical accounting estimates and judgements

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgements (continued)

(b) Useful lives of business network

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

(c) Estimated impairment of goodwill

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

(d) Net realisable value of inventories

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

(e) Impairment of receivables

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

(f) Income taxes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

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

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

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

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

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

For the year ended 31 December 2016

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	10,333,731	104,864,549	5,112,972	453,408	-	120,764,660
Inter-segment revenue	2,081,847	3,753,201	40,271	177,173	(6,052,492)	-
Segment revenue	<u>12,415,578</u>	<u>108,617,750</u>	<u>5,153,243</u>	<u>630,581</u>	<u>(6,052,492)</u>	<u>120,764,660</u>
Segment operating profit	1,492,265	2,261,070	63,627	(81,521)	49,115	3,784,556
Other income						293,852
Other gains - net						132,610
Gains on disposal of subsidiaries and associates						-
Finance expenses - net						(525,487)
Share of profit of jointly controlled entities	403,486	21,739	-	-	-	425,225
Share of profit of associates	465,270	51,285	-	11,685	-	528,240
Profit before income tax						4,638,996
Income tax expense						(809,284)
Profit for the year						<u>3,829,712</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

For the year ended 31 December 2015

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

Other segment items included in the consolidated financial statements for the year ended 31 December 2016 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	388,883	174,980	23,245	29,617	-	616,725
Amortisation of intangible assets and land use rights	57,245	129,987	438	19,649	-	207,319
Capital expenditure	830,052	404,599	23,957	343,673	-	1,602,281

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

The segment assets and liabilities as at 31 December 2016 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	523,029	197,520	-	-	-	720,549
Investment in associates	2,651,784	413,776	-	441,097	-	3,506,657
Other assets	21,863,321	55,334,511	1,286,833	25,934,455	468,316	104,887,436
Elimination						(26,371,925)
Total assets						<u>82,742,717</u>
Segment liabilities	6,592,026	42,256,469	831,407	8,459,790	833,560	58,973,252
Elimination						(13,065,000)
Total liabilities						<u>45,908,252</u>

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Land use rights

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

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Opening net book amount	1,186,988	1,095,630
Additions	165,095	59,216
Transfer from PP&E (Note 9)	3,354	30,047
Acquisition of subsidiaries	79,514	47,711
Transfer to assets classified as held for sale	-	(9,920)
Amortisation charge (Note 33)	(32,978)	(29,587)
Disposals	(337)	(6,109)
Closing net book amount	<u>1,401,636</u>	<u>1,186,988</u>

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of sales	3,621	1,811
Distribution and selling expenses	3,736	3,486
General and administrative expenses	25,621	24,290
	<u>32,978</u>	<u>29,587</u>

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Land use rights, secured	<u>94,282</u>	<u>94,657</u>

- (c) As at 31 December 2016, 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 RMB3,620,000 (2015: RMB7,128,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Investment properties

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

The movement of investment properties is analysed as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost	443,666	430,067
Accumulated depreciation	(184,803)	(168,002)
Net book amount	<u>258,863</u>	<u>262,065</u>
Opening net book amount	262,065	275,115
Addition	-	205
Transfer from owner-occupied PP&E (Note 9)	9,174	2,162
Depreciation (Note 33)	(12,015)	(13,321)
Transfer to owner-occupied PP&E (Note 9)	(464)	-
Translation difference	103	(2,096)
Closing net book amount	<u>258,863</u>	<u>262,065</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Investment properties (continued)

- (a) As at 31 December 2016, the fair values of the investment properties were approximately RMB826,642,000 (2015: RMB811,003,000). 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	
	2016 RMB'000	2015 RMB'000
Rental income	49,188	61,464

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of sales	12,015	13,321

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction -in-progress RMB'000	Medicina Plants RMB'000	Total RMB'000
At 1 January 2015								
Cost	4,129,612	2,676,506	322,465	542,946	836,819	635,773	-	9,144,121
Accumulated depreciation	(1,440,885)	(1,380,385)	(201,785)	(381,929)	(446,896)	-	-	(3,851,880)
Impairment	(25,628)	(61,448)	(728)	(2,124)	(1,325)	(3,169)	-	(94,422)
Net book amount	<u>2,663,099</u>	<u>1,234,673</u>	<u>119,952</u>	<u>158,893</u>	<u>388,598</u>	<u>632,604</u>	<u>-</u>	<u>5,197,819</u>
Year ended 31 December								
Opening net book amount	2,663,099	1,234,673	119,952	158,893	388,598	632,604	-	5,197,819
Acquisition of subsidiaries (Note 43)	106,112	17,512	2,172	4,014	4,783	684	390,356	525,633
Additions	90,397	206,624	33,642	55,263	89,501	900,177	7,781	1,383,385
Internal transfer	318,357	377,647	2,928	7,387	33,943	(740,262)	-	-
Transfer from investment properties (Note 8)	2,096	-	-	-	-	-	-	2,096
Transfer to land use rights (Note 7)	-	-	-	-	-	(30,047)	-	(30,047)
Transfer to assets classified as held for sale	(30,319)	(15,957)	(10)	-	-	-	-	(46,286)
Disposals (Note 39(ii))	(78,955)	(29,570)	(4,530)	(2,440)	(5,071)	-	-	(120,566)
Depreciation charge	(161,212)	(190,322)	(39,323)	(49,116)	(121,355)	-	(980)	(562,308)
Addition of provision for impairment (Note 31)	(225)	(7,112)	-	(261)	(1)	-	-	(7,599)
Transfer to investment properties (Note 8)	(2,162)	-	-	-	-	-	-	(2,162)
Transfer to Intangible Assets (Note 10)	-	-	-	-	-	(21,544)	-	(21,544)
Translation difference	(759)	(123)	-	(46)	-	-	-	(928)
Closing net book amount	<u>2,906,429</u>	<u>1,593,372</u>	<u>114,831</u>	<u>173,694</u>	<u>390,398</u>	<u>741,612</u>	<u>397,157</u>	<u>6,317,493</u>
At 31 December 2015								
Cost	4,439,563	3,059,660	329,744	581,966	936,257	744,781	398,137	10,490,108
Accumulated depreciation	(1,507,281)	(1,404,423)	(214,286)	(406,223)	(544,532)	-	(980)	(4,077,725)
Impairment	(25,853)	(61,865)	(627)	(2,049)	(1,327)	(3,169)	-	(94,890)
Net book amount	<u>2,906,429</u>	<u>1,593,372</u>	<u>114,831</u>	<u>173,694</u>	<u>390,398</u>	<u>741,612</u>	<u>397,157</u>	<u>6,317,493</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 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 2016								
Opening net book amount	2,906,429	1,593,372	114,831	173,694	390,398	741,612	397,157	6,317,493
Acquisition of subsidiaries (Note 43)	73,468	95,926	1,888	980	11,362	36	-	183,660
Additions	14,579	155,413	32,396	47,542	79,261	1,067,605	11,128	1,407,924
Internal transfer	240,208	163,657	2,962	13,022	56,543	(476,392)	-	-
Transfer from investment properties (Note 8)	464	-	-	-	-	-	-	464
Transfer to land use rights (Note 7)	-	-	-	-	-	(3,354)	-	(3,354)
Disposals (Note 39(ii))	(33,173)	(18,342)	(2,975)	(3,275)	(4,667)	-	(1,459)	(63,891)
Depreciation charge	(176,154)	(210,180)	(42,807)	(63,757)	(109,932)	-	(1,880)	(604,710)
Addition of provision for impairment (Note 31)	(4,127)	(690)	-	-	-	-	-	(4,817)
Transfer to investment properties (Note 8)	(9,174)	-	-	-	-	-	-	(9,174)
Transfer to Intangible Assets (Note 10)	-	-	-	-	-	(21,381)	-	(21,381)
Translation difference	(236)	(487)	(890)	31	57	-	-	(1,525)
Closing net book amount	<u>3,012,284</u>	<u>1,778,669</u>	<u>105,405</u>	<u>168,237</u>	<u>423,022</u>	<u>1,308,126</u>	<u>404,946</u>	<u>7,200,689</u>
At 31 December 2016								
Cost	4,656,423	3,333,516	340,626	606,354	1,093,389	1,311,295	407,806	11,749,409
Accumulated depreciation	(1,616,071)	(1,502,815)	(234,595)	(436,489)	(669,343)	(3,169)	(2,860)	(4,465,342)
Impairment	(28,068)	(52,032)	(626)	(1,628)	(1,024)	-	-	(83,378)
Net book amount	<u>3,012,284</u>	<u>1,778,669</u>	<u>105,405</u>	<u>168,237</u>	<u>423,022</u>	<u>1,308,126</u>	<u>404,946</u>	<u>7,200,689</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment (continued)

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of sales (Note 33)	298,280	283,218
Distribution and selling expenses (Note 33)	76,995	50,286
General and administrative expenses (Note 33)	229,435	228,804
	<u>604,710</u>	<u>562,308</u>

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Property, plant and equipment, pledged	<u>247,627</u>	<u>172,175</u>

- (c) As at 31 December 2016, 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 RMB86,127,000 (2015: RMB252,513,000).
- (d) During the year ended 31 December 2016, the Group did not capitalise borrowing costs (2015: Nil) on qualifying assets.
- (e) Buildings includes the following amounts where the Group is a lessee under a finance lease:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Cost – capitalised finance leases	41,413	41,413
Accumulated depreciation	(4,866)	(2,463)
Net book amount	<u>36,547</u>	<u>38,950</u>

The Group leases the certain building under a non-cancellable finance lease agreement. The lease term is 10 years, and ownership of the asset lies within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets

