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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the **"Board"**) of Shanghai Pharmaceuticals Holding Co., Ltd. (the **"Company"**) is pleased to announce the interim results of the Company and its subsidiaries (collectively, the **"Group"**) for the six months ended 30 June 2017. These interim results are prepared in accordance with the Hong Kong Financial Reporting Standards and have not been audited. The Board and the Audit Committee have reviewed and confirmed the interim results.

The Company's full interim report for the six months ended 30 June 2017 is attached to this announcement and also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sphchina.com). The printed copies of the interim report will be dispatched to the shareholders of the Company at an appropriate time.

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

Shanghai, the PRC, 29 August 2017

As of 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



1. The board of directors, the board of supervisors and the directors, supervisors and senior management of the Company hereby warrant that the information contained in this interim report is true, accurate and complete and contains no false representations, misleading statements or material omissions and assume joint and several liabilities therefor.
2. All directors of the Company attended the ninth meeting of the sixth session of the board of directors convened on 28 August 2017, at which resolutions including the interim results of the Company for the six months ended 30 June 2017 were approved.
3. This interim report is unaudited. The board of directors and the audit committee of the Company have reviewed and confirmed this financial report.
4. 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 interim report.
5. The plan for profit distribution or conversion of capital reserve fund into share capital for the Reporting Period considered by the board of directors
None
6. Risk statements regarding the forward-looking statements
☒ Applicable ☐ Not applicable

The forward-looking statements, such as future plans, contained in this interim report do not constitute any substantive commitment by the Company to the investors. Investors are advised to be aware of the investment risks involved.
7. Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation?
No
8. Is there any instance of providing external guarantee that is in breach of the established decision making procedure?
No
9. Significant Risks
During the Reporting Period, there are no significant risks that have substantive significant effect on operation and management of the Company. The Company has already explained all the risks and corresponding measures that the Company might face in the operation and management. Please refer to the "Potential Risk Factors" set out in the Report of the Board of Directors, Chapter 4 of this report.



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

Definition of common used terms	
"Group", "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 (the 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 6-month period from 1 January 2017 to 30 June 2017
"YOY"	year-on-year
"Shares"	shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
"A Shares"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"H Shares"	overseas shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"HK\$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"PRC" or "China"	the People's Republic of China; unless the context otherwise requires, references to the PRC or China herein do not include Hong Kong, Macau or Taiwan
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"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

CHAPTER 1 DEFINITIONS

Definition of common used terms	
"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)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"CFDA"	China Food and Drug Administration (國家食品藥品監督管理總局)
"WHO"	World Health Organization
"FDA"	Food and Drug Administration
"MES"	Manufacturing Execution System
"LIMS"	Laboratory Information Management System
"GDP"	Gross Domestic Product
"SPD"	Supply Processing and Distribution
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice
"DTP"	Direct to Patient
"DHL China"	Golden Eagle International Freight Forwarding Co., Ltd. (金鷹國際貨運代理有限公司)
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
"Shanghai Shangshi"	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
"Shanghai Pharmaceutical (Group)"	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
"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)
"SPHC"	Shanghai Pharma Health Commerce Co., Ltd. (上海醫藥大健康雲商股份有限公司)



I. CORPORATE INFORMATION

Name of the Company in Chinese	上海醫藥集團股份有限公司
Chinese abbreviation of the name of the Company	上海醫藥
Name of the Company in English	Shanghai Pharmaceuticals Holding Co.,Ltd.
English abbreviation of the name of the Company	Shanghai Pharma
Legal representative of the Company	Mr. Zhou Jun
Authorised representatives of the Company	Mr. Cho Man, Mr. Liu Dawei

II. CONTACT PERSON AND CONTACT DETAILS

	Secretary of the board of directors, Joint Company Secretary	Securities Affairs Representative
Name	Liu Dawei	Ji Yun
Contact address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Telephone	+8621-63730908	+8621-63730908
Facsimile	+8621-63289333	+8621-63289333
E-mail	pharm@sphchina.com	pharm@sphchina.com

III. CHANGES IN BASIC CORPORATE INFORMATION

There was no change in basic corporate information during the Reporting Period.

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 websites by CSRC for publishing interim reports	http://www.sse.com.cn http://www.hkexnews.hk
Place where the Company's interim report is available for inspection	Office of the Board of Directors of the Company, Shanghai Stock Exchange
Search Index for changes during the Reporting Period	During the Reporting Period, there was no change in the place where information is disclosed and available for inspection.

V. 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 Shanghai Pharma	601607	600849
H Shares	Hong Kong Stock Exchange	上海醫藥/ SH PHARMA	02607	Not applicable

VI. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF
THE COMPANY(I) Major Accounting Data Prepared in accordance with the Chinese
Accounting Standards for Business Enterprises

Unit: RMB

Major accounting data	Reporting Period (January to June)	Corresponding period of last year	Change compared to the corresponding period of last year (%)
Operating revenue	65,778,872,978.60	59,695,358,015.82	10.19
Net profit attributable to equity holders of the listed company	1,925,122,363.98	1,732,457,964.21	11.12
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company	1,771,592,035.96	1,601,534,436.02	10.62
Net cash flows from operating activities	1,259,512,127.76	804,859,172.31	56.49

	As at the end of the Reporting Period	As at the end of last year	Change compared to the end of last year (%)
Net assets attributable to equity holders of listed company	32,547,744,481.15	31,622,553,105.97	2.93
Total assets	90,536,767,629.09	82,742,718,053.46	9.42

(II) Major Financial Indicators Prepared in accordance with the
Chinese Accounting Standards for Business Enterprises

Unit: RMB

Major financial indicators	Reporting Period (January to June)	Corresponding period of last year	Change compared to the corresponding period of last year (%)
Basic earnings per share (RMB per share)	0.7159	0.6443	11.12
Diluted earnings per share (RMB per share)	0.7159	0.6443	11.12
Basic earnings per share after deduction of non- recurring profit or loss (RMB per share)	0.6589	0.5956	10.62
Weighted average return on net assets (%)	5.91	5.62	Increased by 0.29 percentage point
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	5.44	5.20	Increased by 0.24 percentage point



(III) Major Accounting Data and Financial Indicators Prepared in accordance with the Hong Kong Financial Reporting Standards

Unit: RMB'000

	As at the end of the Reporting Period	As at the end of last year	Change compared to the end of last year (%)
Total assets	90,536,767	82,742,717	9.42
Equity attributable to equity holders of the parent	32,547,749	31,622,557	2.93
Net assets per share attributable to equity holders of the parent (RMB per share)	12.10	11.76	2.93

	Reporting Period (January to June)	Corresponding period of last year	Change compared to the corresponding period of last year (%)
Profit before income tax	2,754,743	2,581,577	6.71
Net profit attributable to the parent	1,925,124	1,732,458	11.12
Basic and diluted earnings per share (RMB)	0.72	0.64	11.12
Weighted average return on net assets (%)	5.91	5.62	Increased by 0.29 percentage point

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

☒ Applicable ☐ Not applicable

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

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

✓ Applicable ☐ Not applicable

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

VIII. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNT
PREPARED UNDER THE CHINESE ACCOUNTING STANDARDS FOR
BUSINESS ENTERPRISES✓ Applicable ☐ Not applicable

Unit: RMB

Non-recurring Profit and Loss Item	Amount
Profit or loss on disposal of non-current assets	11,705,120.50
Government grants recognized in profit or loss for the current period excluding those closely related to the Company's normal operations and granted on an on-going basis under the national policies according to certain fixed quota of amount or volume	209,896,793.03
Except for the effective hedging activities related to the Company's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	15,564,981.62
Reversal of provision for receivables subject to individual impairment test	48,137,587.73
Other non-operating income and expenses other than the aforesaid items	-99,178,730.40
Other profit or loss items that meet the definition of non-recurring profit or loss	1,389,185.03
Effect on minority interests	3,097,701.91
Effect on income tax	-37,082,311.40
Total	153,530,328.02



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

During the first half of 2017, China's economy maintain an overall stable development, based on which progress and positive results were achieved, the GDP year-on-year growth rate was 6.9%. At the same time, the pharmaceutical industry has also entered a policy-intensive period, the policies such as the new version of the directory of drugs, two-invoice system, quality and efficacy consistency evaluation for generic drug, reform of drug and medical devices approval system and CFDA joined the International Conference on Harmonization (ICH) aiming to structural adjustment and the pharmaceutical and healthcare industry is entering the fast lane of standards development. Improving quality, enhancing fees' control and compliance and encouraging innovation become the key words of the industry.

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.

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. The Company's products 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 domestic 8 provinces and also in abroad, including a specialist Active Pharmaceutical Ingredient (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 which are expected to have sales of over RMB100 million for the whole year. Subordinate manufactories of Shanghai Pharmaceuticals will produce products strictly in accordance with the national GMP standards. It adopts a marketing model combining direct sales and distributor sales, 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, its holding subsidiaries directly covered 22 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 distribution agents. It distributes a variety of products, covering more than 27,000 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-party terminal all over the country through its own logistics, third-party logistics and other channels and benefit from the price difference between the purchase price and selling price.



CHAPTER 3 AN OVERVIEW OF COMPANY BUSINESSES

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 1,855 chained pharmacies in 16 provinces with Shanghai Huashi Pharmacy, a subsidiary of the Company being one of the retailers with the largest number of pharmacies in East China. A subsidiary of the Company, SPHC, 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, co-operating drug stores with medical institutions and DTP pharmacy.

During the Reporting Period, the Company received a number of honors:

- Ranking 2nd among Chinese pharmaceutical enterprises in top 2,000 global enterprises of 2017 issued by Forbes (Chinese Edition);
- Ranking 3rd in top 100 in Chinese pharmacy industry in 2016 issued by Medicine Economic Newspaper;
- Selected in “2017 Chinese Listed Companies Brand Value List • Top 100” elected by China Enterprise Research Center of Tsinghua University, the daily economic news;
- Selected in “2017 Bund • Chinese Brand Innovation Value List Top 100” elected by the College of Management of Fudan University, Shanghai Enterprise Culture and Brand Research Institute; and
- Awarded the “2014-2016 Shanghai Advanced Collective In Counterpart Support And Cooperation” elected by the Shanghai Cooperation Committee of Communist Party of China (CPC), the Shanghai Municipal Peoples Government Cooperation and Exchange Office, Shanghai Municipal Human Resources and Social Security Bureau.



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

✓ Applicable ☐ Not applicable

Unit RMB

Main Assets	Consolidated on 30 June 2017	Consolidated on 31 December 2016	Changes in current amount as compared to last period (%)	Explanation of material changes (over 30%)
Long-term equity investment	4,439,358,306.83	4,227,206,159.43	5.02	/
Fixed assets	5,710,492,139.90	5,252,961,272.94	8.71	/
Intangible assets	2,632,017,089.51	2,750,893,639.94	-4.32	/
Under construction	1,555,763,377.22	1,308,125,663.10	18.93	/
Goodwill	6,317,414,811.55	5,847,987,408.43	8.03	/

Among which, overseas assets amounted to 3,261,512,561.93 (Unit: RMB), the proportion to the total assets is 3.60%.

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

III. CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

✓ Applicable ☐ Not applicable

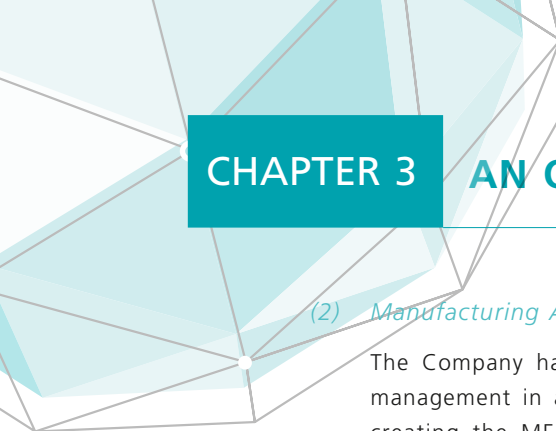
The Company had not experienced significant changes on the core competitiveness during the Reporting Period.

1. Industrial Chain Advantage

With leading position in the industry and commerce, Shanghai Pharmaceuticals's businesses cover 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) Research and Development (R&D) Advantage

Shanghai Pharmaceuticals is committed to innovation as a long-term oriented direction to persist in and provision of safe and effective drugs for critical and chronic diseases. It has put in place a R&D system with the central research institute as 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 PRC 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.



CHAPTER 3 AN OVERVIEW OF COMPANY BUSINESSES

(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 and LIMS 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, European Union and other developed countries.

(3) *Channel Advantage*

The Company has a nationwide commercial network and an efficient, agile, smart and modern supply chain service channel. It has a leading position in the country in such innovative business models as distribution retail service, third-party logistics service, supply chain extension service, drug warehouse information technology 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. Information technology advantage

With an aim of digitalization and following the government’s request on integration of informatization and industrialization, the Company has actively involved in intelligent 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 good 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.



I. DISCUSSION AND ANALYSIS OF THE OVERALL OPERATION

■ Overview

During the Reporting Period, under the leadership of board of directors, the Company implemented all key works in accordance with the operating concept of “Complying with industrial reform, accelerating transformation development and ensuring leading industrial position” set at the beginning of this year, completing the operating objectives for the first half of the year and laying a solid foundation for the full completion of annual objectives.

During the Reporting Period, the Company's operating income was RMB65.779 billion, up by 10.19% on a YOY basis. Net profit attributable to the shareholders of the listed company was RMB1.925 billion, representing an increase of 11.12% on a YOY basis. The operating profit margin after deducting sales and administration costs was 4.02%, representing an increase of 0.06 percentage point on a YOY basis. Earnings per share amounted to RMB0.7159, up by 11.12% on a YOY basis; and basic earnings per share after deducting non-recurring profits and losses were RMB0.6589, up by 10.62% on a YOY basis. During the Reporting Period, the Company's net cash flows from operating activities amounted to RMB1.260 billion, up by 56.49% on a YOY basis. As of 30 June 2017, the owners' equity of the Company was RMB37.847 billion; its owners' equity after deducting minority interest was RMB32.548 billion and its total assets were RMB90.537 billion.