	Goodwill RMB'000	Business network RMB'000	Trademarks, brands and patent rights RMB'000	Know-how RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015							
Cost	4,565,393	696,453	108,303	255,151	110,008	92,824	5,828,132
Accumulated amortisation	-	(202,854)	(41,672)	(63,984)	(52,099)	(21,376)	(381,985)
Impairment	(91,974)	-	-	(76,093)	-	(17,768)	(185,835)
Net book amount	<u>4,473,419</u>	<u>493,599</u>	<u>66,631</u>	<u>115,074</u>	<u>57,909</u>	<u>53,680</u>	<u>5,260,312</u>
Year ended 31 December 2015							
Opening net book amount	4,473,419	493,599	66,631	115,074	57,909	53,680	5,260,312
Acquisition of subsidiaries (Note 43)	363,609	92,700	21,500	-	35	15,053	492,897
Transfer from PP&E (Note 9)	-	-	-	-	21,544	-	21,544
Additions	-	-	7,992	682	55,083	15,492	79,249
Disposal	-	-	(794)	-	(56)	-	(850)
Impairment charge	(21,410)	-	(5,775)	-	-	-	(27,185)
Amortisation charge (Note 33)	-	(71,612)	(10,645)	(17,886)	(18,882)	(21,588)	(140,613)
Other deduction	-	-	-	-	-	(585)	(585)
Closing net book amount	<u>4,815,618</u>	<u>514,687</u>	<u>78,909</u>	<u>97,870</u>	<u>115,633</u>	<u>62,052</u>	<u>5,684,769</u>
At 31 December 2015							
Cost	4,929,002	789,153	135,865	255,833	186,485	121,565	6,417,903
Accumulated amortisation	-	(274,466)	(51,181)	(81,870)	(70,852)	(41,745)	(520,114)
Impairment	(113,384)	-	(5,775)	(76,093)	-	(17,768)	(213,020)
Net book amount	<u>4,815,618</u>	<u>514,687</u>	<u>78,909</u>	<u>97,870</u>	<u>115,633</u>	<u>62,052</u>	<u>5,684,769</u>
Year ended 31 December 2016							
Opening net book amount	4,815,618	514,687	78,909	97,870	115,633	62,052	5,684,769
Acquisition of subsidiaries (Note 43)	1,032,369	80,623	589,244	-	5,097	448	1,707,781
Transfer from PP&E (Note 9)	-	-	2,204	-	19,177	-	21,381
Additions	-	-	754	-	8,734	34,714	44,202
Disposal	-	-	-	-	(78)	(141)	(219)
Amortisation charge (Note 33)	-	(81,461)	(9,580)	(31,909)	(26,831)	(24,560)	(174,341)
Closing net book amount	<u>5,847,987</u>	<u>513,849</u>	<u>661,531</u>	<u>65,961</u>	<u>121,732</u>	<u>72,513</u>	<u>7,283,573</u>
At 31 December 2016							
Cost	5,961,371	869,776	728,067	255,833	219,172	156,391	8,190,610
Accumulated amortisation	-	(355,927)	(60,761)	(113,779)	(97,440)	(66,110)	(694,017)
Impairment	(113,384)	-	(5,775)	(76,093)	-	(17,768)	(213,020)
Net book amount	<u>5,847,987</u>	<u>513,849</u>	<u>661,531</u>	<u>65,961</u>	<u>121,732</u>	<u>72,513</u>	<u>7,283,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets (continued)

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of sales	10,779	9,673
Distribution and selling expenses	101,091	91,483
General and administrative expenses	62,471	39,457
	<u>174,341</u>	<u>140,613</u>

- (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	
	2016 RMB'000	2015 RMB'000
Production segment	1,638,425	774,493
Distribution segment	4,287,076	4,138,152
Others	35,870	16,357
	<u>5,961,371</u>	<u>4,929,002</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on certain assumptions made by management covering a five-year period (the "Period"). Cash flows beyond the Period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2016 are as follows:

	Production segment	Distribution segment
Growth rate to extrapolate cash flows beyond the budget period	2.3%	2.3%
Gross margin	38% - 83%	6% - 7%
Discount rate	14% - 20%	14% - 17%

Management determined budgeted gross margin and growth rates based on past performance and its expectations of market development. The discount rates used are pre-tax after reflecting specific risks of the relevant operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Subsidiaries

In 2016 and 2015, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 48.

(a) Material non-controlling interests

As at 31 December 2016 and 2015, non-controlling interests presented in the consolidated balance sheets were approximately RMB5,211,908,000 and RMB3,877,725,000, 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 2016

Summarised balance sheet	Current		Total	Non-current		Total	Carrying amount of non-controlling interest	
	Assets	Liabilities	Net current assets	Assets	Liabilities	Net non-current assets	Net assets	interest
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	2,484,985	(1,784,767)	700,218	995,645	(47,463)	948,182	1,648,400	614,293
Zeus Investment Limited and its subsidiaries	457,701	(193,218)	264,483	1,603,754	(278,660)	1,325,094	1,589,577	635,831
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,084,007	(151,657)	932,350	267,415	-	267,415	1,199,765	299,941
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	2,824,848	(2,629,654)	195,194	195,410	(5,658)	189,752	384,946	231,624
	<u>6,851,541</u>	<u>(4,759,296)</u>	<u>2,092,245</u>	<u>3,062,224</u>	<u>(331,781)</u>	<u>2,730,443</u>	<u>4,822,688</u>	<u>1,781,689</u>

Summarised income statement	Revenue	Profit before income tax	Profit for the year	Total comprehensive income	Total comprehensive income allocated to Non-Controlling Interests	Dividends to non-controlling interests
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,276,514	184,009	151,847	151,440	62,758	19,818
Zeus Investment Limited and its subsidiaries	-	-	-	-	-	-
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,239,016	188,879	164,119	164,119	41,030	23,116
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	5,607,538	86,214	63,587	63,587	41,901	18,323
	<u>12,123,068</u>	<u>459,102</u>	<u>379,553</u>	<u>379,146</u>	<u>145,689</u>	<u>61,257</u>

Summarised cash flows	Net cash generated from/(used in) operating activities	Net cash used in investing activities	Net cash generated from/(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	97,756	(144,332)	62,120	15,543	880,126	895,669
Zeus Investment Limited and its subsidiaries	-	-	-	-	-	28,470
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	135,963	(123,609)	(92,465)	(79,755)	443,830	364,075
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	(25,258)	(52,129)	84,673	7,286	192,376	199,662
	<u>208,461</u>	<u>(320,070)</u>	<u>54,328</u>	<u>(56,926)</u>	<u>1,516,332</u>	<u>1,487,876</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Subsidiaries (continued)

(a) Material non-controlling interests (continued)

Year ended 31 December 2015

Summarised balance sheet	Current		Total	Non-current		Total Net	Net assets	Carrying amount of non-controlling interest
	Assets	Liabilities	Net current assets	Assets	Liabilities	non-current assets		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	2,395,081	(1,602,220)	792,861	802,068	(45,354)	756,714	1,549,575	572,437
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,176,852	(201,130)	975,722	157,829	-	157,829	1,133,551	283,388
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	2,539,332	(2,336,233)	203,099	148,065	(5,567)	142,498	345,597	208,047
	<u>6,111,265</u>	<u>(4,139,583)</u>	<u>1,971,682</u>	<u>1,107,962</u>	<u>(50,921)</u>	<u>1,057,041</u>	<u>3,028,723</u>	<u>1,063,872</u>
Summarised income statement	Revenue	Profit before income tax	Profit for the year	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		
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	4,934,560	195,428	159,528	161,022		64,591		23,898
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,202,575	156,554	135,771	135,771		33,943		-
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	5,205,650	66,176	46,214	46,214		30,652		18,015
	<u>11,342,785</u>	<u>418,158</u>	<u>341,513</u>	<u>343,007</u>		<u>129,186</u>		<u>41,913</u>
Summarised cash flows	Net cash generated from operating activities	Net cash used in investing activities	Net cash generated from/(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		
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	91,252	(111,656)	102,349	82,001	798,124	880,125		
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	115,161	(11,266)	(113,297)	(9,101)	452,931	443,830		
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	58,645	(15,739)	55,040	97,946	94,430	192,376		
	<u>265,058</u>	<u>(138,661)</u>	<u>44,092</u>	<u>170,846</u>	<u>1,345,485</u>	<u>1,516,331</u>		

The information above is the amount before inter-company eliminations.

Equity interests held by the Company in its principal subsidiaries are set out in Note 48.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Investments in jointly controlled entities

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Share of net assets, unlisted	722,419	478,239
Provision for impairment	(1,870)	(1,751)
	<u>720,549</u>	<u>476,488</u>
At 1 January	476,488	374,742
Additions	5,600	-
Share of profit for the year	425,225	122,112
Dividends declared	(186,764)	(20,366)
End of the year	<u>720,549</u>	<u>476,488</u>

Particulars of the Group's principal jointly controlled entities are set out in Note 48.

Set out below are the summarised financial information for the Group's significant jointly controlled entities which are accounted for using the equity method:

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

Summarised balance sheet

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Current		
Total current assets	999,090	745,325
Total current liabilities	(605,521)	(653,681)
Non-current		
Total non-current assets	701,807	738,617
Total non-current liabilities	(48,234)	(212,328)
Net assets	1,047,142	617,933

Summarised statement of comprehensive income

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Revenue	1,525,420	1,193,584
Profit before income tax expense	984,042	237,494
Income tax expense	(183,115)	(38,901)
Profit for the year	800,927	198,593
Total comprehensive income	800,927	198,593
Dividends declared by the jointly controlled entity to the Group	185,859	20,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Investments in jointly controlled entities (continued)

Reconciliation of summarised financial information

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Opening net assets 1 January	617,933	459,340
Profit for the year	800,927	198,593
Dividends	(371,718)	(40,000)
Closing net assets	1,047,142	617,933
Interest in jointly controlled entities @ 50%	523,571	308,967
Unrealised profit	(6,143)	(9,165)
Carrying value	517,428	299,802

13 Investments in associates

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Share of net assets, listed	193,332	168,074
Share of net assets, unlisted	3,389,488	3,068,507
Provision for impairment	(76,163)	(76,163)
	3,506,657	3,160,418
Market value of listed shares (HKD)	1,361,724	1,752,589
At 1 January	3,160,418	2,370,871
Additions	98,000	508,777
Share of profit for the year	528,240	494,688
Share of other comprehensive income	381	605
Dividends declared	(280,382)	(208,613)
Provision for impairment	-	(398)
Others	-	(5,512)
End of the year	3,506,657	3,160,418