■ The principal businesses and performance-driven of the Company

1. *Pharmaceutical Business*

During the Reporting Period, the Company's sales revenue from the pharmaceutical business was RMB7.503 billion, representing an increase of 17.03% on a YOY basis; its gross profit margin was 52.31%, an increase of 0.57 percentage point on a YOY basis. The operating profit margin after deducting sales and administration costs was 13.50%, representing an increase of 0.37 percentage point on a YOY basis. The total amount of R&D investment of the Company (excluding the investment in the construction of interim test bases of the Company) was RMB373.18 million, accounting for 4.97% of industrial sales income of the Company.

During the Reporting Period, the Company constantly accelerated the innovation and optimization of R&D model, and actively promoted the operation and mechanism adjustment of R&D management center, and achieved a number of milestones for R&D projects. The application of Hydroxy-triptolide tablets and recombinant anti-HER2 humanized monoclonal antibody-MCC-DM1 coupling agent for clinical trials was approved. APIs for cleviprex and emulsion for the injection of cleviprex obtained clinical approvals. The application of improvement of quality for Bifico living bacterium capsules obtained approval. Octreotide acetate injection is applying for clinical approval, etc.. The Company's seven major research and development projects are planned to advance, of which SPH3127 pre-clinical data is better than the same target drugs that has been marketed. Phase I clinical proceeded smoothly, and has completed single ascending dose (SAD) tolerance trial; completed clinical study of phase I of Lei Teng Shu have shown efficacy and safety in patients with rheumatoid arthritis, and clinical applications that are potentially used to suppress chronic immune activation in AIDS clinical trials have also been accepted by CFDA.



CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

During the Reporting Period, the Company strengthened the innovation model of open cooperation, and established Shanghai Institute of Pharmaceutical Microbiology and Shanghai Institute of Probiotics Innovation Drug Research Center (上海醫藥微生物研究所暨上海市益生菌創新藥物研究中心) and entered a cooperation framework agreement with Ruijin Hospital National Clinical Medical Research Center (瑞金醫院國家臨床醫學研究中心) special project for manufacturing of national major new drugs, national key research and development projects and other five national research fund project obtained approvals.

During the Reporting Period, the Company gathered the advantages of resources to push forward the work of quality and efficacy consistency evaluation for generic drugs and species involved in both the number or progress are at the forefront of the country. The Company selected more than 20 pharmaceutical research institutions and 44 products clinical cooperation base to carry out the consistency evaluation, so far has completed the combing and building of all species involved in the scope of consistency evaluation. The first and second batch set up a total of 99 species, 125 varieties and specifications (of which 36 species and 43 varieties and specifications are not included in catalog 289), and 15 products entered into the clinical stage, the product is expected to complete the application in September 2017 at the earliest.

During the Reporting Period, the industrial sales income of the Company increased by 17.03% on a YOY basis, much higher than the same period of last year of 5.34%, which achieved a historical breakthrough, and a number of products achieved an increase that higher than the industry average growth. The increase of industrial sales income was mainly benefit from the implement of key product focus strategy and the improvement of “one product one policy”. The sales revenue of 60 key species was RMB3.958 billion, representing an increase of 12.82% on a YOY basis, sales accounting for 52.76% of industrial proportion, the gross profit margin of key species was 70.16%, representing an increase of 1.13 percentage points on a YOY basis. Among key products, there were 34 species higher than or equal to the growth of same products of IMS Health Holdings. INC. (IMS). It is expected that 26 species of the material species whose annual sales income over RMB billion are key species.

During the Reporting Period, the marketing of the Company adhered to the principal of market-oriented, and achieved remarkable results, the main initiatives are as follows: (1) to establish specialized marketing team by academic marketing-oriented, for example, hydroxychloroquine sulfate tablets are marketed by academic promotion of rheumatism immunization, and through the differentiation analysis of the academic promotion with competing products to establish the core academic promotion point and highlight the clinical core values. In the first half of 2017, sales income was RMB284.46 million, representing an increase of 20.1% on a YOY basis, accounting for 78% of market share (from IMS-health company’s market data, the same as follow), the increase of which over the original research products; Duloxetine Hydrochloride Enteric Tablets and enteric-coated capsules tap the academic value in the treatment of depression, to improve the awareness of the use of specialist drug. In the first half of 2017, it achieved sales income of RMB89.09 million, representing an increase of 23.56% on a YOY basis, the growth of which over the original research products; (2) Strengthening the products sales channels, selecting preferred target dealers, doing good job in daily management and maintenance work, and making out response measures to the market changes, for example, methotrexate tablets, and combined with the changes in policy and environment, to build a network channel structure, while at the same time strengthening the information construction, strengthen the channel inventory and sales team management, the sales revenue of which was RMB70.53 million, representing an increase of 37.29% on a YOY basis in the first half of 2017.



During the reporting period, the Company continued to strengthen the extension of upstream industry chain, strengthen the matching of raw materials with preparations. Improving the construction of a number of Chinese herbal medicine planting bases, establishing Hunan SPH Traditional Chinese Medicine Development Co., Ltd., promoted the extension of Chinese herbal medicine industry chain. Shanghai SPH Tsumura Pharmaceutical Co., Ltd (上海上藥津村製藥科技有限公司), the joint company established by Tsumura & Co. of Japan (日本株式會社津村) and the Company, speed up the construction of the national standard on the decoction variety of the Chinese medicine decoction granules, and the standard study of 150 standard decoction has been completed.

2. *Pharmaceutical Distribution*

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB58.521 billion, representing an increase of 9.64% on a YOY basis, the growth of inventory business is the main driver; with a gross profit margin of 6.06%, representing an increase of 0.04 percentage point on a YOY basis. The costs of sales and administration accounted for 3.32%, representing an increase of 0.09 percentage point on a YOY basis. The operating profit margin after deducting the sales and administration expenses was 2.74%, representing a decrease of 0.05 percentage point on a YOY basis.

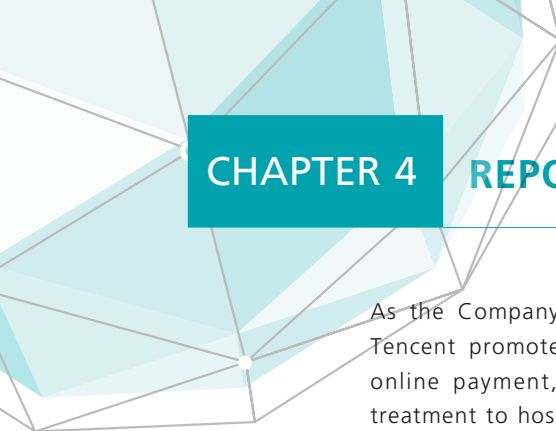
During the Reporting Period, the Company's distribution business was stable, and the nationalization strategy was further advanced. The distribution business covers from 20 provinces to 22 provinces, with the coverage of medical institutions increase to 27,712, of which 1,425 class III hospitals, 727 Centers for Disease Control and Prevention (CDC). Meanwhile, the Company further expanded the hospital supply chain innovation services, with SPD business added 27 contracted hospitals, 162 co-hosted hospital pharmacy and 48 medical institutions co-pharmacy in the first half year. Meanwhile, the Company continued to maintain a reasonable distribution business structure, the hospital accounted for 60.62% of the pure sales. The Company and DHL China reached a strategic cooperation in the expansion of third-party logistics, and collectively develop the pharmaceutical logistics market in China.

During the Reporting Period, the Company has acquired 99.55% of equity interest in Xuzhou Pharmaceutical Co., Ltd. (徐州醫藥股份有限公司) and 52% of equity interest in Xuzhou Huaihai Pharmaceutical Co., Ltd. (徐州淮海藥業有限公司); acquired 31.59% of equity interest in Guangdong Z. S. Y Pharmaceutical Co., Ltd (廣東中山醫藥有限公司) held by Guangzhou Zhongda Industry Group Co., Ltd. (廣州中大產業集團有限公司); by reorganization acquired 51% of equity interest in Wenzhou Times Medicine Co., Ltd. (溫州時代醫藥有限公司).

3. *Pharmaceutical Retail*

During the Reporting Period, the Company's sales revenue from the pharmaceutical retail business was RMB2.714 billion, representing an increase of 9.00% on a YOY basis; its gross profit margin was 16.00%, representing an increase of 0.36 percentage point on a YOY basis. The operating profit margin after deducting sales and administration costs was 1.11%, representing a decrease of 0.35 percentage point on a YOY basis.

As at end of the Reporting Period, the Company had 1,855 chain pharmacies of which 1,200 were direct-sale stores. Meanwhile, the Company actively participated in the reform project of "prescription extension (處方延伸)" in Shanghai community, to propel the grading diagnosis and treatment, which has covered 128 community hospitals and health services center in Shanghai.



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As the Company's prescription retail business development platform, SPHC together with Tencent promote the strategy cooperation of electronic prescription and health insurance online payment, to build a closed-loop ecological chain from WeChat registration and treatment to hospital online payment, and to the supplying of drugs. The coverage of "Yiyao Pharmacy" has been further enlarged, with stores up to 30 and covering 13 provinces; "Yiyao – Electronic Prescription" has successfully docked more than 100 medical institutions and handle over million electronic prescriptions; "Yiyao • Finance" together with AstraZeneca (阿斯利康) launch for the financial staging services of lung cancer targeting innovative drugs Tagrisso (泰瑞沙), to reduce the pressure of payment and treatment effectively for patients and families.

■ Business Plan of the Company in the Second Half of the Year

In the second half of the year, the Company will continue to focus on the work policy set up at the beginning of the year, adhere to the intensive development, innovative development, international development and integration of financial development, to speed up the implement of key works and operating plan.

Specifically, the Company will further optimizes the R&D model and mechanism in respect of research and development, to speed up the collection of research and development resources of Shanghai Pharmaceuticals, focusing on planning to promote the construction of biomedical innovation base, an orderly promotion of a number of research and development cooperation, major national projects and key laboratory construction work. The Company adheres to the diversified mode, combing the independent research and development with external cooperation, and actively speeds up the introduction of new research and development projects, continues to promote the major new drug projects of clinical stage and the consistency evaluation of the quality and efficacy of generic drug.

In industrial marketing, the Company continues to adhere to the strategy of focusing on key products and to strengthen the academic marketing-oriented strategy, professional marketing team and channel management team building, enhance product sales and market share. Besides, in the second half of the year, the Company establishes the manufacturing management center, focusing on promoting the construction of quality factories, workshop, continues to strengthen the quality and safety production management, to complete the milestone goal of the internationalization of the manufacturing base construction and certification.

In terms of distribution, the Company grasps the opportunities of industry consolidation, speed up the implementation of key merger and acquisition (M&A) projects and continue to improve the national network layout.

In the internationalization and capital operation development, the Company will set up a Hong Kong investment management platform, continues to focus on the opportunities of merger and acquisitions of overseas high-quality assets.



(I) Main Business Analysis

1. Analysis on Changes in Relevant items of Financial Statements

Unit: RMB

Item	Amount for the Reporting Period	Amount for the same period of last year	Change (%)	Reasons for changes
Operating income	65,778,872,978.60	59,695,358,015.82	10.19	Increase of sales income during the Reporting Period
Operating costs	57,520,659,569.75	52,483,687,827.24	9.60	Increase of sales scale during the Reporting Period
Taxes and surcharges	196,590,377.01	150,490,406.65	30.63	Increase of taxes expense during the Reporting Period
Sales costs	3,574,277,162.58	3,042,233,283.55	17.49	Increase of sales scale during the Reporting Period
Administration costs	1,848,416,103.81	1,657,150,465.13	11.54	Increase of administration costs resulting from the increase in the scale of operation during the Reporting Period
Finance costs	384,750,034.82	290,961,935.13	32.23	Increase of interest expense during the Reporting Period
Assets impairment loss	41,153,554.29	124,747,521.62	-67.01	Receivables with provision for bad debts are recovered during the Reporting Period
Losses and profit from changes in fair value	-3,547,480.05	-152,968.20	-2,219.10	Decrease from the fair value of financial assets and increase from the fair value of financial liabilities caused by exchange rate fluctuations during the Reporting Period
Other income	9,173,642.31	–	/	Reclassification of government grants in relation to daily operation during the Reporting Period to this item
Non-business income	238,525,490.22	345,927,765.38	-31.05	Decrease of disposal of non-current assets during the Reporting Period
Non-business expense	116,102,307.09	71,983,314.29	61.29	Increase in contingent expenses during the Reporting Period
Net cash flow generated from operating activities	1,259,512,127.76	804,859,172.31	56.49	Increase in collection of receivables during the Reporting Period
Net cash flow generated from investing activities	-1,334,105,067.24	-310,607,849.54	-329.51	Increase of expense for mergers and acquisitions during the Reporting Period
Net cash flow generated from financing activities	2,037,374,650.00	235,273,327.04	765.96	Increased borrowings and reduced debt repayments during the Reporting Period
R&D expenses	373,180,000.00	288,000,000.00	29.58	Increase of the R&D investment during the Reporting Period

(II) *Detailed Explanations on Significant Changes in the Composition of Profits or the Source of Profits of the Company*

During the Reporting Period, the composition of profits or the source of profits of the Company have no significant changes.

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

During the Reporting Period, the non-principal activities of the Company did not lead to significant changes in profits.

(IV) *Analysis on Industry, Product and Regional Operation*

1. *Principal Business by Industry and Product*

Unit: RMB

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	7,502,694,238.88	3,486,586,647.45	53.53	17.03	15.43	+0.64 percentage points
Distribution	58,520,982,896.87	54,881,261,843.65	6.22	9.64	9.56	+0.07 percentage points
Retail	2,714,425,794.70	2,270,826,424.65	16.34	9.00	8.51	+0.38 percentage points
Others	30,527,443.21	11,800,360.64	61.35	14.04	65.51	-12.02 percentage points
Offsetting	-3,231,449,343.38	-3,222,784,149.68	/	/	/	/

Details for description of principal business by industry and product:

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

2. *Principal Business by Region*

Unit: RMB

Region	Principal Business Income	Increase/decrease in operating income YOY(%)
Domestic	64,613,621,028.07	9.38
Overseas	923,560,002.21	135.85



(V) Analysis on Assets, Liabilities and Capital

1. Assets and Liabilities

Unit: RMB

Items	Amount at the end of the Reporting Period	Percentage of amount at the end of the Reporting Period accounted for the total assets (%)	Amount at the end of previous period	Percentage of amount at the end of previous period accounted for the total assets (%)	Percentage change of amount at the end of the Reporting Period compared to that of previous period (%)	Explanations
Financial assets measured at fair value and of which changes are recorded into current profit and loss	2,361,002.28	0.003	4,060,270.54	0.005	-41.85	Decrease from the fair value of financial assets caused by exchange rate fluctuations during the Reporting Period
Dividend receivables	267,083,789.34	0.30	2,606,115.48	0.003	10,148.35	Increase in dividends due from associate company and joint ventures during the Reporting Period
Other receivables	1,244,783,815.02	1.37	949,121,530.40	1.15	31.15	Increase in deposit receivable during the Reporting Period
Development expense	33,745,162.79	0.04	16,218,892.97	0.02	108.06	Increase of capitalized R&D investment during the Reporting Period
Short-term loan	12,584,435,311.79	13.90	9,627,798,513.11	11.64	30.71	Increase on short-term credit borrowings during the Reporting Period
Financial liabilities measured at fair value and of which changes are recorded into current profit and loss	2,642,398.76	0.003	869,871.15	0.001	203.77	Increase in fair value of financial liabilities caused by exchange rate fluctuations during the Reporting Period
Dividend payables	1,082,809,526.99	1.20	65,203,301.48	0.08	1,560.67	Increase in dividend due to shareholders during the Reporting Period
Non-current liabilities due within one year	34,474,799.35	0.04	18,930,860.37	0.02	82.11	Mergers and acquisitions during the Reporting Period
Expected liabilities	36,597,088.41	0.04	6,635,831.30	0.01	451.51	Increase in contingent expenses during the Reporting Period

On 30 June 2017, the capital ratio of the Company (net debt/total capital) was 29.04%.

2. Major Assets Restriction at the end of the Reporting Period

As at 30 June 2017, the Company's properties, buildings, machineries and equipment at book value of RMB415,528,419.24 (original price: RMB574,394,883.51) and land use rights with site area of 11,991,999.72 m² at book value of RMB80,016,315.99 (original price: RMB98,034,654.82) were pledged as collaterals for short-term borrowings of RMB457,506,410.00, long-term borrowings of RMB943,637.93 and long-term borrowings due within one year of RMB11,232,698.81.

As at 30 June 2017, accounts receivables of RMB244,581,928.19 were pledged to the bank to secure the short-term borrowings of RMB155,830,000.00; accounts receivables of RMB47,694,589.47 were pledged to the bank to secure the long-term borrowings of RMB45,309,860.00; bills receivables of RMB7,172,040.00 were pledged to the bank to secure the short-term borrowings of RMB6,900,000.00.

As at 30 June 2017, the Group's restricted monetary fund balance of RMB1,111,262,462.82 was mainly security deposits to apply to the bank to draw a banker's acceptance and a letter of credit.

(VI) Analysis on Investment Conditions

Unit: RMB'0,000

Amount of Investments within Reporting Period	125,451.86
Increase or Decrease in Amount of Investments	55,853.86
Amount of Investment in the Same Period of Prior Year	69,598.00
Percentage of Increase or Decrease in Amount of Investments (%)	80.25

1. Significant Equity Investment

✓Applicable ☐Not applicable

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 period end	Net profit of acquiree from acquisition date to the period end	Whether involved in appeal
Shanghai Pharmaceuticals Holding Xu Zhou Co., Ltd. (上海控股徐州股份有限公司)	1 February 2017	579,480,000.00	Sales of drugs	99.546%		Acquisition from third party	Own fund	Third parties	1 February 2017	Controlled the financial and operating policies of the acquiree, and enjoyed the variable return through the participation in the related activities of the investees, and had the ability to use the powers of the investees to affect the return amount.	801,727,029.16	10,750,324.88	No



2. Significant Non-equity Investments

☐ Applicable ☒ Not applicable

3. Financial Assets Measured at Fair Value

☒ Applicable ☐ Not applicable

Unit: RMB

Stock Code	Stock Abbreviated Name	Initial Investment Cost	Ending Carrying Amount	Profit or loss during the Reporting Period	Change in Owners' Equity during the Reporting Period	Change in Fair Value	Source of Capital	Purchase or Sales during the Reporting Period
600618	Shanghai Chlor-Alkali Chemical	186,500.00	542,757.60	-198,706.20	/	-198,706.20	Own fund	No
600377	JIANGSHU EXPRESSWAY	1,000,000.00	9,800,000.00	/	1,250,000.00	1,250,000.00	Own fund	No
600329	ZHONGXIN PHARMACEUTICALS	91,473.00	1,656,557.92	/	61,286.24	61,286.24	Debt Expiation	No
000931	ZHONGGUANCUN	99,300.00	202,860.00	/	-10,584.00	-10,584.00	Own fund	No
600675	CHINA ENTERPRISE	390,000.00	5,360,191.86	/	330,584.52	330,584.52	Own fund	No
601328	BANK OF COMMUNICATIONS	4,720,101.05	3,532,550.56	155,696.02	223,651.74	223,651.74	Own fund	No
000048	Shenzhen Kcondarl	134,547.00	4,001,792.73	/	-1,739,712.39	-1,739,712.39	Merger	No
000166	Shenwan Hongyuan	1,250,000.00	13,305,600.00	237,600.00	-1,544,400.00	-1,544,400.00	Transformation	No
601881	China Galaxy	50,000,000.00	118,600,000.00	1,550,000.00	56,074,450.00	56,074,450.00	Transformation	No
00455(HK)	Tianda Pharma	87,851,852.85	85,213,430.05	/	-25,192,735.78	-25,192,735.78	Own fund	No
	forward foreign exchange contracts	/	1,818,244.68	-1,420,655.58	-78,517.13	-1,499,172.71	/	Yes
Total		145,723,773.90	244,033,985.40	323,934.24	29,374,023.20	27,754,661.42	/	

(VII) Sales of Major Assets and Equities

☐ Applicable ☒ Not applicable

CHAPTER 4

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(VIII) 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%	500,000.00	4,094,725.89	910,224.92	4,120,733.93	69,023.96
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100%	130,000.00	1,699,578.91	399,077.19	1,410,950.90	23,900.11
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100%	119,161.13	331,429.28	200,789.43	177,219.70	14,944.68
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	22,500.00	195,588.41	146,993.13	50,480.54	11,893.12
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	105,242.91	181,582.98	114,819.30	103,335.77	3,825.06
Shanghai TCM Co., Ltd.	Production and sales of drugs	100%	64,847.00	498,909.99	219,845.04	261,617.57	19,969.76
SPH Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75%	12,850.00	147,591.28	128,701.69	65,236.55	8,725.18
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	7,879.03	379,321.17	170,240.22	305,503.10	8,363.86
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	54,580.00	265,800.41	209,936.11	47,327.46	24,330.24
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	9,300.00	93,895.56	57,688.08	54,440.71	2,293.14
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	13,500.00	64,028.52	46,478.07	22,139.99	1,448.22
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	8,403.00	38,357.61	30,783.93	17,975.84	2,989.49
Liaoning Herpex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	5,100.00	70,598.55	38,804.38	26,340.44	1,681.26
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	9,364.18	50,808.71	30,033.85	19,683.23	11,018.91
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	10,139.00	21,962.07	13,902.86	10,359.11	-73.30
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	12,700.00	58,088.38	37,029.52	13,713.20	-562.69
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	90.25%	14,132.19	45,974.03	37,388.84	11,769.42	3,030.21
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	5,000.00	45,768.07	16,601.81	46,803.40	4,944.77
Zeus Investment Limited	Production and sales of health care products	59.61%	AUD31,897.02	RMB217,361.46	RMB164,978.58	RMB46,301.85	RMB535.89

(IX) The Structural Entity controlled by the Company

□Applicable ✓Not applicable



II. OTHER DISCLOSURES

(I) Warning in respect of the forecast of a probable loss or a significant change as compared with that of the corresponding period of previous year in the accumulated net profit from the beginning of the year to the end of the next reporting period and its reasons

☐ Applicable ☒ Not applicable

(II) Possible Risks

☒ Applicable ☐ Not applicable

1. Industrial Policy Risk: With the deepening of medical system reform and the issuance of a number of industrial policies and laws in respect of 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 value added tax (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 bulk 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 manufacturing safety, compliance and environmental governance;
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.

Countermeasures:

In response to the said risks, the Company's management will keep an eye on the policy changes, strengthen the interpretation and the 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.

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

(III) Discloseable Events Required by the Hong Kong Listing Rules

✓Applicable □Not applicable

1. Liquidity and financial resources of the Company

During the Reporting Period, the Company had sound liquidity and financial resources. As at 30 June 2017, the bank deposits, cash and cash equivalents of the Company was totally RMB14,034 million, of which the USD represented 256 million, the RMB represented 13,716 million, the HKD represented 8 million, the AUD represented 35 million and the other foreign capital represented 19 million. As at 30 June 2017, the balance of the Company's bank borrowings was RMB13,492 million, and the balance of the bonds payable by the Company was RMB1,999 million, of which the balance of USD denominated borrowings was equivalent to RMB0 million, the balance of HKD denominated borrowings was equivalent to RMB0 million, the balance of NZ\$ denominated borrowings was equivalent to RMB235 million and the balance of the borrowings and bonds payable at a fixed interest rate was about RMB11,554 million. As at 30 June 2017, the Company had net accounts receivable and notes receivable of RMB32.680 billion (31 December 2016: RMB28.879 billion), representing an increase of 13.16% on a YOY basis. The increase was mainly attributable to the expansion of scale of the operations and the increase in the scope of consolidation. As at 30 June 2017, the balance of the Company's accounts payable and notes payable was RMB28.435 billion (31 December 2016: RMB25.985 billion), representing an increase of 9.43% as compared with last year. The increase was mainly attributable to the expansion of scale of the operations and the increase in the scope of consolidation.

2. Contingent liabilities

During the Reporting Period, the Company did not have material pending litigations and arbitrations. The contingent liabilities arising from debt guarantees provided for third parties and guarantees provided for connected parties by the Company and their financial impacts are as follows:

Guarantor	Guarantee	Value of guarantee (RMB in thousand)	Commencement date of guarantee	Expiry date of guarantee
Shanghai Pharma Co., Ltd	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd	1,318.64	17 January 2017	17 July 2017
Shanghai Pharma Co., Ltd	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd	493.08	23 February 2017	23 August 2017
Shanghai Pharma Co., Ltd	Shanghai Luoda Pharmaceutical Co., Ltd.	6,500.00	21 December 2016	1 December 2017
Shanghai Pharma Zhenjiang Co., Ltd.	Danyang City Yunyang People's Hospital	30,000.00	14 August 2015	14 August 2018
Shanghai Pharmaceuticals Holding Xu Zhou Co., Ltd. (上藥控股徐州股份有限公司)	Nanjing Sample Digital Technology Co., Ltd.	15,000.00	26 October 2016	3 July 2017

The above guarantees do not have any material financial impact on the Company.



3. *Risk in foreign exchange rate fluctuation and any relevant hedging*

The principal businesses of the Company are conducted in the PRC, and the settlement of the principal businesses is denominated in RMB. However, there are foreign exchange risks associated with assets and liabilities denominated in foreign currencies already recognized by the Company as well as foreign currencies-denominated transactions in the future (mainly denominated in USD and HKD).

4. *Employees, Remuneration Policy and Training Scheme*

As of 30 June 2017, Shanghai Pharmaceuticals had a total of 41,187 employees, including 840 R&D personnel.

The Company puts much emphasis on the recruitment, incentive, and training of talents, improves its career development system for various types of employees and improves the capabilities of its staff through various plans. In addition to the leadership program for managers at the management at all levels, the Company also offers professional technical courses and occupational skill trainings to R&D, sales and production staff to cater for the industry changes and the Company's business development, as part of its commitment to continuously improving employees' capabilities and organization performance.

In accordance with the applicable laws of the PRC, the Company has entered into a labor contract with each employee and the contract includes provisions in relation to contract term, compensation, working hours, break and vacation, employee benefits, social insurance, health and safety, confidentiality obligations and termination, etc. The Company adheres to the position, ability, performance, market oriented remuneration pay concept and concerns about the internal fairness and external competitiveness of the remuneration and incentive and the salary of its staff comprises basic salary, subsidy and bonus. It established a staff income growth mechanism through a collective wage negotiation system. The Company established pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance for its employees. Contributions to the aforesaid social welfare schemes are made in strict compliance with the national, provincial and municipal requirements of the PRC. The Company also established an employee housing fund in accordance with the applicable regulations of the PRC. The Company continues to improve its system for employee benefits, and gradually establishes a supplementary provident fund, enterprise annuity, supplementary medical insurance and other welfare projects for enterprises that conditions allowed.

CHAPTER 5 SIGNIFICANT EVENTS

I. GENERAL MEETING

Session	Date of convening	Websites designated for information disclosure of resolutions	Date of information disclosure of resolutions
2016 Annual General Meeting	23 June 2017	The Company disclosed the Company's announcement Lin No. 2017-030 on 24 June 2017 on the Shanghai Stock Exchange (http://www.sse.com.cn/).	24 June 2017

II. PLAN FOR PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL

(I) Profit Distribution Proposal, Proposal for the Conversion of Capital Reserve Fund into Share Capital for the Half Year

Profit distribution or conversion of capital reserve fund into share capital	No
Bonus share for every 10 Shares (shares)	N/A
Dividend for every 10 Shares (Yuan) (tax inclusive)	N/A
Conversion into share capital for every 10 Shares (shares)	N/A
Explanation on profit distribution proposal or proposal for the conversion of capital reserve fund into share capital	N/A

III. FULFILMENT STATUS OF COMMITMENTS

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

☐ Applicable ☒ Not applicable

As of the end of the Reporting period, there is no commitment to overdue fulfill by de facto controller, shareholders, related parties, acquirers and the company and other commitments related parties. For further details, please refer to Shanghai Pharmaceutical under the Announcement on changes of the internal staff shares and employee holdings (Lin 2017-12) and the Announcement of Resolutions of Shareholders' General Meeting of Shanghai Pharmaceutical in 2016 (Lin 2017-030).