Particulars of the Group's principal associates are set out in Note 48.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

Set out below are the summarised financial information for the Group's significant associates which are accounted for using the equity method:

(a) Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)

Summarised balance sheet

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Current		
Total current assets	8,461,106	9,804,637
Total current liabilities	(6,801,771)	(7,990,746)
Non-current		
Total non-current assets	2,457,175	2,323,398
Total non-current liabilities	(1,233,732)	(1,470,000)
Net assets	2,882,778	2,667,289

Summarised statement of comprehensive income

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Revenue	11,044,303	9,745,700
Profit before income tax expense	641,823	654,933
Income tax expense	(163,271)	(128,806)
Profit for the year	478,552	526,127
Total comprehensive income	478,552	526,127
Dividends declared by the associate to the Group	78,919	80,076

Reconciliation of summarised financial information

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Opening net assets 1 January	2,667,289	1,524,131
Capital injection	-	883,951
Profit for the year	478,552	526,127
Dividends	(263,063)	(266,920)
Closing net assets	2,882,778	2,667,289
Interest in associates @ 30%	864,833	800,187
Unrealised profit	(35,848)	(32,833)
Carrying value	828,985	767,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

(b) TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)

Summarised balance sheet	As at 31 December	
	2016 RMB'000	2015 RMB'000
Current		
Total current assets	1,360,562	1,146,932
Total current liabilities	(359,019)	(273,835)
Non-current		
Total non-current assets	1,175,159	1,223,814
Total non-current liabilities	(43,306)	(44,482)
Non-controlling interest	5,207	3,507
Net assets attributable to owners	2,138,603	2,055,936
Summarised statement of comprehensive income	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Revenue	1,453,136	1,384,669
Profit before income tax expense	252,310	257,665
Income tax expense	(49,469)	(47,652)
Profit for the year	202,841	210,013
Total comprehensive income	203,828	211,495
Dividends declared by the associate to the Group	50,127	38,004
Reconciliation of summarised financial information	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Opening net assets 1 January	2,055,936	1,934,996
Profit for the year attributable to owners of the Company	204,540	212,603
Other comprehensive income for the year	987	1,483
Dividends	(122,860)	(93,146)
Closing net assets	2,138,603	2,055,936
Interest in associates @ 40.8%	872,550	838,822
Unrealised profit	(4,387)	(3,653)
Goodwill	63,033	63,033
Carrying value	931,196	898,202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

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

Summarised balance sheet	As at 31 December	
	2016 RMB'000	2015 RMB'000
Current		
Total current assets	1,834,723	1,461,352
Total current liabilities	(1,326,330)	(1,034,161)
Non-current		
Total non-current assets	580,764	566,650
Total non-current liabilities	-	(130,655)
Net assets attributable to owners	1,089,157	863,186
Summarised statement of comprehensive income	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Revenue	4,723,718	4,344,398
Profit before income tax expense	836,464	746,305
Income tax expense	(214,480)	(203,401)
Profit for the year	621,984	542,904
Total comprehensive income	621,984	542,904
Dividends declared by the associate to the Group	118,804	49,241
Reconciliation of summarised financial information	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Opening net assets 1 January	863,186	502,788
Profit for the year	621,984	542,904
Dividends	(396,013)	(164,138)
Other	-	(18,368)
Closing net assets	1,089,157	863,186
Interest in associates @ 30%	326,747	258,956
Unrealised profit	(14,830)	(13,793)
Carrying value	311,917	245,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Available-for-sale financial assets

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Listed equity investment, at fair value	149,694	162,700
Unlisted equity investment,		
- at fair value	62,526	59,482
- at cost	132,394	131,550
Provision for impairment of unlisted equity investment	(75,248)	(75,248)
Unlisted equity investment, net	119,672	115,784
	269,366	278,484
	As at 31 December	
	2016 RMB'000	2015 RMB'000
At 1 January	278,484	187,433
Acquisition of subsidiaries	200	3,849
Additions	643	88,052
Fair value change recognised in equity	(9,961)	29,211
Disposals	-	(7,900)
Provision for impairment	-	(22,161)
End of the year	269,366	278,484

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Other non-current prepayments

As at 31 December 2016 and 2015, other non-current prepayments primarily represented construction cost of buildings prepaid by the Group.

16 Other long-term receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current receivables:		
– Long-term deposits (a)	425,362	332,929
	<u>425,362</u>	<u>332,929</u>
Gross long-term receivables:		
No later than 1 year	-	-
Later than 1 year and no later than 5 years	424,868	340,459
Later than 5 years	36,500	36,500
	<u>461,368</u>	<u>376,959</u>
Unearned future finance income on long-term receivables	(36,006)	(44,030)
	<u>425,362</u>	<u>332,929</u>

(a) Long-term deposits

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current portion:		
Long-term deposits – gross receivables	461,368	376,959
Unearned finance income	(36,006)	(44,030)
	<u>425,362</u>	<u>332,929</u>
Long-term deposits, net	<u>425,362</u>	<u>332,929</u>

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	-	-
Later than 1 year and no later than 5 years	425,362	306,351
Later than 5 years	-	26,578
	<u>425,362</u>	<u>332,929</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Other long-term receivables (continued)**(a) Long-term deposits (continued)**

Note:

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

17. Inventories

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Raw materials	1,049,633	892,016
Work in progress	367,302	359,437
Finished goods	14,998,822	13,839,171
	<u>16,415,757</u>	<u>15,090,624</u>

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

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Cost of sales, distribution and selling expenses and general and administrative expenses (Note 33)	<u>104,442,582</u>	<u>91,012,409</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. Trade and other receivables and other current assets

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables from third parties		
Accounts receivable	27,944,795	24,880,827
Less: allowance for impairment	(1,171,721)	(832,281)
Accounts receivable – net	26,773,074	24,048,546
Notes receivable	1,586,533	1,132,570
Trade receivables – net	28,359,607	25,181,116
Other receivables from third parties	1,530,675	1,584,249
Less: allowance for impairment	(595,244)	(579,259)
Other receivables – net	935,431	1,004,990
Amounts due from related parties (Note 44(c))	552,656	203,026
Less: allowance for impairment	(14,102)	(11,208)
Amounts due from related parties – net	538,554	191,818
Prepayments (Note b)	1,145,988	1,453,915
Tax recoverable	898,150	559,289
Interest receivables	2,526	7,460
	<u>31,880,256</u>	<u>28,398,588</u>

- (a) The fair values of trade and other receivables approximate their carrying amounts due to the short maturities.
- (b) As of 31 December 2016 and 2015, prepayments are in connection with:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Purchases of:		
- Raw materials and merchandise	1,067,293	1,416,632
- Prepaid expenses and others	78,695	37,283
	<u>1,145,988</u>	<u>1,453,915</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables and other current assets (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
RMB	33,378,774	29,739,901
HKD	44,312	119
USD	78,826	67,373
AUD	85,289	-
NZD	46,132	-
Other currencies	27,990	13,943
	<u>33,661,323</u>	<u>29,821,336</u>

- (d) As of 31 December 2016, trade receivables of approximately RMB215,033,000 (2015: RMB1,118,695,000) have been factored by the Group for obtaining borrowings of approximately RMB184,956,000 (2015: RMB888,390,000) (Note 25).
- (e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, a credit period primarily up to 180 days is granted to the customers. At 31 December 2016 and 2015, ageing analysis of gross trade receivables due from third parties (accounts receivable and notes receivable) based on invoice date are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Less than 3 months	21,499,782	19,662,118
3 months to 6 months	4,930,427	4,249,739
6 months to 12 months	2,160,049	1,303,456
1 year to 2 years	344,070	251,565
Over 2 years	597,000	546,519
	<u>29,531,328</u>	<u>26,013,397</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables and other current assets (continued)

- (f) As of 31 December 2016, trade receivables due from third parties of approximately RMB3,101,119,000 (2015: RMB2,101,540,000) were over 180 days and impaired. It was assessed that a portion or none of the receivables is expected to be recovered. The ageing analysis of these trade receivables and expected recovery are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
6 months to 12 months	2,160,049	1,303,456
1 year to 2 years	344,070	251,565
Over 2 years	597,000	546,519
	<u>3,101,119</u>	<u>2,101,540</u>
Less: Expected recovery	(2,083,989)	(1,374,755)
Impairment	<u>1,017,130</u>	<u>726,785</u>

As of 31 December 2016, trade receivables due from third parties of approximately RMB26,430,209,000 (2015: RMB23,911,857,000) were within 180 days. The impairment of these trade receivables was approximately RMB154,591,000 (2015: RMB105,496,000).

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

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

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
At beginning of the year	1,422,748	1,703,777
Provision for impairment (Note 33)	377,390	98,147
Write-off against uncollectible and other deductions	(24,529)	(383,676)
Others	5,458	4,500
At the end of year	<u>1,781,067</u>	<u>1,422,748</u>

The creation of provision for impairment of trade and other receivables have been included in 'general and administrative expenses', the reversal of impairment on current portion of long-term receivables have been included in 'other (losses)/gains - net'. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Cash and cash equivalents and restricted cash

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Cash at bank	11,959,145	12,030,334
Cash on hand	7,679	8,667
	<u>11,966,824</u>	<u>12,039,001</u>
Less: restricted cash (a)	(987,080)	(761,146)
Cash and cash equivalents	<u>10,979,744</u>	<u>11,277,855</u>
Denominated in:		
– RMB	11,732,228	11,881,597
– HKD	9,775	10,312
– USD	187,082	132,547
– EUR	4,281	1,973
– AUD	13,418	-
– NZD	12,504	-
– Other currencies	7,536	12,572
	<u>11,966,824</u>	<u>12,039,001</u>

- (a) As of 31 December 2016 and 2015, certain of the Group's bank deposits have been pledged for the following purposes:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Bank deposits pledged for:		
– issue of notes payable	973,997	519,551
– bank borrowings	-	20,400
– others	13,083	71,195
	<u>987,080</u>	<u>611,146</u>

As at 31 December 2015, restricted cash included bank deposits of RMB150,000,000 with a maturity of six months.