IV. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

Appointment and dismissal of accounting firms

☐ Applicable ✓ Not applicable

Statement of the change in accounting firms during the auditing period

☐ Applicable ✓ Not applicable

Statement of the Company on the “Non – Standard Audit Report” prepared by the accounting firms

☐ Applicable ✓ Not applicable

Statement of the Company’s financial report in the annual report of the previous year which was issued “non-standard audit report” by the certified public accountant

☐ Applicable ✓ Not applicable

V. ISSUES RELEVANT TO INSOLVENCY AND RESTRUCTURING

☐ Applicable ✓ Not applicable

VI. MATERIAL LITIGATIONS AND ARBITRATIONS

☐ Material litigations and arbitrations occurred during the Reporting Period

✓ No material litigations and arbitrations occurred during the Reporting Period

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

☐ Applicable ✓ Not applicable

VIII. 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, there has been no refusal to implement effective judgments of a court or failure to meet debt repayment schedules in a relatively large amount by the Company and its controlling shareholders, de facto controller.

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

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

☐ Applicable ✓ Not applicable

CHAPTER 5 SIGNIFICANT EVENTS

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

Equity incentives

☐ Applicable ☒ Not applicable

Employee share schemes

☐ Applicable ☒ Not applicable

Other incentive schemes

☐ Applicable ☒ Not applicable

X. SIGNIFICANT CONNECTED TRANSACTIONS

(I) Connected transactions relating to daily operations

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

☒ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Daily Connected Transactions in 2017, the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of the 5th Meeting of the Sixth Session of the Board of Directors, the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Amendment of the Agreement about the Daily Connected Transactions/Continuing Connected Transactions of leasing of properties and production equipment and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of the 6th Meeting of the Sixth Session of the Board of Directors	Please refer to the Company's announcements Lin No. 2017-008 and Lin No. 2017-006 disclosed by the Company on 22 March 2017 and Lin No. 2017-020 and Lin No. 2017-019 disclosed by the Company on 28 April 2017 for details.
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Renewal of the Financial Services Agreement and Related/Connected Transactions with Shangshi Group Finance Co., Ltd. and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of General Meeting for 2015	Please refer to the Company's announcements Lin No. 2016-010 and Lin No. 2016-043 disclosed by the Company on 4 February 2016 and 29 June 2016, for details.
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Rectification the Excess Portion of Daily Connected/Continuing Connected Transactions for 2016 with Jiangxi Nanhua Medicines and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of the 5th Meeting of the Sixth Session of the Board of Directors	Please refer to the Company's announcements Lin No. 2017-009 and Lin No. 2017-006 disclosed by the Company on 22 March 2017 for details.
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding capital increase in Shangshi Commercial Factoring Co., Ltd. and signing of the Commercial Factoring Services Framework Agreement and Related/Connected Transactions with Shangshi Commercial Factoring Co., Ltd. and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of the 7th Meeting of the Sixth Session of the Board of Directors	Please refer to the Company's announcements Lin No. 2017-028 and Lin No. 2017-029 disclosed by the Company on 16 June 2017 for details.



2. Events disclosed in the temporary announcements with subsequent development or changes during implementation

✓ Applicable □ Not applicable

Unit: RMB'0,000

Connected party	Connected relationship	Type of the connected transaction	Particulars of the connected transaction	Pricing principle of the connected transaction	Amount of the connected transaction	Proportion in the amount of transactions of the same type (%)	Settlement method of the connected transaction	Market price	Reason for the difference between trading price and market price
Shanghai Indu-Land Real Estate Management Co., Ltd.	Wholly-owned subsidiary of the parent company	Offering labor resources to the connected person	Offering labor resources to the connected person	Negotiated based on the market price	210.87	70.87%	cash	210.87	Not applicable
Shanghai Pharmaceutical (Group) Co., Ltd.	Parent Company	Leasing housing, equipment to the connected person and accepting property services	Leasing of property	Negotiated based on the market price	1,083.53	51.56%	cash	1,083.53	Not applicable
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Leasing housing, equipment to the connected person and accepting property services	Leasing of property and equipment	Negotiated based on the market price	756.16	35.98%	cash	756.16	Not applicable
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Offering labor resources to the connected person	Offering labor resources to the connected person	Negotiated based on the market price	86.69	29.13%	cash	86.69	Not applicable
Shanghai Indu-Land Real Estate Management Co., Ltd.	Wholly-owned subsidiary of the parent company	Leasing housing, equipment to the connected person and accepting property services	Property leasing and property service, ect.	Negotiated based on the market price	261.91	12.46%	cash	261.91	Not applicable
Shanghai Property Auction Co., Ltd. (上海產權拍賣有限公司)	Subsidiary of Controlling Shareholder	Accepting the labor resources provided by the connected person	Accepting the labor resources provided by the connected person	Negotiated based on the market price	0.55	100%	cash	0.55	Not applicable
Shanghai Shangshi Group Finance Co., Ltd.	Subsidiary of Controlling Shareholder	Loans in connected finance companies	Loan and settlement and other financial services	Negotiated based on the market price	134,083.11	100%	cash	134,083.11	Not applicable
Shanghai Shangshi Group Finance Co., Ltd.	Subsidiary of Controlling Shareholder	Deposits in connected finance companies	Deposits services (daily maximum)	Negotiated based on the market price	198,351.00	100%	cash	198,351.00	Not applicable
Jiangxi Nanhua Medicines Co., Ltd.	The principal shareholder of a subsidiary	Selling of products and commodities to the connected person	Sales of products	Negotiated based on the market price	105,696.50	100%	cash	105,696.50	Not applicable

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3. *Events not disclosed in the temporary announcements*

☐ Applicable ☒ Not applicable

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

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

3. *Events not disclosed in the temporary 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 the temporary announcements without subsequent development or changes during implementation*

☒ Applicable ☐ Not applicable

Overview of Events	Search Index
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding capital increase in Shangshi Commercial Factoring Co., Ltd. and signing of the Commercial Factoring Services Framework Agreement and Related/Connected Transactions with Shangshi Commercial Factoring Co., Ltd. and the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. on Resolutions of the 7th Meeting of the Sixth Session of the Board of Directors	Please refer to the Company's announcement Lin No. 2017-028 and Lin No. 2017-029 disclosed by the Company on 16 June 2017 for details

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

☐ Applicable ☒ Not applicable

3. *Events not disclosed in the temporary announcements*

☐ Applicable ☒ Not applicable



(IV) Credits and liabilities with related parties

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

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

3. *Events not disclosed in the temporary announcements*

☐ Applicable ✓ Not applicable

(V) Other Significant connected transactions

☐ Applicable ✓ Not applicable

XI. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

1 Trusteeship, contracting and leasing

☐ Applicable ✓ Not applicable

CHAPTER 5 SIGNIFICANT EVENTS

2 Guarantees

✓ Applicable □ Not applicable

Unit: RMB

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	8,500,000.00		2016/8/29	2017/05/23	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	6,500,000.00		2016/12/21	2017/12/01	Joint and several liability guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	987,091.47		2016/11/24	2017/05/24	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	840,383.02		2016/11/24	2017/02/24	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	4,659,531.12		2016/12/15	2017/03/15	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	941,646.39		206/12/15	2017/06/15	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	207,537.68		2016/12/21	2017/03/21	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	1,318,640.09		2017/01/17	2017/07/17	Joint and several liability guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	634,521.28		2017/01/17	2017/04/17	Joint and several liability guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	493,083.92		2017/02/23	2017/08/23	Joint and several liability guarantee	No	No		No	No	Associate
Shanghai Pharma Zhenjiang Co., Ltd.	Holding subsidiary	Danyang City Yunyang People's Hospital	30,000,000.00		2015/08/14	2018/08/14	Joint and several liability guarantee	No	No		No	No	Other
Shanghai Pharmaceuticals Holding Xu Zhou Co., Ltd. (上海控股徐州股份有限公司)	Holding subsidiary	Nanjing Sample Digital Technology Co., Ltd.	15,000,000.00		2016/10/26	2017/07/03	Joint and several liability guarantee	No	No		No	No	Other
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													2,446,245.29
Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)													38,543,624.01
Guarantees provided by the Company to its subsidiaries													
Total value guaranteed for its subsidiaries during the Reporting Period													0
Total balance guaranteed for its subsidiaries at the end of the Reporting Period (B)													550,000,000.00
Total value guaranteed by the Company (including those provided to its subsidiaries)													
Total value guaranteed (A+B)													588,543,624.01
Percentage of total value guaranteed in the Company's net assets (%)													1.81
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)													6,500,000.00
Amount of total value guaranteed exceeding 50% of net assets (E)													
Total of value guaranteed for the above three items (C+D+E)													6,500,000.00
Details of possible joint and several settlement liabilities for undue guarantee													
Details of guarantee							The above guarantees are within the scope of normal operating activities of the Group and are reviewed and approved at the annual general meeting of 2016. Please refer to Company's announcement Lin No.2017-030 disclosed by the Company on 24 June 2017 for details.						



3 Other material contracts

During the Reporting Period, the Company has no other significant contracts or transactions.

XII. POVERTY ALLEVIATION MEASURES OF THE LISTED COMPANY

☐ Applicable ☒ Not applicable

XIII. CONVERTIBLE CORPORATE BONDS

☐ Applicable ☒ Not applicable

XIV. DESCRIPTION OF THE ENVIRONMENTAL PROTECTION WORK PERFORMED BY THE COMPANY AND ITS SUBSIDIARIES WHICH ARE KEY ENTITIES FOR SEWAGE AS ANNOUNCED BY THE NATIONAL ENVIRONMENTAL PROTECTION AUTHORITIES

☒ Applicable ☐ Not applicable

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Name of key pollutant-discharging units	Name of key pollutants	Discharge Mode	Discharge Condition	Discharge Concentration And total Amount	Excessive Discharge	Implemented Standards for Discharge of Pollutants	Approved Total amount of discharge	Construction and operation of pollution prevention & treatment facilities
Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	COD	Continuous	Main outlet	229mg/L; 11.8 tones (January - June)	None	Standard 8 under the Wastewater Quality Standards for Discharge to Municipal Sewers (GB/T31962-2015).	The environmental protection department has not yet checked the total discharge amount of pollutant in 2017	To meet the requirement of environmental protection, established a biochemical sewage treatment station with daily treatment of 750 tones, and discharged the treated sewage into Huangdao Lianwan River Water Purification Plant for further treatment. The biochemical sewage treatment station was running normally in the first half of 2017.
	Ammonia nitrogen			4.11mg/L; 0.21tones (January - June)	None			
	Particulate matter	Interval	Waste discharge drum in the workshop	About 7.98mg/m ³ ; 0.51 tones on average (January - June)	None	Grade II standard under the Integrated Emission Standard of Air Pollutants GB16297-1996 (Table 2).		To meet the requirement of environmental protection, installed 23 sets of dust-removing equipment to deal with the particulate matters generated by the workshop – the linkage between dust-removing equipment and production equipment. The dust-removing equipment was running normally in the first half of 2017
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	COD	Continuous	Main Outlet	719 mg/L; 55 tones (January - June)	None	Takeover standards of Hangzhou Yuhang Water Co., Ltd.'s sewage treatment plant in development zone.	10.71 tones	To meet the requirement of environmental protection, established a sewage pretreatment pool with capacity of 1,000 cubic meters, and discharged, after pretreatment, the waste water generated in the production into Hangzhou Yuhang Water Co., Ltd.'s sewage treatment plant in development zone for further treatment. The pretreatment facility was running normally in the first half of 2017.
	Ammonia nitrogen			11.4 mg/L; 0.87 tones (January - June)	None		0.60 tones	
Changzhou Pharmaceutical Factory Co., Ltd.	COD	Continuous	Main outlet	120 mg/L; 4.40 tones (January - June)	None	Takeover standards of Changzhou southeast industrial sewage treatment plant.	30.02 tones	To meet the requirement of environmental protection, established a biochemical sewage treatment station with daily treatment of 1,500 tones, and discharged the treated sewage into Changzhou southeast industrial sewage treatment plant for further treatment. The biochemical sewage treatment station was running normally in the first half of 2017.
	Ammonia nitrogen			8.93mg/L; 0.44 tones (January - June)	None		3.00 tones	
	Particulate matter	Interval	Waste discharge drum in the workshop	17.0mg/m ³ ; 0.032 tones (January - June)	None	Grade II standard under the Integrated Emission Standard of Air Pollutants GB16297-1996 (Table 2).	3.162 tones	Three sets of bag dust-removal appliances were installed in interparticles and the coating room, for the disposal of dust emissions from the workshop. The exhaust vent is 15 meters in height. The current speed of centrifugal ventilation is 6000 (m ³ /h). The treatment facilities operated normally in the first half of 2017.