- (b) The above mentioned restricted bank deposits are all interest-bearing and with maturity dates of less than one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Cash and cash equivalents and restricted cash (continued)

- (c) The conversion of the RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.
- (d) The effective interest rates of cash at banks are as follows:

	As at 31 December	
	2016 % per annum	2015 % per annum
Effective interest rate	0.35% - 5.61%	0.35% - 4.00%

20 Financial instruments by category and credit quality of financial assets**(a) Financial instruments by category**

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Assets per balance sheet:		
Derivative financial instruments	3,318	-
Financial assets at fair value through profit or loss	742	820
Available-for-sale financial assets (Note 14)	269,366	278,484
Loans and receivables		
- Accounts and notes receivables (Note 18)	28,359,607	25,181,116
- Amounts due from related parties (Note 44(c))	535,978	189,877
- Other receivables (Note 18)	1,533,201	1,591,709
- Cash and bank balances (Note 19)	11,966,824	12,039,001
- Other long-term receivables	425,362	332,929
	<u>43,094,398</u>	<u>39,613,936</u>
Liabilities per balance sheet:		
Derivative financial instruments	870	-
Other financial liabilities at amortised cost		
- Accounts and notes payables (Note 24)	25,422,992	23,950,977
- Amounts due to related parties (Note 44(c))	587,811	510,565
- Accrual and other payables	3,443,659	2,528,994
- Borrowings (Note 25)	12,477,046	10,492,396
- Other long-term payables	692,537	61,995
	<u>42,624,915</u>	<u>37,544,927</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Financial instruments by category and credit quality of financial assets (continued)**(b) Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counter party default rates.

(i) Trade receivables

As at 31 December 2016, the Group's trade receivables due from third parties of approximately RMB26,430,209,000 (2015: RMB23,911,857,000) were within 180 days. Trade receivables that were within 6 months mainly represent those due from customers with good credit history and low default rate. Trade receivables that were either over 180 days or impaired were disclosed in Note 18.

None of the financial assets that are fully performing has been renegotiated during year ended 31 December 2016.

(ii) Cash and cash equivalents

As at 31 December 2016 and 2015, all the bank deposits are deposited in reputable financial institutions which primarily comprise reputable international banks, major financial institutions in PRC and PRC listed banks or state-owned banks.

The management considered the credit risks in respect of cash and bank deposits with financial institutions are relatively minimum as each counter party bears a high credit rating or is a large PRC listed or state-owned banks with no history of default.

21 Share capital

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total shares of RMB1 each RMB'000
Issued and fully paid: At 31 December 2015 and 2016	1,923,016	765,894	1,923,016	765,894	2,688,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves

	Share premium	Statutory reserves Note (a)	Available- for-sale financial Assets	Revaluation surplus	Translation difference	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	14,081,665	958,644	25,257	28,227	(20,941)	51,046	15,123,898
Share of other comprehensive income of associates	-	-	-	-	605	-	605
Appropriation to statutory reserves (Note 23 (a))	-	140,042	-	-	-	-	140,042
Available-for-sale financial assets							
- Gross	-	-	28,813	-	-	-	28,813
- Tax	-	-	210	-	-	-	210
Changes in ownership interests in subsidiaries without change of control	(11,834)	-	-	-	-	-	(11,834)
Currency translation difference	-	-	-	-	(7,001)	-	(7,001)
Others	5,686	-	-	-	-	-	5,686
At 31 December 2015	14,075,517	1,098,686	54,280	28,227	(27,337)	51,046	15,280,419
Share of other comprehensive income of associates	-	-	-	381	-	-	381
Appropriation to statutory reserves (Note 23 (a))	-	117,151	-	-	-	-	117,151
Available-for-sale financial assets							
- Gross	-	-	(9,677)	-	-	-	(9,677)
- Tax	-	-	644	-	-	-	644
Changes in ownership interests in subsidiaries without change of control	47,711	-	-	-	-	-	47,711
Currency translation difference	-	-	-	-	(5,573)	-	(5,573)
Others (Note (a), 28)	-	-	-	-	-	(635,831)	(635,831)
At 31 December 2016	14,123,228	1,215,837	45,247	28,608	(32,910)	(584,785)	14,795,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

Apart from foreign currency translation difference, share of other comprehensive income of associates, and effects of changes in available-for-sales financial assets, if any, movements in owners' equity during the years mainly comprised:

- (a) In accordance with the PRC Company Law and the articles of association of the PRC companies comprising the Group (the "PRC Companies"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

23 Retained earnings

	RMB'000
At 1 January 2015	10,009,325
Profit for the year	2,876,989
Dividends of the Company (Note 38)	(779,784)
Appropriation to statutory reserves (Note 22)	(140,042)
Others	(5,503)
At 31 December 2015	11,960,985
Profit for the year	3,196,394
Dividends of the Company (Note 38)	(887,340)
Appropriation to statutory reserves (Note 22)	(117,151)
Others	(14,466)
At 31 December 2016	<u>14,138,422</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables and other current liabilities

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Accounts payable to third parties	21,745,034	20,188,432
Notes payable	3,677,958	3,762,545
Advances received from customers	737,803	617,626
Payables for purchase of PP&E and land use rights	241,971	212,184
Staff welfare and salary payables	636,940	531,442
Tax liabilities other than income tax	300,959	213,966
Amounts due to related parties (Note 44)	587,872	510,971
Accrued expenses	1,344,406	850,720
Deposits	594,847	385,036
Payables arising from acquisition of subsidiaries	395,499	289,270
Deferred income in respect of plant and office relocation	-	275,573
Dividends payable	57,124	67,492
Others	809,812	724,292
	<u>31,130,225</u>	<u>28,629,549</u>

- (a) As at 31 December 2016 and 2015, aging analysis of the accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Less than 3 months	20,487,016	20,093,811
3 months to 6 months	3,188,374	2,067,680
6 months to 12 months	1,202,097	1,273,384
1 year to 2 years	300,159	330,120
Over 2 years	245,346	185,982
	<u>25,422,992</u>	<u>23,950,977</u>

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
RMB	30,448,838	27,854,728
USD	378,065	681,283
EUR	9,992	-
HKD	147,042	80,927
AUD	68,794	-
NZD	62,827	-
Other currencies	14,667	12,611
	<u>31,130,225</u>	<u>28,629,549</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
- guaranteed (a)	700	1,430
- secured (b)	6,505	77,204
- unsecured	830,488	11,542
Debentures (c)	1,998,591	-
Other borrowings	-	3,233
	<u>2,836,284</u>	<u>93,409</u>
Current		
Short-term bank borrowings		
- guaranteed (a)	182,550	249,390
- secured (b)	513,356	1,253,740
- unsecured	8,914,583	8,885,127
Other borrowings	17,310	1,000
	<u>9,627,799</u>	<u>10,389,257</u>
Current portion of long-term bank borrowings		
- guaranteed (a)	730	730
- secured (b)	9,000	9,000
Other borrowings	3,233	-
	<u>9,640,762</u>	<u>10,398,987</u>
Total borrowings	<u>12,477,046</u>	<u>10,492,396</u>

- (a) As at 31 December 2016, the bank borrowings as guaranteed by the non-controlling interests of the Group's subsidiaries amounted to approximately RMB57,550,000 (2015: RMB139,000,000).

As at 31 December 2016, the bank borrowings as jointly guaranteed by the Group's subsidiary and one of the Group's non-controlling interests amounted to approximately RMB125,000,000. (2015: RMB110,390,000)

As at 31 December 2016, the bank borrowings as guaranteed by a related party amounted to approximately RMB1,430,000 (2015: RMB2,160,000) (Note 44(d)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings (continued)

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Secured by:		
- PP&E and land use rights (Notes 7, 9)	343,905	451,554
- Trade receivables (Note 18)	184,956	868,490
- Bank deposits (Note19)	-	19,900
	<u>528,861</u>	<u>1,339,944</u>

(c) Debentures

On 28 January 2016, the Company received RMB1,980,000,000 from the issuance of 3-year-maturity-debentures, with an aggregate amount of RMB2,000,000,000 at a rate of 2.98% per annum.

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	12,273,100	10,492,396
NZD	203,946	-
	<u>12,477,046</u>	<u>10,492,396</u>

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Borrowings		
- RMB	3.77%	4.52%
- NZD	2.92%	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Within 1 year	9,640,762	10,398,987
Between 1 and 2 years	210,646	18,233
Between 2 and 5 years	2,614,216	63,754
Wholly repayable within 5 years	12,465,624	10,480,974
Over 5 years	11,422	11,422
	<u>12,477,046</u>	<u>10,492,396</u>

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Within 6 months	7,138,380	7,429,280
Between 6 and 12 months	3,340,075	3,063,116
Between 1 – 5 years	1,998,591	-
	<u>12,477,046</u>	<u>10,492,396</u>

- (h) The carrying amounts of short-term and current borrowings approximate their fair values, as the impact of discounting is not significant.
- (i) The carrying amounts of non-current borrowings approximate their fair values, as the interest rates of the non-current borrowings are close to the market rates. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Deferred income tax assets		
- To be recovered after more than 12 months	172,687	18,399
- To be recovered within 12 months	295,629	297,859
	<u>468,316</u>	<u>316,258</u>
Deferred income tax liabilities		
- To be recovered after more than 12 months	462,468	357,374
- To be recovered within 12 months	29,593	34,759
	<u>492,061</u>	<u>392,133</u>
Deferred income tax liabilities - net	<u>(23,745)</u>	<u>(75,875)</u>

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
At 1 January	(75,875)	(115,572)
Recognised in the consolidated income statements (Note 36)	138,151	74,423
Acquisition of subsidiaries	(86,736)	(34,837)
Recognised in equity	715	111
Deferred income tax liabilities - net	<u>(23,745)</u>	<u>(75,875)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 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 2015	171,131	7,548	43,654	31,311	10,947	264,591
Acquisition of subsidiaries	1,674	-	-	-	-	1,674
Recognised in the consolidated income statements	32,985	(1,145)	(3,372)	9,538	11,987	49,993
At 31 December 2015	205,790	6,403	40,282	40,849	22,934	316,258
Acquisition of subsidiaries	11,596	-	-	-	-	11,596
Recognised in the consolidated income statements	81,429	99	4,335	41,814	12,785	140,462
At 31 December 2016	298,815	6,502	44,617	82,663	35,719	468,316

Deferred income tax liabilities

	Fair value of intangible assets RMB'000	Deemed disposal RMB'000	Fair value gains from available-for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	200,610	158,372	11,305	9,876	380,163
Acquisition of subsidiaries	36,511	-	-	-	36,511
Recognised in the consolidated income statements	(26,840)	(3,485)	-	5,895	(24,430)
Recognised in equity	-	-	(111)	-	(111)
At 31 December 2015	210,281	154,887	11,194	15,771	392,133
Acquisition of subsidiaries	98,332	-	-	-	98,332
Recognised in the consolidated income statements	(24,352)	(3,485)	-	30,148	2,311
Recognised in equity	-	-	(715)	-	(715)
At 31 December 2016	284,261	151,402	10,479	45,919	492,061

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 RMB237,580,025 (2015: RMB183,188,000) in respect of tax losses amounting to approximately RMB950,320,099 (2015: RMB732,754,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB38,139,602, RMB63,876,910, RMB275,583,877, RMB258,633,390 and RMB314,086,320 will expire in 2017, 2018, 2019, 2020 and 2021, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Other non-current liabilities

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Medical reserve funds (Note a)	80,641	91,270
Project research and development funds (Note b)	144,375	165,060
Office and plant relocation funds (Note c)	445,305	202,806
Others	42,489	38,786
	<u>712,810</u>	<u>497,922</u>

- (a) During the years ended 31 December 2016 and 2015, 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 2016 and 2015 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

- (b) Certain of the Group's subsidiaries and the Company received funds from local governments as compensation for expenses arising from research expenses on certain special projects. Upon completion of the research, such funds, after offsetting against actual expenses arising during the course of research, will be recognised as other income. As at each balance sheet date, the management expect that such project will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.
- (c) Certain of the Group's subsidiaries received funds from local governments or other organisations as compensation for losses arising from office or plant relocation upon the request from the local government. Such funds can be used to offset the losses of relocation and compensate the disposal of land, plant and equipment. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses and being used to compensate the disposal of land, plant and equipment arising from office relocation, will be recognised as other gains, net. Such funds are treated as advance received in respect of office and plant relocation. As at each respective balance sheet date, the management expect that such office or plant relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Other long-term payables

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Finance lease payables	32,267	36,064
Long-term payables for land use rights	29,907	30,700
Long-term payables for acquisition of subsidiaries (Note a)(Note 22)	635,831	-
	<u>698,005</u>	<u>66,764</u>
Less: Long-term payables due within 1 year	(5,468)	(4,769)
	<u>692,537</u>	<u>61,995</u>

- (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. (Note 43 (i))

29 Termination benefit obligations

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Termination benefit	<u>61,204</u>	<u>64,159</u>

The Group had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the "Early Retired Employees").

The Group recognises a liability for the present value of the obligations relating to the termination benefits payable to these Early Retired Employees.

The liability related to the benefit obligations for the Early Retired Employees existing at the respective balance sheet dates are calculated by the management using future cash flow discounting method.

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
At beginning of year	64,159	70,472
Addition	34,888	29,376
Interest expenses	2,325	3,552
Benefits paid	(40,168)	(39,241)
	<u>61,204</u>	<u>64,159</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Other income

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Government grants (Note a)	277,614	195,319
Dividend income from available-for-sale financial assets	16,238	9,626
	<u>293,852</u>	<u>204,945</u>

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

31 Other Gains – net

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
(Loss)/Gain of financial assets at fair value through profit or loss, net	(79)	315
Gain on disposals of PP&E	179,346	267,514
Gain on disposals of available-for-sale financial assets	-	4,791
(Loss)/Gain on disposals of intangible assets	(337)	19,575
Loss on disposals of land use rights	-	(5,952)
Provision for impairment of property, plant and equipment	(4,817)	(7,599)
Provision for impairment of available-for-sale financial assets	-	(22,161)
Provision for impairment of intangible assets	-	(27,185)
Compensation from an associate's parent company	-	30,798
Foreign exchange losses	(25,868)	(24,904)
Relocation gain (Note 27 (c))	4,961	18,228
Others – net	(20,596)	(31,516)
	<u>132,610</u>	<u>221,904</u>

32 Gains on disposal of subsidiaries and associates

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Disposal of subsidiaries and associates	-	5,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Expenses by nature

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials, merchandise and consumables used	105,262,621	93,017,795
Changes in inventories of finished goods and work in progress	(820,039)	(2,005,386)
Employee benefit expenses (Note 34)	4,723,145	4,205,484
Promotion and advertising costs	1,412,872	1,277,596
Travelling and meeting expenses	1,231,164	1,091,319
Depreciation of PP&E (Note 9)	604,710	562,308
Transportation costs	524,736	402,172
Real estate tax, stamp duties and other taxes	459,618	345,219
Operating lease rentals	424,630	350,208
Provision for impairment of trade and other receivables, net (Note 18)	377,390	98,147
Energy and utilities	247,770	223,795
Repair and maintenance fee	206,287	188,335
Office expenditures	199,315	197,001
Amortisation of intangible assets (Note 10)	174,341	140,613
Write-down of inventories to net realisable value	64,137	195,120
Amortisation of land use rights (Note 7)	32,978	29,587
Auditor's remuneration		
- Audit services	33,268	20,125
Depreciation of investment properties (Note 8)	12,015	13,321
Others	1,809,146	1,532,668
Total cost of sales, distribution and selling expenses and general and administrative expenses	116,980,104	101,885,427

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Employee benefit expenses

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Wages and salaries	3,454,167	3,006,526
Contributions to pension plans (Note (a))	409,164	451,194
Housing fund, medical insurance and other social insurance (Note (b))	497,050	479,189
Others	362,764	268,575
Total including directors' emoluments	<u>4,723,145</u>	<u>4,205,484</u>

- (a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Employee benefit expenses (continued)**(c) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group during the year include one (2015: one) director whose emoluments during the year have been included in Note 47. The emoluments payable to the five highest individuals during the year are as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries and fee	4,720	5,155
Bonuses	9,485	9,628
Employer's contribution to pension scheme and others	294	269
	<u>14,499</u>	<u>15,052</u>

The emoluments fell within the following bands:

	Year ended 31 December	
	2016 Number	2015 Number
Emolument bands (in HKD)		
HKD2,000,001 - HKD2,500,000	-	2
HKD2,500,001 - HKD3,000,000	1	1
HKD3,000,001 - HKD3,500,000	3	-
HKD3,500,001 - HKD4,000,000	1	-
HKD4,000,001 - HKD4,500,000	-	1
HKD4,500,001 - HKD5,000,000	-	-
HKD5,000,001 - HKD6,000,000	-	-
HKD6,000,001 - HKD7,000,000	-	1
	<u>-</u>	<u>1</u>

- (d) In 2016 and 2015, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Finance income and costs

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Interest income on bank deposits	171,997	137,617
Others	-	996
Total finance income	171,997	138,613
Interest expenses on borrowings	(566,324)	(491,708)
Interest expenses on notes and receivables discounted	(78,732)	(121,563)
Other costs	(52,428)	(33,949)
Finance expenses	(697,484)	(647,220)
Less: Amount capitalised on qualifying assets (Note 9(d))	-	-
Total finance expenses	(697,484)	(647,220)
Net finance expenses	(525,487)	(508,607)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Taxation

(a) Income tax expense

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	947,435	881,909
Deferred income tax (Note 26)	(138,151)	(74,423)
	<u>809,284</u>	<u>807,486</u>

- (i) Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. In 2016, the assessable income of the Group's subsidiaries in Hong Kong was insignificant.
- (ii) Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries for the year ended 31 December 2016, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by relevant tax authorities.

Details of the preferential CIT policies and significant subsidiaries who enjoy these policies are listed as follows:

- Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., SPH Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning SPH Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd., Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd., SPH Changzhou Pharmaceutical Factory Co., Ltd., Shanghai Zhongxi Pharmaceutical Machinery Co., Ltd., SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd., SPH Kony (Changzhou) Co., Ltd., Zhonghua Nantong Pharmaceutical Co., Ltd. and Shanghai Xingling SCI.&Tech. Pharmaceutical Co., Ltd., Shanghai Changcheng Pharmaceutical Co., Ltd., Shanghai Sine Tianping Pharmaceutical Co., Ltd., Shanghai Sine Jinzhu Pharmaceutical Co., Ltd., Shanghai Sine Yan'an Pharmaceutical Co., Ltd., Shanghai New Asiatic Medicine Industry Minhong Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise, and enjoyed a preferential CIT rate of 15% for 2015 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Taxation (continued)

(a) Income tax expense (continued)

(iii) The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates of 25% applicable to the years as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	4,638,996	4,171,854
Tax calculated at the domestic CIT rate applicable	1,159,749	1,042,964
Income not subject to taxation	(245,259)	(163,102)
Cost not deductible for taxation purposes	54,845	44,403
Preferential tax rate of certain subsidiaries	(218,640)	(166,109)
Utilisation of tax losses for which no deferred income tax asset was recognised	(19,933)	(15,538)
Tax losses for which no deferred income tax asset was recognised	78,522	64,868
Income tax expenses	809,284	807,486
Effective tax rate	17.4%	19.4%

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

	Year ended 31 December					
	2016			2015		
	Before tax	Tax	After tax	Before tax	Tax	After tax
	RMB'000	charge	RMB'000	RMB'000	charge	RMB'000
Available-for-sale financial assets	(9,961)	715	(9,246)	29,211	111	29,322
Currency translation differences, net	(11,846)	-	(11,846)	(12,670)	-	(12,670)
Others	381	-	381	605	-	605
	(21,426)	715	(20,711)	17,146	111	17,257
Current tax		-			-	
Deferred tax (Note 26)		715			111	
		715			111	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 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%, 13% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 5% of the net VAT payable.