XV. STATEMENTS ABOUT OTHER SIGNIFICANT EVENTS

(I) Situations, causes and effects of the changes incurred on accounting policies, estimates and methods, as compared with the previous accounting period

☐ Applicable ☒ Not applicable

(II) Situations, corrected amount, causes and the effects of significant accounting errors incurred during the Reporting Period whose corrections needed retrospective restatement

☐ Applicable ☒ Not applicable

(III) Others

☒ Applicable ☐ Not applicable

1. *Progress on the litigation matters of Pien Tze Huang*

- (1) Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd. (hereinafter referred to as "Pien Tze Huang") sued Xiamen Traditional Chinese Medicine Co., Ltd. (hereinafter referred to as "Xiamen Traditional Chinese Medicine"), Xiamen Evening News Media Development Co., Ltd. and Xiamen Daily at Zhangzhou Municipal Intermediate People's Court (hereinafter referred to as "Zhangzhou Intermediate Court") for unfair competition. Xiamen Traditional Chinese Medicine filed an application for objection to jurisdiction to Zhangzhou Intermediate Court on 13 March 2014. On 4 April 2014, Xiamen Traditional Chinese Medicine received Civil Judgment (2014) Zhang Min Chu Zi No. 35-3, in which Zhangzhou Intermediate Court rejected the objection to the case's jurisdiction by Xiamen Traditional Chinese Medicine at first instance. On 13 April 2014, Xiamen Traditional Chinese Medicine appealed to Fujian Provincial Higher People's Court (hereinafter referred to as "Fujian Higher Court") for objection to jurisdiction. On 23 June 2014, Fujian Higher Court issued Civil Judgment (2014) Min Min Zhong Zi No. 660 to revoke Civil Judgment (2014) Zhang Min Chu Zi No. 35-3 issued by Zhangzhou Intermediate Court at final instance and transferred the case to the jurisdiction of Xiamen Municipal Intermediate People's Court (hereinafter referred to as "Xiamen Intermediate Court"). On 18 August 2014, Xiamen Traditional Chinese Medicine received Notice from Xiamen Municipal Intermediate People's Court, Fujian Province (2014) Xia Min Chu Zi No. 937. It was noted that Fujian Higher Court further transferred the case to the jurisdiction of Fuzhou Municipal Intermediate People's Court (hereinafter referred to as "Fuzhou Intermediate Court"). On 22 October 2014, Xiamen Traditional Chinese Medicine received notice from Fuzhou Intermediate Court that the time period for producing evidence on the case was extended to 7 November 2014. On 5 December 2014, Xiamen Traditional Chinese Medicine received Notice on Members of Collegial Panel from Fuzhou Intermediate Court and the Statement of Claim submitted by Pien Tze Huang. Pien Tze Huang made some amendments to the original statement of claim. On 19 December 2014, Xiamen Traditional Chinese Medicine filed an objection to the jurisdiction of Fuzhou Intermediate Court for the reason that the amended claims of the plaintiff were beyond its scope of jurisdiction. According to the Civil Judgment (2014) Rong Min Chu Zi No. 1431-1 received by Xiamen Traditional Chinese Medicine on 9 January 2015, its objection to the

CHAPTER 5 SIGNIFICANT EVENTS

jurisdiction was rejected by the Fuzhou Intermediate Court at the first instance. On 19 January 2015, Xiamen Traditional Chinese Medicine further submitted its appeal for objection to the jurisdiction to the Fujian Higher Court. On 4 March 2015, the Civil Judgment (2015) Min Min Zhong Zi No. 446 was issued by the Fujian Higher Court as a final verdict, which repealed the aforesaid appeal and affirmed that the lawsuit shall be governed by the Fuzhou Intermediate Court. On 8 May 2015, Fuzhou Intermediate Court convened pretrial conference against the case. On 3 August 2015, Fuzhou Intermediate Court convened pretrial conference against the case again. On 31 August 2015, Fuzhou Intermediate Court convened the third pretrial conference against the case. The case was separately judged by Fuzhou Intermediate Court on 22 December 2015 and 5 January 2016. On 20 March 2017, Xiamen Traditional Chinese Medicine received the Judgment (2014) Rong Min Chu Zi No. 1431 from Fuzhou Intermediate Court, which supported part of litigation request of Pien Tze Huang. On 1 April 2017, Xiamen Traditional Chinese Medicine filed an appeal to the Fujian Higher Court during the appeal period.

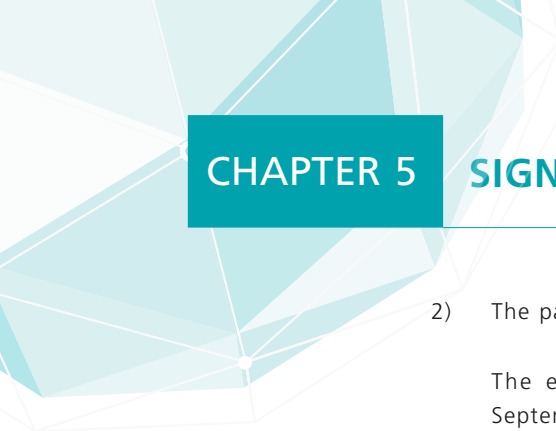
- (2) On 18 June 2014, Xiamen Traditional Chinese Medicine applied to Trademark Bureau of State Administration for Industry and Commerce of the People's Republic of China (referred to as "Trademark Bureau of State Administration for Industry and Commerce") for registering trademarks of "Pill of Eight Treasures Pien Tze Huang" ("八寶丹片仔癀") (Application No: 11683990) and "Pien Tze Huang Pill of Eight Treasures" ("片仔癀八寶丹") (Application No: 11683929) on items under the fifth category of "traditional Chinese medicine" on 1 November 2012 in respect of Pien Tze Huang, asking for the rejection of registering these two contentious trademarks according to relevant regulations. On 30 October 2015, Trademark Bureau of State Administration for Industry and Commerce made decisions that trademarks were not allowed to register, including trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683990 [(2015) Shang Biao Yi Zi No.0000052574] and trademark of "Pien Tze Huang Pill of Eight Treasures" No.11683929 [(2015) Shang Biao Yi Zi No.0000052569], and the registration of the two trademarks of Pien Tze Huang was rejected. On 21 March 2016, Xiamen Traditional Chinese Medicine received the review application for the above decision of non-registration submitted by Pien Tze Huang, which was sent by the Trademark Appraisal Committee of the State Administration for Industry and Commerce. On 18 April 2016, Xiamen Traditional Chinese Medicine submitted the defense materials in relation to review of decision of non-registration against Pien Tze Huang to the Trademark Appraisal Committee of the State Administration for Industry and Commerce. On 3 March 2017, the Trademark Appraisal Committee of the Trademark Bureau of State Administration for Industry and Commerce made the review decision that trademarks were not allowed to register, including trademark of "Pill of Eight Treasures Pien Tze Huang" No.11683990 [(2017) Shang Ping Zi No.0000018006] and trademark of "Pien Tze Huang Pill of Eight Treasures" No.11683929 [(2017) Shang Ping Zi No. 0000018011], and the registration of the two trademarks of Pien Tze Huang was rejected. On 18 April 2017, Pien Tze Huang filed an administrative lawsuit to Beijing Intellectual Property Court, asking for the cancellation of the review decision of non-registration, and Xiamen Traditional Chinese Medicine took part in the litigation as the third party of the case.



- (3) On 17 August 2015, Xiamen Traditional Chinese Medicine filed with Fuzhou Intermediate Court to claim against Pien Tze Huang, Railway Station Pharmacy of Fuzhou Huichun Medicine Chain Co., Ltd. (referred to as “Huichun Medicine Railway Station Pharmacy”), Fuzhou Huichun Medicine Chain Co., Ltd. (referred to as “Huichun Medicine”) for unfair competition, demanding to issue an order to Pien Tze Huang to stop infringing false propaganda on “Babaodan” series products of Xiamen Traditional Chinese Medicine; compensate economic loss and reasonable rights fee totaling RMB2.997 million to Xiamen Traditional Chinese Medicine; to issue a public statement on provincial press and its official website for consecutive six months clarifying the facts and eliminating adverse effects to Xiamen Traditional Chinese Medicine arising from its false propaganda; to issue an order to Huichun Medicine Railway Station Pharmacy and Huichun Medicine to jointly compensate Xiamen Traditional Chinese Medicine an economic loss of RMB3,000; and to issue an order to the three defendants to jointly assume all the legal costs to the case. Fuzhou Intermediate Court accepted the case with case (2015) Rong Min Chu Zi No.1518 on that day. Pien Tze Huang submitted its objection to the jurisdiction to the Fuzhou Intermediate Court, claiming Fuzhou Intermediate Court was beyond its scope of jurisdiction and asking for transfer the case to Zhangzhou 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 satisfied with 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 Fuzhou Intermediate Court’s Civil Judgment and transferred the litigation involving Pien Tze Huang in the case to the jurisdiction of Zhangzhou Intermediate Court, and the litigations involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy were still under trial by Fuzhou Intermediate Court. The details are as follows:

1) The part heard by Fuzhou Intermediate Court

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



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2) The part heard by Zhangzhou Intermediate Court

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



I. CHANGES IN SHARE CAPITAL

(I) Table of changes in share capital

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

(II) Changes in trade-restricted Shares

☐ Applicable ☒ Not applicable

II. INFORMATION ABOUT SHAREHOLDERS

(I) Aggregate number of shareholders:

Aggregate number of ordinary Shareholders as at the end of the Reporting Period	59,508
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Note: Among the 59,508 shareholders as at the end of the Reporting Period, 57,255 were A Share Shareholders and 2,253 were H Share Shareholders.

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

Unit: Share

Shareholdings of top ten shareholders							
Name of shareholder (in full)	Increase/decrease during the Reporting Period	Number of shares held at the end of the Reporting Period	Shareholding (%)	Number of trade restricted Shares held	Pledged or frozen		Nature of shareholders
					Status	Number	
HKSCC NOMINEES LIMITED	-1,336,800	746,815,620	27.77%	0	Unknown		Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	26.65%	0	Unknown		State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	0	238,586,198	8.87%	0	Unknown		State-owned legal person and foreign shareholders
China Securities Finance Corporation Limited	13,205,803	79,737,295	2.97%	0	Unknown		Unknown
Shanghai Guosheng and Shanghai Shengrui	0	37,212,947	1.38%	0	Unknown		State-owned legal person
Central Huijin Investment Ltd.	0	24,891,300	0.93%	0	Unknown		Unknown
Shenergy Group	0	23,199,520	0.86%	0	Unknown		State-owned legal person
NSSF 604 Combination	-12,652,410	14,163,000	0.53%	0	Unknown		Unknown
China Life Insurance Company Limited – Bonus – Individual Bonus – 005L – FH002 Hu	1,711,072	13,823,077	0.51%	0	Unknown		Unknown
Industrial and Commercial Bank of China Limited-CSI Shanghai State-owned Exchange Traded Index-based Investment Fund	-1,991,731	13,685,637	0.51%	0	Unknown		Unknown

CHAPTER 6

CHANGES IN ORDINARY SHARE 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	746,815,620	Overseas listed foreign shares	746,815,620
Shanghai Pharmaceutical (Group)	716,516,039	RMB ordinary shares	716,516,039
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	238,586,198	RMB ordinary shares	222,301,798
		Overseas listed foreign shares	16,284,400
China Securities Finance Corporation Limited	79,737,295	RMB ordinary shares	79,737,295
Shanghai Guosheng and Shanghai Shengrui	37,212,947	RMB ordinary shares	35,828,447
		Overseas listed foreign shares	1,384,500
Central Huijin Investment Ltd.	24,891,300	RMB ordinary shares	24,891,300
Shenergy Group	23,199,520	RMB ordinary shares	23,199,520
NSSF 604 Combination	14,163,000	RMB ordinary shares	14,163,000
China Life Insurance Company Limited – Bonus – Individual Bonus – 005L – FH002 Hu	13,823,077	RMB ordinary shares	13,823,077
Industrial and Commercial Bank of China Limited-CSI Shanghai State-owned Exchange Traded Index-based Investment Fund	13,685,637	RMB ordinary shares	13,685,637
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	/		

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

✓ Applicable ☐ Not applicable

Unit: Share

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



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 and 1,384,500 H Shares held by Shanghai Guosheng through Southbound Trading. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

(III) Strategic investors or general corporate becoming top 10 shareholders because of new share placing

☐ Applicable ☒ Not applicable

III. CHANGES IN CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

☐ Applicable ☒ Not applicable

IV. DISCLOSURE OF INTERESTS AS REQUIRED BY HONG KONG LISTING RULES

(I) Interests and short positions of directors, supervisors and chief executive in Shares

As at 30 June 2017, Mr. Cho Man, executive director and president of the Company, held 20,009 A Shares of the Company; Mr. Shen Bo, executive director and chief financial officer of the Company, held 71,700 A shares. Ms. Chen Xin, supervisor of the Company, held 10,000 A Shares of the Company.

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

Save as disclosed in this report, as at 30 June 2017, according to the information available to the Company and to the knowledge of the directors, none of the directors, supervisors and chief executive of the Company has any interests or short positions in the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 30 June 2017, according to the information available to the Company and to the knowledge of the directors, the following shareholders had interests or short positions in the Shares or underlying Shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the 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 (%)
SILC 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	75,952,827(L) 187,721(S) 71,431,442(P)	9.91(L) 0.02(S) 9.32(P)	2.82(L) 0.01(S) 2.66(P)
National Council for Social Security Fund	H Shares	Beneficial owner	66,633,400(L)	8.70(L)	2.48(L)
Black Rock, Inc.	H Shares	Interests of controlled corporation	54,059,596(L)	7.06(L)	2.01(L)
Alliance Bernstein L.P.	H Shares	Investment Manager/Interests of controlled corporation	38,572,010(L)	5.04(L)	1.43(L)

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



- Note1:* (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).

- Note2:* (1) Information disclosed above are based on the information disclosed 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 30 June 2017, the Company was not aware of any other person (other than the directors, supervisors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

V. PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to June 2017, neither the Company nor the subsidiaries of the Company purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.



☐ Applicable ☒ Not applicable



I. CHANGES IN SHAREHOLDINGS

(I) Changes in shareholdings of Directors, Supervisors and Senior Management, existing and resigned during the Reporting Period

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

During the Reporting Period, the Company has no share incentive schemes.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

☒ Applicable ☐ Not applicable

Name	Position	Changes	Reason for the Change
Ren Jian	Vice President	Cessation	Work arrangement
Zhang Yaohua	Vice President	Appointment	Position change

III. OTHER DISCLOSABLE EVENTS REQUIRED BY THE HONG KONG RULES

☒ Applicable ☐ Not applicable

1. The changes of the directors' and supervisors' biographies

Mr. ZHOU Jun, the chairman and non-executive director of the Company, ceased to be an executive director of Shanghai Industrial Urban Development Group Limited (a listed company on the Hong Kong Stock Exchange, stock code 00563) since June 2017. Mr. WAN Kam To, an independent non-executive director of the Company, has no longer served as an independent non-executive director of S. Culture International Holdings Limited (a listed company on the Hong Kong Stock Exchange, stock code 01255) since July 2017, and he has no longer served as an independent non-executive director of Dalian Port (PDA) Company Limited (a listed company on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, with its stock code being 02880 and 601880 respectively) since June 2017 and he has been served as an independent non-executive director of Agile Life Services Limited Since August 2017.

2. Audit Committee

The Audit Committee is comprised of three independent non-executive Directors, namely Mr. WAN Kam To, Mr. TSE Cho Che, Edward and Mr. HONG Liang. The Audit Committee has reviewed the Company's 2017 interim report and agreed with the accounting treatment adopted by the Company.



3. Independent Non-executive Directors

In accordance with the relevant provisions, the Company appointed Mr. WAN Kam To, Mr. TSE Cho Che, Edward, Mr. CAI Jiangnan and Mr. HONG Liang as the independent non-executive directors of the Company with the appropriate professional qualifications, among whom, WAN Kam To (as an independent non-executive director) has appropriate expertise of accounting and financial management.

4. Compliance with the Corporate Governance Code

During the Reporting Period, the Company strictly complied with the provisions of the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules.

CHAPTER 9

INFORMATION RELATED TO CORPORATE BONDS

✓ Applicable ☐ Not applicable

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: RMB0,000

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

Other information of Corporate Bonds

✓ Applicable ☐ Not applicable

The corporate bonds were issued to qualified investors, and the initial interest on corporate bonds for the current period is 26 January 2017. The Company has completed the payment of interest on bonds of RMB59.6 million in total.

II CONTACT PERSON OF CUSTODIAN OF THE CORPORATE BONDS AND ITS CONTACT METHODS AND THE CONTACT METHOD 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 AGENCY 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 24 April 2017, in which the credit rating of the subject is AAA with stable rating outlook. The credit rating of this tranche of bonds is maintained at AAA. Furthermore, from the date of issuing the rating report, ZCX Rating will pay close attention to information in relation to the Company and bonds. Where there occurs any major events which may exert influence on the bonds' credit rating, ZCX Rating will launch irregular track rating promptly as it considers necessary, based on the relevant information provided by the Company, and make investigation, analysis in this regard and issue the rating results of the irregular track rating.

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

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

☒ Applicable ☐ Not applicable

During the Reporting Period, there was no credit mechanism for corporate bonds. 16 SPH 01 debt payment plan and other relevant information do not have significant change.

VI. MEETINGS OF HOLDERS OF CORPORATE BONDS

☒ Applicable ☐ Not applicable

No meeting of holders of the corporate bonds was held during the Reporting Period.

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 2017, it issued the custody report of Shanghai Pharmaceuticals Public Issuance of 2016 Corporate Bonds (first tranche), and was disclosed on the Shanghai Stock Exchange website (<http://www.sse.com.cn/>) on 30 June 2017.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATOR AS OF THE
END OF THE REPORTING PERIOD AND THE END OF LAST YEAR (OR
THE REPORTING PERIOD AND CORRESPONDING PERIOD OF LAST
YEAR) AS FOLLOWS

☒ Applicable ☐ Not applicable

Major indicator	As at the end of the Reporting Period	As at the end of last year	Change compared to the end of last year (%)	Reason for changes
Current Ratio	1.40	1.47	-4.77%	/
Quick Ratio	1.04	1.04	/	/
Gearing Ratio	58.20%	55.48%	Increased by 2.72 percentage points	/
Loan Repayment Ratio	100%	100%	/	/
	Reporting Period (January to June)	Corresponding period of last year	Change compared to the correspondin period of last year (%)	Reason for changes
EBITDA Interest Coverage Ratio	8.54	10.09	-15.35%	/
Interest Coverage Ratio	100%	100%	/	/



IX. NOTES ON OVERDUE DEBT

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

XI. INFORMATION OF BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD

☒ Applicable ☐ Not applicable

The Company keeps good credit records with each major bank and other financial institutions, and maintains long-term cooperative partnership with domestic major commercial banks, which make it enjoys strong ability in indirect debt financing. As of 30 June 2017, the Company obtained a total amount of facilities of RMB52.6 billion granted to the Group by mergering, of which RMB16.9 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 repays the principals and interest of bank loans on demand.

XII. 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 relevant stipulations or commitments of the Company's prospectus, the use of raised funds, and the payment of interest on corporate bonds on time, without prejudice to the interests of the bond investors.

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

☐ Applicable ☒ Not applicable



CHAPTER 10 FINANCIAL REPORT

I. AUDIT REPORT

☐ Applicable ☒ Not applicable

II. FINANCIAL STATEMENTS

The financial statements and notes (unaudited) prepared under the Hong Kong Financial Reporting Standards, attached.



Catalogue of Documents Available for Inspection	The financial statements signed and sealed by the legal representative, chief financial officer and accounting manager
	The original documents of the Company and the original draft announcements disclosed in the designated newspapers of CSRC during the Reporting Period

Chairman: Zhou Jun

Submission date approved by the Board of Directors: 28 August 2017

REVISION INFORMATION

☐ Applicable ☒ Not applicable

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
	Note		
Assets			
Non-current assets			
Land use rights	7	1,291,287	1,401,636
Investment properties	7	251,074	258,863
Property, plant and equipment	7	7,933,287	7,200,689
Intangible assets	7	7,761,085	7,283,573
Investments in jointly controlled entities	8	628,599	720,549
Investments in associates	9	3,810,760	3,506,657
Deferred income tax assets	14	509,327	468,316
Available-for-sale financial assets		271,701	269,366
Other non-current prepayments		1,085,783	940,809
Other long-term receivables		449,927	425,362
		23,992,830	22,475,820
Current assets			
Inventories		16,007,747	16,415,757
Trade and other receivables and other current asset	10	36,500,287	31,880,256
Derivative financial instruments		1,818	3,318
Financial assets at fair value through profit or loss		543	742
Restricted cash		1,111,262	987,080
Cash and cash equivalents		12,922,280	10,979,744
		66,543,937	60,266,897
Total assets		90,536,767	82,742,717
Equity attributable to owners of the company			
Share capital	11	2,688,910	2,688,910
Share premium		14,068,206	14,123,228
Other reserves		696,040	671,997
Retained earnings		15,094,593	14,138,422
		32,547,749	31,622,557
Non-controlling interests		5,299,170	5,211,908
Total equity		37,846,919	36,834,465



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
	Note		
Liabilities			
Non-current liabilities			
Borrowings	13	2,894,502	2,836,284
Deferred income tax liabilities	14	565,059	492,061
Termination benefit obligations		59,979	61,204
Other non-current liabilities		786,952	712,810
Other long-term payables		714,528	692,537
		5,021,020	4,794,896
Current liabilities			
Trade and other payables and other current liabilities	12	34,664,758	31,130,225
Derivative financial instruments		2,642	870
Current income tax liabilities		405,030	341,499
Borrowings	13	12,596,398	9,640,762
		47,668,828	41,113,356
Total liabilities		52,689,848	45,908,252
Total equity and liabilities		90,536,767	82,742,717

The notes on pages 61 to 98 are an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
	Note	2017 RMB'000	2016 RMB'000
Revenue	6	65,778,873	59,695,358
Cost of sales		(57,717,249)	(52,634,178)
Gross profit		8,061,624	7,061,180
Distribution and selling expenses		(3,574,277)	(3,042,233)
General and administrative expenses		(1,927,200)	(1,797,518)
Operating profit	15	2,560,147	2,221,429
Other income		182,130	56,258
Other (losses)/gains – net	16	(17,505)	220,697
Finance income		87,327	76,117
Finance expenses		(448,379)	(345,386)
Share of profit of jointly controlled entities	8	143,487	113,012
Share of profit of associates	9	247,536	239,450
Profit before income tax		2,754,743	2,581,577
Income tax expense	17	(547,594)	(481,412)
Profit for the period		2,207,149	2,100,165
Profit attributable to:			
Owners of the Company		1,925,124	1,732,458
Non-controlling interests		282,025	367,707
		2,207,149	2,100,165
Earnings per share attributable to owners of the Company during the period (expressed in RMB per share)			
– Basic and diluted	18	0.72	0.64

The notes on pages 61 to 98 are an integral part of this interim condensed consolidated financial information.

		Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Dividends	19	–	–



INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Profit for the period		2,207,149	2,100,165
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Available-for-sale financial assets			
– Gross		29,453	(12,733)
– Tax	14	(13,661)	1,978
Share of other comprehensive income of investments in associates		712	322
Currency translation differences, net		40,944	(885)
Other comprehensive income for the period, net of tax		57,448	(11,318)
Total comprehensive income for the period		2,264,597	2,088,847
Attributable to:			
– Owners of the Company		1,949,167	1,722,503
– Non-controlling interests		315,430	366,344
Total comprehensive income for the period		2,264,597	2,088,847

The notes on pages 61 to 98 are an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited Attributable to owners of the Company						Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non- controlling interests RMB'000	
Balance at 1 January 2016		2,688,910	14,075,517	1,204,902	11,960,985	29,930,314	3,877,725	33,808,039
Comprehensive income								
Profit for the period		-	-	-	1,732,458	1,732,458	367,707	2,100,165
Other comprehensive income								
Available-for-sale financial assets								
– Gross		-	-	(12,362)	-	(12,362)	(371)	(12,733)
– Tax		-	-	1,885	-	1,885	93	1,978
Currency translation differences, net		-	-	200	-	200	(1,085)	(885)
Share of other comprehensive income of associates		-	-	322	-	322	-	322
Total other comprehensive income		-	-	(9,955)	-	(9,955)	(1,363)	(11,318)
Total comprehensive income		-	-	(9,955)	1,732,458	1,722,503	366,344	2,088,847
Transactions with owners								
Capital injections from non-controlling interests		-	-	-	-	-	16,720	16,720
Acquisitions of subsidiaries		-	-	-	-	-	44,051	44,051
Transaction with non-controlling interests		-	57,191	-	-	57,191	91,697	148,888
Dividends		-	-	-	(887,340)	(887,340)	(135,433)	(1,022,773)
Others		-	-	-	(3,867)	(3,867)	(3,007)	(6,874)
Total transaction with owners		-	57,191	-	(891,207)	(834,016)	14,028	(819,988)
Balance at 30 June 2016		2,688,910	14,132,708	1,194,947	12,802,236	30,818,801	4,258,097	35,076,898



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited Attributable to owners of the Company					Non- controlling interests	Total equity
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2017		2,688,910	14,123,228	671,997	14,138,422	31,622,557	5,211,908	36,834,465
Comprehensive income								
Profit for the period		–	–	–	1,925,124	1,925,124	282,025	2,207,149
Other comprehensive income								
Available-for-sale financial assets								
– Gross		–	–	29,047	–	29,047	406	29,453
– Tax		–	–	(13,560)	–	(13,560)	(101)	(13,661)
Currency translation differences, net		–	–	7,844	–	7,844	33,100	40,944
Share of other comprehensive income of associates		–	–	712	–	712	–	712
Total other comprehensive income		–	–	24,043	–	24,043	33,405	57,448
Total comprehensive income		–	–	24,043	1,925,124	1,949,167	315,430	2,264,597
Transactions with owners								
Capital injections from non-controlling interests		–	–	–	–	–	1,930	1,930
Acquisitions of subsidiaries		–	–	–	–	–	13,013	13,013
Transaction with non-controlling interests	22	–	(55,022)	–	–	(55,022)	(106,474)	(161,496)
Dividends		–	–	–	(968,008)	(968,008)	(136,033)	(1,104,041)
Others		–	–	–	(945)	(945)	(604)	(1,549)
Total transaction with owners		–	(55,022)	–	(968,953)	(1,023,975)	(228,168)	(1,252,143)
Balance at 30 June 2017		2,688,910	14,068,206	696,040	15,094,593	32,547,749	5,299,170	37,846,919

The notes on pages 61 to 98 are an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	1,684,679	1,266,412
Interest paid	(440,969)	(278,746)
Income tax paid	(510,866)	(526,705)
Net cash generated from operating activities	732,844	460,961
Cash flows from investing activities		
Cash paid in respect of acquisition of subsidiaries, jointly controlled entities and associates	(624,644)	(95,435)
Purchases of treasury bills	(3,850,000)	(1,200,000)
Proceeds from redemption of treasury bills	3,860,950	1,202,481
Purchases of available-for-sale financial assets	–	(133)
Purchases of property, plant and equipment (“PP&E”) and investment properties	(928,903)	(693,319)
Proceeds from disposal of PP&E and investment properties	22,183	212,915
Proceeds from disposal of land use rights and intangible assets	6,036	–
Purchases of land use rights and intangible assets	(40,862)	(62,426)
Interest received	85,699	65,152
Dividends received	12,852	219,139
Proceeds from disposal of available-for-sale financial assets	36,050	–
Proceeds from disposal of subsidiaries	–	12,396
Proceeds from Government grant of plant relocation, net	37,706	–
Payment due to plant relocation	–	(51,950)
Change of restricted cash of a fixed deposit	–	150,000
Deposit paid in respect of business combination	–	(11,389)
Other cash flows generated from investing activities	134,528	7,113
Net cash used in investing activities	(1,248,405)	(245,456)
Cash flows from financing activities		
Cash injection from non-controlling interests	11,420	152,110
Acquisitions of non-controlling interests	(116,616)	(489)
Proceeds from borrowings	12,075,685	10,722,880
Repayments of borrowings	(9,454,188)	(10,162,203)
Dividends paid by the Group	(86,434)	(137,026)
Others cash flows generated from/(used in) financing activities	48,475	(61,252)
Net cash generated from financing activities	2,478,342	514,020
Net increase in cash and cash equivalents	1,962,781	729,525
Cash and cash equivalents at beginning of the period	10,979,744	11,277,855
Exchange (losses)/gains on cash and cash equivalents	(20,246)	3,633
Cash and cash equivalents at end of the period	12,922,279	12,011,013

The notes on pages 61 to 98 are an integral part of this interim condensed consolidated financial information.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Shanghai Pharmaceuticals Holding Co., Ltd. (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in following activities:

- Research and development, manufacturing and sale of pharmaceutical and healthcare products, and rendering of professional service in respect of medical equipment;
- 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.

The Company was incorporated in the People’s Republic of China (the “PRC”). The address of the Company’s registered office is No. 92 Zhangjiang Road, China (Shanghai) Pilot Free Trade Zone.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited since May 2011.