37 Earnings per share

For years ended 31 December 2016 and 2015, 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	
	2016	2015
Profit attributable to equity holders of the Company (RMB'000)	3,196,394	2,876,989
Number of ordinary shares (thousands)	2,688,910	2,688,910
Basic earnings per share (RMB)	1.19	1.07

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during the years presented.

38 Dividends

The dividends paid in 2016 and 2015 were approximately RMB887,340,000 (RMB0.33 per share) and RMB779,784,000 (RMB0.29 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.36 per share, amounting to a total dividend of RMB968,008,000, 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	
	2016	2015
	RMB'000	RMB'000
Proposed final dividend of RMB0.36 (2015: RMB0.33) per share	968,008	887,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Notes to the consolidated statements of cash flows

(i) Cash generated from operations

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	4,638,996	4,171,854
Adjustments for:		
- Share of profit from associates	(528,240)	(494,688)
- Share of profit from jointly controlled entities	(425,225)	(122,112)
- Depreciation of PP&E and investment properties	616,725	575,629
- Amortisation of land use rights and intangible assets	207,319	170,200
- Financial assets at fair value through profit or loss	79	(315)
- Gain on disposals of		
- PP&E	(179,346)	(267,514)
- land use rights and intangible assets	337	(13,623)
- investment in subsidiaries and associates	-	(5,652)
- available-for-sale financial assets	-	(4,791)
- Provisions for impairment of		
- trade and other receivables	377,390	98,147
- inventories	64,137	195,120
- PP&E	4,817	7,599
- intangible assets	-	27,185
- investment in available-for-sale financial assets	-	22,161
- Dividend income on available-for-sale financial assets	(16,238)	(9,626)
- Financial cost - net	473,059	425,865
- Foreign exchange gain and loss - net	2,640	(10,750)
- Gain on relocation	(4,961)	(18,228)
- Compensation from an associate's parent company	-	(30,798)
- Other losses – others, net	38,863	48,941
	<u>5,270,352</u>	<u>4,764,604</u>
Changes in working capital:		
- Inventories	(942,672)	(1,943,668)
- Trade and other receivables and other current assets	(3,093,521)	(3,962,131)
- Trade and other payables and other current liabilities	1,852,738	3,395,380
- Restricted cash	(304,449)	(193,512)
Cash generated from operations	<u><u>2,782,448</u></u>	<u><u>2,060,673</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Notes to the consolidated statements of cash flows (continued)

- (ii) In the cash flow statements, proceeds from disposals of PP&E and investment property comprise:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net book amount (Note 9)	63,423	120,566
Gain on disposal (Note 31)	179,346	267,514
	<u>242,769</u>	<u>388,080</u>
Advance from disposal of PP&E and investment properties	-	145,815
Receivables in respect of disposal of PP&E and investment property	(32,516)	(151,533)
Cash receipt in prior year in respect of disposal of PP&E in current year	(145,815)	(28,115)
Receipt of proceeds from disposal of PP&E and investment properties in prior year	151,533	13,395
Proceeds from disposal	<u>215,971</u>	<u>367,642</u>

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net book amount	556	6,959
Gain on disposal (Note 31)	(337)	13,623
	<u>219</u>	<u>20,582</u>
Cash receipt in prior year in respect of land use right and intangible assets	-	-
Proceeds from disposal	<u>219</u>	<u>20,582</u>

- (iv) In the cash flow statements, proceeds from disposals of available-for-sale financial assets comprise:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net book amount (Note 14)	-	7,900
Gain on disposal (Note 31)	-	4,791
	<u>-</u>	<u>12,691</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Notes to the consolidated statements of cash flows (continued)

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net book amount	-	7,384
Gain on disposal	-	5,652
Less: gain on deemed disposal	-	-
	-	13,036
Cash receipt in respect of disposal of associates in prior year	-	20,491
Cash and cash equivalents in subsidiaries disposed	12,396	(3,524)
Offset other current liabilities	-	(1,807)
Proceeds from disposal	12,396	28,196

40 Contingencies and guarantees

- (a) As of 31 December 2016, the Group has no significant pending legal claims.
- (b) Outstanding loan guarantees

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Outstanding loan guarantees provided to third parties	30,000	20,000
Outstanding loan guarantees provided to related parties	22,636	16,107
	52,636	36,107

In 2016, the Group acquired 51% equity interest Shanghai Pharmaceuticals Zhenjiang Co., Ltd. (the "Acquisition"). Before the Acquisition, Shanghai Pharmaceuticals Zhenjiang Co., Ltd. has entered into several agreements with certain banks to provide loan guarantees to a third party with a limitation of RMB30,000,000. As at 31 December 2016, outstanding loan guarantees of RMB30,000,000 was provided by Shanghai Pharmaceuticals Zhenjiang Co., Ltd. to certain third parties (the "Guarantee"), and will be expired in 2018. After the Guarantee's expiration Shanghai Pharmaceuticals Zhenjiang Co., Ltd will not provide any guarantees to third parties.

As of 31 December 2016, outstanding loan guarantees of approximately RMB22,636,000(2015: RMB16,107,000) are provided by the Group to certain related parties of the Group (Note 44(d)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Commitments

(a) Capital commitments

Constructions

Capital expenditure contracted for at the end of year but not yet incurred is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
PP&E	484,513	493,652

(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	
	2016	2015
	RMB'000	RMB'000
No later than 1 year	265,382	247,897
Later than 1 year and no later than 2 years	183,501	164,416
Later than 2 years and no later than 5 years	284,359	258,579
Later than 5 years	156,537	75,413
	889,779	746,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Commitments (continued)

(b) Operating lease commitments (continued)

(ii) The Group as the lessor:

The Group leases out certain office premises, plant and equipment under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
No later than 1 year	60,103	31,404
Later than 1 year and no later than 2 years	36,892	28,579
Later than 2 years and no later than 5 years	53,585	56,361
Later than 5 years	51,057	72,515
	<u>201,637</u>	<u>188,859</u>

(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 2016, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB157,004,000. As at 31 December 2016, the total amount of the research and development cost contracted but not yet incurred by the Group was up to approximately RMB22,996,000 according to the Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42 Significant transactions with non-controlling interests**(a) Significant acquisition of additional interests in the subsidiaries**

Transaction with non-controlling interests of Shanghai Pharma Health Commerce Co., Ltd. ("Health Commerce")

In 2016, a third party contributed additional share capital of RMB135,000,000 into Health Commerce. Upon the completion of this capital injection, equity interests of Health Commerce held by the Group decreased from 80.02% to 72.75%. The effect of changes in ownership interests of Health Commerce on the capital injection during this year is summarised as follows:

	2016 RMB'000
Consideration received from non-controlling interests	135,000
Carrying amount of non-controlling interests lost	(79,466)
Excess of consideration paid recognised within equity	55,534

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2016.

	2016 RMB'000
Changes in equity attributable to owners of the company arising from:	
- Acquisition of additional interests in subsidiaries	(8,231)
- Capital injection in a subsidiary	55,942
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	47,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination

Significant business combinations not under common control

- (i) During the year ended at 31 December 2016, the Group set up Zeus Investment Limited ("Zeus") with PV Zeus Limited, which is wholly controlled by Primavera Capital Fund II L.P ("Primavera"), with the share capital injection of RMB953,746,000 and RMB635,831,000 respectively. On 31 December, 2016, Zeus Investment Limited acquired 100% equity interests in Vitaco Holdings Limited ("Vitaco") ("the Transaction") from independent third parties, by which the Group effectively obtained 60% equity interests in Vitaco as a non-wholly owned subsidiary. Accompany with the Transaction, the Group entered into an agreement with PV Zeus Limited and Primavera which can sell all or part of their shares in Zeus to the Group at any time within the four year period from the fourth anniversary date of the completion of the Transaction, and recognised a financial liability in other long-term payables.(Note 28)

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 RMB863,931,000 arising from the acquisition attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entity and its subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB1,552,665,000. The following table summarizes the consideration, the fair value of assets acquired and liabilities assumed at the acquisition date:

Consideration	Vitaco
	RMB'000
Cash	<u>1,552,665</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	28,470
PP&E	95,953
Intangible assets - business network	41,530
Intangible assets - trademarks	589,244
Intangible assets - others	3,706
Inventories	228,417
Deferred income tax assets	9,389
Available-for-sale financial assets	2,449
Trade and other receivables and other current assets	160,584
Deferred income tax liabilities	(74,506)
Trade and other payables and other current liabilities	(157,796)
Borrowings	(238,498)
Termination benefit obligations	(208)
Total identifiable net assets	688,734
Goodwill	863,931
	1,552,665

The following table summarized the cash outflows from the Acquisition for the year ended 31 December 2016:

	RMB'000
Total cash consideration	1,552,665
Less: cash and cash equivalents in the subsidiaries acquired	(28,470)
Cash outflows from the acquisitions	1,524,195

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was insignificant as this transaction is completed on 31 December 2016. Had the acquisitions occurred on 1 January 2016, the revenue and loss for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was approximately RMB1,037,126,000 and RMB33,127,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

- (ii) In November, 2016, the Group acquired 70% equity interests in SPH Yunnan Pharmaceutical Co., Ltd. ("SPH Yunnan"), from an independent third party, on which the Group effectively obtained the right of control and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB73,474,000 arising from the acquisition attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entity and its subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB146,720,000. The following table summarizes the consideration, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	SPH Yunnan
	RMB'000
Cash	35,000
Other payables	111,720
Total consideration	<u>146,720</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	10,156
PP&E	9,368
Intangible assets - business network	7,510
Intangible assets - others	355
Deferred income tax assets	287
Inventories	31,019
Trade and other receivables and other current assets	142,480
Deferred income tax liabilities	(1,878)
Trade and other payables and other current liabilities	(79,588)
Current income tax liabilities	(7,419)
Total identifiable net assets	<u>112,290</u>
Non-controlling interests at fair value	(39,044)
Goodwill	<u>73,474</u>
	<u>146,720</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

The following table summarized the cash outflows from the above Acquisition for the year ended 31 December 2016:

	RMB'000
Total cash consideration	146,720
Less: cash and cash equivalents in the subsidiary acquired	(10,156)
consideration payable in respect of acquisition of the subsidiary	(111,720)
Cash outflows from the acquisitions	<u>24,844</u>

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was approximately RMB75,208,000 and RMB3,566,000, respectively. Had the acquisitions occurred on 1 January 2016, the Group's revenue and profit for the year would have been increased by approximately RMB147,956,000 and RMB6,501,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by Shanghai Pharma Group and Shanghai Industrial Group, the immediate holding company and ultimate holding company, both of which are government-related enterprise established in the PRC. The PRC government indirectly controls Shanghai Industrial Group. In accordance with HKAS 24 (Revised), "Related Party Disclosures", issued by the HKICPA, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include Shanghai Industrial Group and its subsidiaries (other than the Group), other government related entities and their subsidiaries, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include sales or purchases of assets, goods and services, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, pledged bank deposits, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

Name of related party	Nature of relationship
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

Name of related party	Nature of relationship
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司)	Associate
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	Associate
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	Associate
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司)	Associate
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限責任公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司)	Associate
Shanghai Industrial Group Finance Co., Ltd. (上海上實集團財務有限公司)	Associate
Jilin Yatai Huashi Pharmaceutical Co. Ltd.(吉林亞泰華氏醫藥有限公司)	Associate
Liaoning International Pharmaceutical Trading Co., Ltd.(遼寧省醫藥對外貿易有限公司)	Associate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

In addition to those disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other government-related enterprises, during the year and balances arising from related party transactions.

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

In 2016 and 2015, 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	
	2016 RMB'000	2015 RMB'000
Sales of goods and render of services		
Jiangxi Nanhua Medicines Co., Ltd.	1,931,766	817,802
Shanghai Luoda Pharmaceutical Co., Ltd.	136,930	84,817
Liaoning International Pharmaceutical Trading Co., Ltd.	92,804	24,367
Shanghai Hutchison Pharmaceutical Co., Ltd.	80,757	72,139
Shanghai Deyi Pharmaceutical Co., Ltd.	61,981	60,376
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	61,188	56,688
Shanghai Ivyuan Pharmacy Co., Ltd.	36,221	34,759
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	13,981	11,760
Shanghai Huaren Pharmaceutical Co., Ltd.	6,863	7,738
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	128	5,444
Shanghai Roche Pharmaceutical Co., Ltd.	-	6,143
Others	14,133	14,965
	<u>2,436,752</u>	<u>1,196,998</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year end 31 December	
	2016 RMB'000	2015 RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	2,689,391	2,237,660
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	877,485	792,535
Shanghai Hutchison Pharmaceutical Co., Ltd.	150,002	161,238
TECHPOOL Bio-Pharma Co., Ltd.	122,023	108,683
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	64,668	39,933
Shanghai Luoda Pharmaceutical Co., Ltd.	50,514	56,177
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	32,268	44,433
Shanghai Huaren Pharmaceutical Co., Ltd.	31,512	35,865
Shanghai Deyi Pharmaceutical Co., Ltd.	28,597	20,111
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	11,945	12,303
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	11,282	5,384
Others	3,716	11,933
	<u>4,073,403</u>	<u>3,526,255</u>

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	10,424	10,114
Shanghai Hutchison Pharmaceutical Co., Ltd.	2,034	2,874
	<u>12,458</u>	<u>12,988</u>

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Rental expense		
Shanghai Pharma Group	23,358	24,905
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	15,694	16,347
Shanghai Indu-Land Property Co., Ltd.	5,416	5,457
	<u>44,468</u>	<u>46,709</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	21,256	15,612

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 2016, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB21,256,000. Up to 31 December 2016, the Group has cumulatively paid approximately RMB157,004,000 to Fudan Zhangjiang with respect to the Agreements.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest income		
Shanghai Industrial Group Finance Co., Ltd.	1,800	996

Interest expense		
Shanghai Industrial Group Finance Co., Ltd.	52,287	32,282

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000

Net Increase of the deposit balance		
Shanghai Industrial Group Finance Co., Ltd.	1,007,891	755,595

Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	1,150,500	1,217,200

Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	(1,217,200)	400,000

Discount of bank acceptance notes		
Shanghai Industrial Group Finance Co., Ltd.	169,173	154,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Loan to related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	5,000
Repayment received from related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	5,000

- (b) Key management compensation

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Salaries	5,351	5,064
Bonuses	7,918	5,224
Pensions and others	654	542
	13,923	10,830

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

Amount due from related parties:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Trade receivables	526,276	171,673
Other receivables	21,198	16,876
Prepayments	2,576	1,941
Dividends receivable	2,606	12,536
	552,656	203,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	407,746	89,526
Liaoning International Pharmaceutical Trading Co., Ltd.	33,948	15,293
Shanghai Luoda Pharmaceutical Co., Ltd.	24,923	19,313
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	16,493	9,932
Shanghai Deyi Pharmaceutical Co., Ltd.	12,421	12,875
Shanghai Hutchison Pharmaceutical Co., Ltd.	12,029	8,373
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,462	2,639
Shanghai Ivyuan Pharmacy Co., Ltd.	5,150	4,777
Shanghai Huaren Pharmaceutical Co., Ltd.	1,371	1,918
Others	6,733	7,027
	526,276	171,673
Less: Provision for impairment	(6,595)	(5,248)
	519,681	166,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Other receivables due from		
Shanghai Roche Pharmaceutical Co., Ltd.	11,262	6,509
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	1,988	1,988
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	1,500
Others	6,448	6,879
	21,198	16,876
Less: Provision for impairment	(7,507)	(5,960)
	13,691	10,916

Other receivables are non-trade receivables and mainly represent loan to or assets sold to related parties and will be settled upon demand of the Group.

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Less than 3 months	523,165	153,510
3 months to 6 months	11,864	20,750
6 months to 12 months	873	2,150
1 year to 2 years	301	-
Over 2 years	11,271	12,139
	547,474	188,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Prepayments due from		
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	2,436	1,651
Others	140	290
	<u>2,576</u>	<u>1,941</u>

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Dividends receivable		
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,350	3,689
Shanghai Luoda Pharmaceutical Co., Ltd.	1,256	1,256
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	-	5,309
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	-	2,262
Others	-	20
	<u>2,606</u>	<u>12,536</u>

Amount due to related parties:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Trade Payables	562,130	485,888
Other Payables	16,469	15,237
Advances	61	406
Dividends Payable	8,079	8,079
Interests Payable	1,133	1,361
	<u>587,872</u>	<u>510,971</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	365,420	343,390
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	54,956	55,625
TECHPOOL Bio-Pharma Co., Ltd.	67,094	43,864
Shanghai Hutchison Pharmaceutical Co., Ltd.	23,824	9,022
Shanghai Luoda Pharmaceutical Co., Ltd.	10,913	7,302
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	6,582	6,669
Shanghai Huaren Pharmaceutical Co., Ltd.	9,605	6,424
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	2,203	-
Shanghai Deyi Pharmaceutical Co., Ltd.	4,888	5,123
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	2,269	3,455
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	11,661	1,821
Others	2,715	3,193
	<u>562,130</u>	<u>485,888</u>

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Other payables due to		
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	2,135	2,135
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,066	9,066
Shanghai Pharma Group	3,928	2,043
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	1,000	1,683
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	291	287
Others	49	23
	<u>16,469</u>	<u>15,237</u>

Other payables are all non-trade payables mainly and represent rental expenses due to related parties and will be settled upon demand of these related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Less than 3 months	523,865	466,275
3 months to 6 months	37,909	20,529
6 months to 12 months	1,150	1,293
1 year to 2 years	2,800	2,773
Over 2 years	12,875	10,255
	<u>578,599</u>	<u>501,125</u>

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Advances due to		
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	22	287
Others	<u>39</u>	<u>119</u>
	<u>61</u>	<u>406</u>

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Dividends payable		
Shanghai Pharma Group	8,000	8,000
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	<u>79</u>	<u>79</u>
	<u>8,079</u>	<u>8,079</u>

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Interests payable		
Shanghai Industrial Group Finance Co., Ltd	<u>1,133</u>	<u>1,361</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current borrowings		
Shanghai Industrial Group Finance Co., Ltd	1,150,500	1,217,200
Cash at bank		
Shanghai Industrial Group Finance Co., Ltd	1,983,510	975,619

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Outstanding loan guarantees provided by the Group to		
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	8,126	1,107
Shanghai Luoda Pharmaceutical Co., Ltd.	15,000	15,000
	23,126	16,107
Outstanding loan guarantees given to the Group by		
Shanghai Industrial Group Finance Co., Ltd	75,000	65,800
Shanghai Pharma Group	1,430	2,160
	76,430	67,960

45 Subsequent events

On 22 February 2017, the Company entered into the limited partnership agreement regarding the establishment of stage V of PAPPAS Fund (Limited Partnership) (《有限合伙协议》) (the "Limited Partnership Agreement"), with A.M.PAPPAS&ASSOCIATES MANAGEMENT V, LLC, the wholly owned subsidiary of PAPPAS CAPITAL, LLC,. Company subscribed and invested an amount of USD20,000,000 for the establishment of Stage V of PAPPAS Fund (Limited Partnership).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46 Balance sheet and reserve movement of the Company

COMPANY BALANCE SHEET

		As at 31 December	
	Note	2016	2015
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights		26,465	27,201
Property, plant and equipment		98,012	91,917
Intangible assets		29,495	21,687
Investments in subsidiaries		16,847,094	16,527,472
Investments in associates		1,049,912	954,913
Available-for-sale financial assets		20,805	24,574
		<u>18,071,783</u>	<u>17,647,764</u>
Current assets			
Trade and other receivables and other current assets		7,163,166	4,348,734
Cash and cash equivalents		2,559,202	4,278,043
		<u>9,722,368</u>	<u>8,626,777</u>
Assets held for sale		-	-
		<u>9,722,368</u>	<u>8,626,777</u>
Total assets		<u><u>27,794,151</u></u>	<u><u>26,274,541</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		2,688,910	2,688,910
Share premium	Note (a)	16,406,754	16,406,754
Other reserves	Note (a)	869,378	755,054
Retained earnings	Note (a)	1,250,722	1,245,886
Total equity		<u>21,215,764</u>	<u>21,096,604</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46 Balance sheet and reserve movement of the Company (Continued)

COMPANY BALANCE SHEET (CONTINUED)

		As at 31 December	
	Note	2016 RMB'000	2015 RMB'000
Liabilities			
Non-current liabilities			
Borrowings		1,998,592	-
Deferred income tax liabilities		10,661	11,604
Other non-current liabilities		30,481	49,834
		<u>2,039,734</u>	<u>61,438</u>
Current liabilities			
Trade and other payables and other current liabilities		2,938,653	3,773,849
Current income tax liabilities		-	42,650
Borrowings		1,600,000	1,300,000
		<u>4,538,653</u>	<u>5,116,499</u>
Total liabilities		<u>6,578,387</u>	<u>5,177,937</u>
Total equity and liabilities		<u>27,794,151</u>	<u>26,274,541</u>

The balance sheet of the Company was approved by the Board of Directors on 21 March 2017 and were signed on its behalf.