This condensed consolidated interim financial information is presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 28 August, 2017.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRSs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

(a) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(b) Standards, amendments and interpretations to existing standards adopted by the Group

Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 12 'Income taxes'	These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.	1 January 2017
Amendments to HKAS 7, 'Statement of cash flows'	The amendments introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
Amendment to HKFRS 12, 'Disclosure of interest in other entities'	The amendment is part of the annual improvements to HKFRSs 2014-2016 cycle. It clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information.	1 January 2017



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3. ACCOUNTING POLICIES (continued)

(c) New and amended standards that have been issued but not yet applied by the Group.

		Effective for annual periods beginning on or after
HKFRS15	Revenue from Contracts with Customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
Amendments to HKFRS 4,	Insurance Contracts "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
Amendment to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendment to HKAS 28	Investments in associates and joint ventures'	1 January 2018
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	a date to be determined

The Group is currently assessing the impact of the adoption of the above mentioned new standards, amendments to standards and interpretations and the annual improvements, and does not expect there will be a significant impact to the Group.

4. ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management department since year ended 31 December 2016 or in any risk management policies since the year end.

5.2 Liquidity risk

Compared to the previous year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

As at 30 June 2017 the contractual maturities of financial liabilities were as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
At 30 June 2017					
Borrowings	12,596,398	2,265,300	615,505	14,775	15,491,978
Interest payables	296,345	60,365	13,500	–	370,210
Other long-term liabilities	–	6,736	1,794,101	255,849	2,056,686
Trade and other payables	33,277,774	–	–	–	33,277,774
	46,170,517	2,332,401	2,423,106	270,624	51,196,648
At 31 December 2016					
Borrowings	9,640,762	210,646	2,615,624	11,422	12,478,454
Interest payables	265,766	87,928	29,483	–	383,177
Other Long-term payables	–	6,150	1,727,782	259,694	1,993,626
Trade and other payables	29,453,962	–	–	–	29,453,962
	39,360,490	304,724	4,372,889	271,116	44,309,219



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation

(a) The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value as at 30 June 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
As at 30 June 2017				
Derivative financial instruments	–	1,818	–	1,818
Financial assets at fair value through profit or loss	543	–	–	543
Available-for-sale financial assets	241,673	–	–	241,673
	242,216	1,818	–	244,034

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
As at 30 June 2017				
Derivative financial instruments	–	2,642	–	2,642

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

(a) *The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows: (continued)*

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

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Derivative financial instruments	–	870	–	870

As at 30 June 2017, the available-for-sale financial assets measured at Level 2 transferred to Level 1.

(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.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

(a) *The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows: (continued)*

(ii) *Financial instruments in level 2*

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

The fair value of other long-term receivables and non-current borrowings as at 30 June 2017 and 31 December 2016 approximated to their carrying amount. The fair value is within level 3 of the fair value hierarchy.

The fair value of other long-term receivables 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.



5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

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

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).

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 manufacturing business (Production segment) – research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products, and rendering of professional service in respect of medical equipment;
- (b) Distribution and supply chain solutions (Distribution segment) – 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;
- (c) Pharmaceutical retail (Retail segment) – operation of a network of retail pharmacy stores; and
- (d) Other businesses (Others) – assets management, investment holding and etc.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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, excluding additions resulting from acquisitions through business combinations under common control.

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

For the six months ended 30 June 2017

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	6,198,845	56,614,831	2,695,535	269,662	–	65,778,873
Inter-segment revenue	1,303,850	1,906,152	18,890	23,937	(3,252,829)	–
Segment revenue	7,502,695	58,520,983	2,714,425	293,599	(3,252,829)	65,778,873
Segment operating profit	1,018,416	1,524,761	24,886	(5,329)	(2,587)	2,560,147
Other income						182,130
Other losses – net						(17,505)
Finance costs – net						(361,052)
Share of profit of jointly controlled entities	131,704	11,414	369	–	–	143,487
Share of profit of associates	230,893	9,840	3,444	3,359	–	247,536
Profit before income tax						2,754,743
Income tax expense						(547,594)
Profit for the period						2,207,149

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2016

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	5,437,138	51,545,366	2,468,291	244,563	–	59,695,358
Inter-segment revenue	974,038	1,829,124	21,935	23,851	(2,848,948)	–
Segment revenue	6,411,176	53,374,490	2,490,226	268,414	(2,848,948)	59,695,358
Segment operating profit	818,583	1,375,008	30,926	(482)	(2,606)	2,221,429
Other income						56,258
Other losses – net						220,697
Finance costs – net						(269,269)
Share of profit of jointly controlled entities	101,657	11,057	298	–	–	113,012
Share of profit of associates	209,400	13,523	11,255	5,272	–	239,450
Profit before income tax						2,581,577
Income tax expense						(481,412)
Profit for the period						2,100,165

Other segment items included in the condensed consolidated interim financial information for the six months ended 30 June 2017 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	209,002	96,079	12,775	15,844	–	333,700
Amortisation of intangible assets and land use rights	27,869	66,049	383	10,181	–	104,482
Capital expenditure	456,604	171,736	16,169	110,078	–	754,587



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. SEGMENT INFORMATION (continued)

Other segment items included in the condensed consolidated interim financial information for the six months ended 30 June 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	205,962	80,832	11,741	15,966	–	314,501
Amortisation of intangible assets and land use rights	25,820	65,087	399	9,108	–	100,414
Capital expenditure	366,592	169,591	7,636	65,210	–	609,029

The segment assets and liabilities as at 30 June 2017 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	420,838	204,590	3,171	–	–	628,599
Investment in associates	2,832,548	294,586	144,238	539,388	–	3,810,760
Other assets	21,687,063	61,838,550	1,506,032	28,454,456	509,327	113,995,428
Elimination						(27,898,020)
Total assets						90,536,767
Segment liabilities	5,656,189	47,717,965	1,018,824	10,611,155	970,089	65,974,222
Elimination						(13,284,374)
Total liabilities						52,689,848

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	90,027,440	51,719,759
Unallocated:		
Current income tax liabilities	–	405,030
Deferred tax assets/liabilities – net	509,327	565,059
Total	90,536,767	52,689,848

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 30 June 2016 are as follows:

	Production segment <i>RMB'000</i>	Distribution segment <i>RMB'000</i>	Retail segment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Investment in jointly controlled entities	316,459	185,709	2,332	–	–	504,500
Investment in associates	2,463,508	287,660	114,480	394,355	–	3,260,003
Other assets	17,987,930	56,072,652	1,226,912	25,561,411	341,743	101,190,648
Elimination						(25,920,098)
Total assets						79,035,053
Segment liabilities	5,178,090	40,222,628	748,905	9,068,974	767,621	55,986,218
Elimination						(12,028,063)
Total liabilities						43,958,155

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

	Assets <i>RMB'000</i>	Liabilities <i>RMB'000</i>
Segment assets/liabilities after elimination	78,693,310	43,190,534
Unallocated:		
Current income tax liabilities	–	357,770
Deferred tax assets/liabilities – net	341,743	409,851
Total	79,035,053	43,958,155



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7. LAND USE RIGHTS, INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT ("PP&E") AND INTANGIBLE ASSETS

	Land use rights <i>RMB'000</i>	Investment properties <i>RMB'000</i>	PP&E <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
Six months ended 30 June 2017				
Opening net book amount				
1 January 2017	1,401,636	258,863	7,200,689	7,283,573
Additions	42,194	–	1,078,163	490,601
Depreciation and amortisation charge (Note 15)	(17,381)	(7,727)	(325,973)	(87,101)
Internal transfer	–	–	(7,343)	7,343
Disposals	–	–	(12,249)	(274)
Others	(135,162)	(62)	–	66,943
Closing net book amount				
30 June 2017	1,291,287	251,074	7,933,287	7,761,085
Six months ended 30 June 2016				
Opening net book amount				
1 January 2016	1,186,988	262,065	6,317,493	5,684,769
Additions	93,003	–	565,176	105,368
Depreciation and amortisation charge (Note 15)	(15,584)	(6,034)	(308,467)	(84,830)
Internal transfer	1,946	(464)	(6,224)	4,742
Disposals	–	–	(44,928)	–
Others	–	70	–	–
Closing net book amount				
30 June 2016	1,266,353	255,637	6,523,050	5,710,049

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

8. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	<i>RMB'000</i>
Six months ended 30 June 2017	
Opening net book amount 1 January 2017	720,549
Additions	7,699
Share of profit for the period	143,487
Declaration of Dividends	(243,136)
Closing net book amount 30 June 2017	628,599
Six months ended 30 June 2016	
Opening net book amount 1 January 2016	476,488
Share of profit for the period	113,012
Declaration of Dividends	(85,000)
Closing net book amount 30 June 2016	504,500

The Group's share of results in the Group's significant jointly controlled entity and its aggregated assets and liabilities are shown below:

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

	Six months ended 30 June 2017 <i>RMB'000</i>
Assets	1,655,970
Liabilities	833,912
Revenues	892,453
Share of profit	130,892
Percentage held	50.00%



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9. INVESTMENTS IN ASSOCIATES

	<i>RMB'000</i>
Six months ended 30 June 2017	
Opening net book amount 1 January 2017	3,506,657
Additions	92,990
Share of profit for the period	247,536
Share of other comprehensive income	712
Declaration of dividends	(30,525)
Transfer to subsidiaries	(6,610)
Closing net book amount 30 June 2017	3,810,760
Six months ended 30 June 2016	
Opening net book amount 1 January 2016	3,160,418
Additions	55,000
Share of profit for the period	239,450
Share of other comprehensive income	322
Declaration of dividends	(195,187)
Closing net book amount 30 June 2016	3,260,003

The Group's share of results in the Group's significant associates and their aggregated assets and liabilities are shown below:

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

	Six months ended 30 June 2017 <i>RMB'000</i>
Assets	9,126,686
Liabilities	5,926,906
Revenues	4,997,051
Share of profit	92,008
Percentage held	30.00%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9. INVESTMENTS IN ASSOCIATES (continued)

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

	Six months ended 30 June 2017 RMB'000
Assets	2,516,434
Liabilities	300,895
Revenues	638,259
Share of profit	34,238
Share of other comprehensive income	753
Percentage held	40.80%

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

	Six months ended 30 June 2017 RMB'000
Assets	4,679,554
Liabilities	3,378,107
Revenues	2,453,184
Share of profit	72,522
Percentage held	30.00%



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10. TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables from third parties		
Accounts receivable	32,096,443	27,944,795
Less: allowance for impairment	(1,274,027)	(1,171,721)
Accounts receivable – net	30,822,416	26,773,074
Notes receivable	1,208,770	1,586,533
Trade receivables – net	32,031,186	28,359,607
Other receivables from third parties		
Less: allowance for impairment	(567,284)	(595,244)
Other receivables – net	1,222,512	935,431
Amount due from related parties (Note 24(c))		
Less: allowance for impairment	(14,667)	(14,102)
Amount due from related parties – net	941,117	538,554
Prepayments		
Tax recoverable	1,424,484	1,145,988
Dividends receivable	876,381	898,150
Interest receivables	1,799	–
	2,808	2,526
	36,500,287	31,880,256

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

- (a) 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 up to certain months is granted to the customers. Aging analysis of gross trade receivables due from third parties (accounts receivable and notes receivable) at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Less than 3 months	23,152,300	21,499,782
3 months to 6 months	6,490,475	4,930,427
6 months to 12 months	2,504,680	2,160,049
1 year to 2 years	451,047	344,070
Over 2 years	706,711	597,000
	33,305,213	29,531,328

11. SHARE CAPITAL

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total shares of RMB1 each RMB'000
Issued and fully paid:					
At 1 January 2017	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of Shares	–	–	–	–	–
At 30 June 2017	1,923,016	765,894	1,923,016	765,894	2,688,910
At 1 January 2016	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of Shares	–	–	–	–	–
At 30 June 2016	1,923,016	765,894	1,923,016	765,894	2,688,910



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12. TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Accounts payable to third parties	24,485,932	21,745,034
Notes payable	3,397,365	3,677,958
Advances received from customers	574,947	737,803
Payables for purchase of PP&E and land use rights	292,036	241,971
Staff welfare and salary payables	583,167	636,940
Tax liabilities other than income tax	228,310	300,959
Amounts due to related parties (Note 24(c))	914,955	587,872
Accrued expenses	1,764,009	1,344,406
Deposits	711,905	594,847
Payables arising from acquisition of subsidiaries	250,923	395,499
Dividends payable	736,936	57,124
Others	724,273	809,812
	34,664,758	31,130,225

As at 30 June 2017 and 31 December 2016, aging analysis of the accounts payables to third parties and notes payables is as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Less than 3 months	22,732,578	20,487,016
3 months to 6 months	3,050,685	3,188,374
6 months to 12 months	1,489,782	1,202,097
1 year to 2 years	352,247	300,159
Over 2 years	258,005	245,346
	27,883,297	25,422,992

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13. BORROWINGS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Non-current (a)	2,894,502	2,836,284
Current	12,596,398	9,640,762
Total borrowings	15,490,900	12,477,046

Movement in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2017	
Opening net book amount 1 January 2017	12,477,046
Additions	8,982,641
Acquisition of subsidiaries	335,000
Deduction	(6,303,787)
Closing net book amount 30 June 2017	15,490,900
Six months ended 30 June 2016	
Opening net book amount 1 January 2016	10,492,396
Additions	10,624,382
Acquisition of subsidiaries	143,500
Deduction	(10,063,218)
Closing net book amount 30 June 2016	11,197,060

- (a) The Group issued twenty million 2.98% bonds of a total nominal value of RMB2,000,000,000 on 26 January 2016. The bonds mature three years from the issue date at their nominal value. The fair value of the bonds included in long-term borrowings was calculated using a market interest rate for an equivalent non-convertible bond. The bonds are subsequently stated at amortised cost until extinguished on maturity of the bonds.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. 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:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Deferred income tax assets	509,327	468,316
Deferred income tax liabilities	(565,059)	(492,061)
Deferred income tax liabilities – net	(55,732)	(23,745)

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

	As at 30 June 2017 RMB'000	2016 RMB'000
At 1 January	(23,745)	(75,875)
Recognised in the consolidated income statements (Note 17)	24,711	8,179
Acquisition of subsidiaries	(40,358)	(2,390)
Recognised in equity	(16,340)	1,978
Deferred income tax liabilities – net	(55,732)	(68,108)

15. OPERATING PROFIT

The following items have been charged to the operating profit during the period:

	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Depreciation of PP&E	325,973	308,467
Depreciation of investment properties	7,727	6,034
Amortisation of		
– land use rights	17,381	15,584
– intangible assets	87,101	84,830
Employee benefit expenses	2,523,411	2,267,057
Provision for impairment of trade and other receivables	32,621	108,811
Write-down of inventories to net realisable value	8,533	15,936

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16. OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Losses of financial assets at fair value through profit or loss, net	(198)	(153)
Losses of derivative financial instruments, net	(3,349)	–
Gains on disposals of PP&E	5,127	213,481
Gains on disposals of intangible assets	6,578	–
Foreign exchange gains/(losses)	13,932	(6,073)
Others – net	(39,595)	13,442
	(17,505)	220,697

17. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current income tax, PRC enterprise income tax	572,305	489,591
Deferred income tax	(24,711)	(8,179)
	547,594	481,412

Income tax expenses is recognised based on the management's estimate of the annual income tax rate expected for the full financial year.