Name of Director

Name of Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46 Balance sheet and reserve movement of the Company (Continued)

(a) Share premium, other reserves and retained earnings

	Share premium RMB'000	Statutory reserves RMB'000	Available-for-sale financial Assets RMB'000	Others RMB'000	Retained earnings RMB'000
At 1 January 2015	16,406,754	577,429	9,349	17,579	967,674
Comprehensive income					
Profit for the year	-	-	-	-	1,198,038
Other comprehensive income					
Appropriation to statutory reserves	-	140,042	-	-	(140,042)
Available-for-sale financial assets					
- Gross	-	-	14,207	-	-
- Tax	-	-	(3,552)	-	-
Dividends	-	-	-	-	(779,784)
At 31 December 2015	16,406,754	717,471	20,004	17,579	1,245,886
Comprehensive income					
Profit for the year	-	-	-	-	1,009,327
Other comprehensive income					
Appropriation to statutory reserves	-	117,151	-	-	(117,151)
Available-for-sale financial assets					
- Gross	-	-	(3,769)	-	-
- Tax	-	-	942	-	-
Dividends	-	-	-	-	(887,340)
At 31 December 2016	16,406,754	834,622	17,177	17,579	1,250,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Benefits and interests of directors

(a) Directors, supervisors and chief executives' emoluments

The remuneration of every director, supervisor and the chief executive officer ("CEO") of the Company for the year ended 31 December 2016 is set out below:

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

(a) Retired on 5 May 2016

(b) Retired on 28 June 2016

(c) Retired on 25 August 2016

(d) Appointed on 28 June 2016

(e) Appointed on 20 October 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Benefits and interests of directors (continued)

(a) Directors, supervisors and chief executives' emoluments (continued)

The remuneration of every director, supervisor and the chief executive officer ("CEO") of the Company for the year ended 31 December 2015 is set out below:

Name	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
Mr. Lou Dingbo	-	-	-	-
Mr. Cho Man (also the CEO)	906	676	-	1,582
Mr. Hu Fengxiang	-	-	-	-
Mr. Zhou Jie	-	-	-	-
Mr. Jiang Ming	-	-	-	-
Mr. Chen Naiwei	230	-	-	230
Mr. Wan Kam To	250	-	-	250
Mr. Tse Cho Che	230	-	-	230
Mr. Li Zhenfu	200	-	-	200
<i>Supervisors</i>				
Mr. He Chuan	-	-	-	-
Mr. Xin Keng	-	-	-	-
Mrs. Chen Xin	-	-	-	-
	<u>1,816</u>	<u>676</u>	<u>-</u>	<u>2,492</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48 Principal subsidiaries, jointly controlled entities and associates

As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Shanghai Pharmaceutical Co., Ltd. (上藥控股有限公司)	PRC, 26 April 2010	3,393,128	100	-	Distribution of pharmaceutical products in the PRC
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. (上海上藥信誼藥廠有限公司)	PRC, 23 October 1993	1,191,611	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd. (上海上藥第一生化藥業有限公司)	PRC, 30 July 1994	225,000	100	-	Medicine and medical equipment manufacture and trading in the PRC
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	PRC, 28 April 1992	589,470	100	-	Manufacture and distribution of Chinese medicine and property rental in the PRC
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	PRC, 6 November 1992	128,500	20	55	Medicine manufacture and trading in the PRC
SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司)	PRC, 1 November 1993	78,790	57.36	18.53	Medicine Distribution in the PRC
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	PRC, 3 November 1995	545,800	65.13	34.87	Medicines development and manufacture in the PRC
SPH Qingdao Growful Pharmaceutical Co., Ltd. (上海醫藥集團青島國風藥業股份有限公司)	PRC, 30 June 1994	93,000	67.52	-	Traditional Chinese medicine manufacture and trading in the PRC
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	PRC, 10 Mar 2009	93,642	100	-	Medicine manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal subsidiaries (continued)

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	84,030	-	61	Medicine manufacture and trading in the PRC
	Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	PRC, 1 January 1999	53,160	-	51.01	Medicine manufacture and trading in the PRC
	Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限公司)	PRC, 12 December 1999	51,000	-	55	Medicine manufacture and trading in the PRC
	Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	PRC, 10 September 1998	127,000	99.21	0.79	Medical instruments manufacture and trading in the PRC
	Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	PRC, 12 May 1982	71,390	100	-	Distribution of pharmaceutical products in the PRC
	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd. (上海上藥新亞藥業有限公司)	PRC, 11 August 1993	1,052,429	96.9	-	Medicine manufacture and trading in the PRC
	SIIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司)	Cayman Islands, 17 September 1999	HKD6,904,834,000	100	-	Investment holding practices in the PRC
	Ningbo Pharmaceutical Co., Ltd. (寧波醫藥股份有限公司)	PRC, 5 July 1994	250,000	-	63.61	Distribution of pharmaceutical products in the PRC
	Shanghai Suzuken Chinese Medicine Co., Ltd. (上海鈴謙滬中醫藥有限公司) (Note)	PRC, 10 November 1999	84,460	-	50	Distribution of pharmaceutical products in the PRC

Note: The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of the subsidiary although its equity interests in it were not greater than 50%, after considering the facts that the majority of the executive directors of these subsidiaries were representatives of the Group.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal subsidiaries (continued)

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Shanghai Wai Gao Qiao Pharmaceutical Business and Distributon Center (上海外高橋醫藥分銷中心有限公司)	RPC, 9 August 2001	20,000	-	65	Distribution of pharmaceutical products in the PRC
	Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司)	PRC, 27 May 1994	60,000	-	60	Distribution of pharmaceutical products in the PRC
	Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	PRC, 21 May 1998	335,070	-	97.58	Pharmaceutical products manufacture and trading in the PRC
	Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	PRC, 14 December 2001	108,000	-	59.03	Medicine manufacture in the PRC
	Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青島上藥國風醫藥有限責任公司)	PRC, 27 September 2003	76,667	-	67.39	Distribution of pharmaceutical products in the PRC
	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	PRC, 14 June 1993	1,300,000	-	100	Distribution of pharmaceutical products in the PRC
	Beijing Xinhai Keyuan Pharmacy Co., Ltd (北京科園信海醫藥經營有限公司)	PRC, 8 March 1999	333,070	-	100	Pharmaceutical products trading in the PRC
	Keyuan Xinhai(Beijing) Medical Products Trade Co.,Ltd (科園信海(北京)醫療用品貿易有限公司)	PRC, 4 January 2009	30,000	-	100	Pharmaceutical products trading in the PRC
	Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (廣州中山醫醫藥有限公司)	PRC, 8 January 1998	76,880	-	51	Pharmaceutical products trading in the PRC
	Taizhou Pharmaceutical Co., Ltd. (台州上藥醫藥有限公司)	PRC, 31 December 2010	65,000	-	60	Pharmaceutical products trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal subsidiaries (continued)

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Beijing Aixin Weiye Medicine Co., Ltd. (北京上藥愛心偉業醫藥有限公司)	PRC, 29 November 2010	100,000	-	52.24	Pharmaceutical products trading in the PRC
	SPH Shanhe Wuxi Pharmaceutical Co., Ltd. (上藥控股江蘇股份有限公司)	PRC, 1 July 2011	62,720	-	80	Pharmaceutical products trading in the PRC
	SPH Kony (Changzhou) Co., Ltd. (上藥康麗(常州)有限公司)	PRC, 3 January 2000	14,946	100	-	Pharmaceutical products manufacture and trading in the PRC
	SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司)	PRC, 11 January 2011	82,000	-	72.75	Pharmaceutical products trading in the PRC
	SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司)	PRC, 1 January 1975	141,322	-	100	Pharmaceutical products manufacture and trading in the PRC
	Shandong Shanghai Pharmaceutical Co., Ltd. (山東上藥醫藥有限公司)	PRC, 18 April 2014	20,000	-	75	Distribution of pharmaceutical products in the PRC
	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.(北京信海豐園生物醫藥科技發展有限公司)	PRC, 9 November 1998	50,000	-	100	Distribution of pharmaceutical products in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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48 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal jointly controlled entities and associates

As at 31 December 2016, the Company has direct and indirect interests in the following principal jointly controlled entity and associates:

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	PRC, 30 April 2001	229,000	-	50	Pharmaceutical products manufacture and trading in the PRC
	Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	PRC, 6 May 1994	USD134,697,000	-	30	Pharmaceutical products manufacture and trading in the PRC
	TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	PRC, 25 March 1993	100,000	39.28	1.52	Development, manufacture and distribution of chemical medicine in the PRC
	Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	PRC, 30 June 2009	USD18,440,000	30	-	Development, manufacture and distribution of chemical medicine in the PRC
	Vitaco Holdings Limited	Australia, Aug 2007	AUD 309,561,000	-	60	Pharmaceutical products manufacture and trading in Australia and New Zealand
	Zeus Investment Limited	Hongkong, 24 Aug 2016	AUD 316,920,000	-	60	Investment holding practices in Australia