18. EARNINGS PER SHARE

For the six months ended 30 June 2017 and 2016, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2017	2016
Profit attributable to equity holders of the Company (RMB'000)	1,925,124	1,732,458
Number of ordinary shares (thousands)	2,688,910	2,688,910
Basic earnings per share (RMB)	0.72	0.64

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during for the six months ended 30 June 2017 and 2016.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Dividends declared by the Company	–	–

No interim dividend was proposed by the directors of the Company for the six months ended 30 June 2017 and 2016.

A dividend of approximately RMB968,008,000 relates to year 2016 was proposed in June, 2017 (2016: RMB887,340,000).

20. CONTINGENCIES AND GUARANTEES

Outstanding loan guarantees

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
Outstanding loan guarantees provided to third parties	45,000	30,000
Outstanding loan guarantees provided to related parties	8,312	22,636
	53,312	52,636

The management has assessed that it is not probable for the Group to repay the guaranty and thus has not made any provision for the outstanding balance of the guaranty.

21. COMMITMENTS

(a) Capital commitments

(i) Constructions

Capital expenditure contracted for at the end of 30 June 2017 and 31 December 2016 but not yet incurred is as follows:

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
PP&E	248,736	484,513

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21. COMMITMENTS (continued)

(b) Operating lease commitments

(i) The Group is the lessee:

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
No later than 1 year	259,095	265,382
Later than 1 year and no later than 2 years	172,409	183,501
Later than 2 years and no later than 5 years	256,150	284,359
Later than 5 years	205,758	156,537
	893,412	889,779

(ii) The Group is 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:

	30 June 2017 RMB'000	31 December 2016 RMB'000
No later than 1 year	44,354	60,103
Later than 1 year and no later than 2 years	30,260	36,892
Later than 2 years and no later than 5 years	48,862	53,585
Later than 5 years	80,991	51,057
	204,467	201,637

(c) Investment commitment

On 15 June 2017, the Group entered into a capital injection agreement ("the Agreement") with Shanghai Industrial Financial Leasing Co., Ltd., Shanghai Shentong Metro Group Co., Ltd. and Shanghai Industrial Commercial Factoring Co., Ltd. ("the Factoring Company"). Pursuant to the Agreement, the Group is committed to increase the Factoring Company's capital by RMB137,500,000, after which the Group will hold 27.5% of the Factoring Company's equity interests. As at 30 June 2017, the Group has not made any payment mentioned above.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22. SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Significant acquisition of additional interests in the subsidiary

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

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

	As at 30 June 2017 RMB'000
Carrying amount of non-controlling interests increased	101,494
Consideration received from non-controlling interests	(149,358)
Excess of consideration paid recognised within equity	(47,864)

23. BUSINESS COMBINATION

Significant business combination not under common control

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

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of RMB342,330,000 arising from the acquisition is attributable to the acquired non-contractual customer relationship and economics of scale expected from combining the operations of the Group and SPH Xuzhou. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB579,480,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

	SPH Xuzhou RMB'000
At 1 February 2017	
Total cash consideration	579,480

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23. BUSINESS COMBINATION (continued)

Significant business combination not under common control (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

	SPH Xuzhou RMB'000
At 1 February 2017	
Cash and cash equivalents	83,605
Restricted cash	104,423
PP&E	350,568
Land use rights	27,529
Intangible assets	22,000
Inventories	150,385
Deferred income tax assets	5,362
Trade and other receivables and other current assets	726,027
Available-for-sale financial assets	200
Other non-current Assets	527
Deferred income tax liabilities	(49,134)
Trade and other payables and other current liabilities	(934,839)
Current income tax liabilities	(3,421)
Borrowings	(245,000)
Total identifiable net assets	238,232
Non-controlling interests	(1,082)
Goodwill	342,330
	579,480
Out flow of cash to acquire SPH Xuzhou net of cash acquired	
- cash consideration	579,480
- cash and cash equivalents in subsidiary acquired	(83,605)
Cash outflow on acquisition	495,875

(a) *Revenue and profit contribution*

SPH Xuzhou contributed revenue of approximately RMB801,727,000 and net profit of approximately RMB10,750,000 to the Group for the period from 1 February 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated profit for the period ended 30 June 2017 would have increased by approximately RMB208,221,000 and approximately RMB1,044,000 respectively.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. 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 Pharmaceutical (Group) Co., Ltd. ("Shanghai Pharma Group") and Shanghai Industrial Investment (Holdings) Co., Ltd., ("Shanghai Industrial Group") the parent company and ultimate holding company, both of which are government-related enterprise established in the PRC. The PRC government indirectly controls Shanghai Industrial Group. In accordance with HKAS 24 (Revised), "Related Party Disclosures", issued by the HKICPA, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include Shanghai Industrial Group and its subsidiaries (other than the Group), other government related entities and their subsidiaries, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include sales or purchases of assets, goods and services, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, pledged bank deposits, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Industrial Investment (Holdings) Co., Ltd. (上海上實(集團)有限公司)	Ultimate holding company
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Overseas United Investment Co., Ltd. (上海海外聯合投資股份有限公司)	Controlled by Shanghai Pharma Group
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Jointly controlled entity
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾藥房有限公司)	Jointly controlled entity
Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海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
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
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司)	Associate
Shanghai Industrial Group Finance Co., Ltd. (上海上實集團財務有限公司)	Associate
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶余堂藥材種植有限公司)	Associate
Jilin Yatai Huashi Pharmaceutical Co., Ltd. (吉林亞泰華氏醫藥有限公司)	Associate
Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Associate
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Former associate

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 periods and balances arising from related party transactions.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

For the six months ended 30 June 2017 and 2016, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Sales of goods and render of service		
Jiangxi Nanhua Medicines Co., Ltd.	1,056,965	957,233
Liaoning International Pharmaceutical Trading Co., Ltd.	50,926	46,907
Shanghai Luoda Pharmaceutical Co., Ltd.	42,045	47,335
Shanghai Hutchison Pharmaceutical Co., Ltd.	41,655	43,869
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	40,780	26,171
Shanghai Ivyuan Pharmacy Co., Ltd.	11,254	17,571
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	7,055	5,897
Shanghai Huaren Pharmaceutical Co., Ltd.	3,004	2,720
Shanghai Jianer Pharmacy Co., Ltd.	2,216	2,158
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	1,058	2,030
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	104	2,009
Jilin Yatai Huashi Pharmaceutical Co., Ltd.	56	627
Shanghai Deyi Pharmaceutical Co., Ltd.	–	32,913
Others	3,831	167
	1,260,949	1,187,607
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	1,506,572	1,429,458
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	253,604	430,018
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	76,265	56,525
Shanghai Hutchison Pharmaceutical Co., Ltd.	61,633	79,687
TECHPOOL Bio-Pharma Co., Ltd.	58,672	41,312
Shanghai Luoda Pharmaceutical Co., Ltd.	19,135	18,340
Shanghai Huaren Pharmaceutical Co., Ltd.	18,546	16,141
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	9,245	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	6,075	19,508
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	5,804	6,742
Shanghai Deyi Pharmaceutical Co., Ltd.	–	13,228
Others	1,876	2,536
	2,017,427	2,113,495

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	5,347	4,554
Shanghai Hutchison Pharmaceutical Co., Ltd.	1,017	1,017
	6,364	5,571
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	10,835	12,453
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	7,562	7,683
Shanghai indu-land property Co., Ltd.	2,619	2,729
	21,016	22,865
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest income		
Shanghai Industrial Group Finance Co., Ltd.	899	597
Interest expense		
Shanghai Industrial Group Finance Co., Ltd.	26,435	27,627



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

R&D expense

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. Up to 30 June 2017, the Group has cumulatively paid approximately RMB157,474,000 to Fudan Zhangjiang with respect to the Agreements.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Deposit in related parties, net		
Shanghai Industrial Group Finance Co., Ltd.	(496,252)	574,107
Loan received from related parties, net		
Shanghai Industrial Group Finance Co., Ltd.	833,300	643,300
Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	(643,300)	(640,000)
Discount of bank acceptance notes		
Shanghai Industrial Group Finance Co., Ltd.	83,198	160,180
Accounts receivable factoring		
Shanghai Industrial Group Finance Co., Ltd.	—	40,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(b) Key management compensation

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Salaries and fee	3,466	1,950
Bonuses	11,594	4,935
Retirement plans contributions	406	250
	15,466	7,135

The above related party transactions were carried out on terms mutually agreed between the parties. In the opinion of the Company's directors and the Group's management, these transactions are in the ordinary course of business of the Group.

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

Amount due from related parties:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	656,106	526,276
Other receivables	29,930	21,198
Prepayments	4,463	2,576
Dividends receivable	265,285	2,606
	955,784	552,656



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	571,393	407,746
Shanghai Hutchison Pharmaceutical Co., Ltd.	32,047	12,029
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	15,152	16,493
Shanghai Luoda Pharmaceutical Co., Ltd.	15,063	24,923
Liaoning International Pharmaceutical Trading Co., Ltd.	9,934	33,948
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,055	5,462
Shanghai Ivyuan Pharmacy Co., Ltd.	2,478	5,150
Shanghai Huaren Pharmaceutical Co., Ltd.	1,267	1,371
Shanghai Deyi Pharmaceutical Co., Ltd.	–	12,421
Others	3,717	6,733
	656,106	526,276
Less: Provision for impairment	(7,009)	(6,595)
	649,097	519,681
Other receivables due from		
Shanghai Overseas United Investment Co., Ltd.	13,298	–
Shanghai Roche Pharmaceutical Co., Ltd.	6,101	11,262
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	1,988	1,988
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	1,500
Others	7,043	6,448
	29,930	21,198
Less: Provision for impairment	(7,658)	(7,507)
	22,272	13,691

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Less than 3 months	659,856	523,165
3 months to 6 months	13,049	11,864
6 months to 12 months	1,569	873
1 year to 2 years	403	301
Over 2 years	11,159	11,271
	686,036	547,474

	30 June 2017 RMB'000	31 December 2016 RMB'000
Prepayments due from		
Shanghai Hutchison Pharmaceutical Co., Ltd.	4,463	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	–	2,436
Others	–	140
	4,463	2,576

	30 June 2017 RMB'000	31 December 2016 RMB'000
Dividends receivable		
Shanghai Hutchison Pharmaceutical Co., Ltd.	241,593	–
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	10,507	–
Liaoning International Pharmaceutical Trading Co., Ltd.	9,589	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,450	1,350
Shanghai Luoda Pharmaceutical Co., Ltd.	–	1,256
Others	2,146	–
	265,285	2,606



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade Payables	551,380	562,130
Other Payables	17,049	16,469
Advances	59	61
Dividends Payable	345,874	8,079
Interest Payables	593	1,133
	914,955	587,872

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	426,169	365,420
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	50,358	54,956
TECHPOOL Bio-Pharma Co., Ltd.	32,034	67,094
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	11,847	11,661
Shanghai Huaren Pharmaceutical Co., Ltd.	9,088	9,605
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	8,538	–
Shanghai Luoda Pharmaceutical Co., Ltd.	3,883	10,913
Shanghai Hutchison Pharmaceutical Co., Ltd.	3,834	23,824
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	2,487	6,582
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	1,491	2,269
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,008	2,203
Shanghai Deyi Pharmaceutical Co., Ltd.	–	4,888
Others	643	2,715
	551,380	562,130

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Other payables due to		
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,066	9,066
Shanghai Pharmaceutical (Group) Co., Ltd.	5,211	3,928
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	2,135	2,135
Jiangxi Nanhua Medicines Co., Ltd.	350	–
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	287	291
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	–	1,000
Others	–	49
	17,049	16,469

Other payables are all non-trade payables and will be settled upon demand of these related.

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Less than 3 months	539,823	523,865
3 months to 6 months	12,400	37,909
6 months to 12 months	1,750	1,150
1 year to 2 years	1,220	2,800
Over 2 years	13,236	12,875
	568,429	578,599



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Advances due to		
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	22	22
Others	37	39
	59	61

	30 June 2017 RMB'000	31 December 2016 RMB'000
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	265,946	8,000
Shanghai Industrial Investment (Holdings) Co., Ltd.	79,849	–
Others	79	79
	345,874	8,079

	30 June 2017 RMB'000	31 December 2016 RMB'000
Interest payable		
Shanghai Industrial Group Finance Co., Ltd.	593	1,133

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Outstanding loan guarantees provided by the Group to		
Shanghai Luoda Pharmaceutical Co., Ltd.	6,500	15,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	1,812	8,126
	8,312	23,126

	30 June 2017 RMB'000	31 December 2016 RMB'000
Outstanding loan guarantees given to the Group by		
Shanghai Industrial Group Finance Co., Ltd.	19,000	75,000
Shanghai Pharmaceutical (Group) Co., Ltd.	1,430	1,430
	20,430	76,430

(e) Cash at bank and borrowings due from/to related parties

	30 June 2017 RMB'000	31 December 2016 RMB'000
Borrowings due to related parties		
Shanghai Industrial Group Finance Co., Ltd.	1,340,500	1,150,500
Cash at bank due from related parties		
Shanghai Industrial Group Finance Co., Ltd.	1,487,258	1,983,510

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