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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 2018**

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 2018. 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 2018 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 2018

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

Important Notice

- I. 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.
- II. All directors of the Company attended the seventeenth meeting of the sixth session of the board of directors convened on 28 August 2018, at which resolutions including the interim results of the Company for the six months ended 30 June 2018 were approved.
- III. This interim report is unaudited. The board of directors and the audit committee of the Company have reviewed and confirmed this financial report.
- IV. Zhou Jun, the person in charge of the Company, Cho Man, the principal in charge of accounting, and 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.
- V. The plan for profit distribution or conversion of capital reserve fund into share capital for the Reporting Period considered by the board of directors
- None
- VI. Risk statements regarding the forward-looking statements
- ☒ Applicable ☐ Not applicable
- The forward-looking statements, such as future plans and development trends, contained in this report do not constitute any substantive commitment by the Company to the investors. Investors are advised to be aware of the investment risks involved.
- VII. Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation
- No
- VIII. Is there any instance of providing external guarantee that is in breach of the established decision making procedure?
- No
- IX. Significant Risks
- During the Reporting Period, there are no significant risks that have substantive significant effect on 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.



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Definitions

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

Definitions of Common Terms

“the Group”, “Group”, “the Company”, “Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shanghai Stock Exchange with stock code 601607, and on the Main Board of the Hong Kong Stock Exchange with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable
“Articles of Association” or “Articles”	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
“Reporting Period”	the 6-month period from 1 January 2018 to 30 June 2018
“YOY”	year-on-year
“Shares”	shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
“A Shares”	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“H Shares”	overseas shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“HK\$” or “HK dollars” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“PRC” or “China”	the People’s Republic of China; unless the context otherwise requires, references to the PRC or China in this report do not include Hong Kong, Macau or Taiwan
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"DTP"	Direct To Patient
"COD"	Chemical Oxygen Demand
"SPHC"	Shanghai Pharma Health Commerce Co., Ltd
"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)
"Sine Pharmaceutical Factory"	SPH Sine Pharmaceutical Factory Co., Ltd. (上海上藥信誼藥廠有限公司)
"SPH New Asiatic"	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd. (上海上藥新亞藥業有限公司)
"SPH No. 1 Biochemical and Pharmaceutical"	SPH No. 1 Biochemical and Pharmaceutical Co., Ltd. (上海上藥第一生化藥業有限公司)
"Zhongxi Sunve"	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)
"Changzhou Pharmaceutical"	Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)

Basic Corporate Information and Major Financial Indicators

I. CORPORATE INFORMATION

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

II. CONTACT PERSON AND CONTACT DETAILS

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

III. 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	601607	600849
H Shares	Hong Kong Stock Exchange	SH PHARMA	02607	Not applicable

Basic Corporate Information and Major Financial Indicators

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	75,878,692,993.45	65,778,872,978.60	15.35
Net profit attributable to equity holders of the listed company	2,033,306,346.53	1,925,122,363.98	5.62
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company	1,893,373,486.43	1,771,592,035.96	6.87
Net cash flows from operating activities	1,080,517,493.81	1,259,512,127.76	-14.21

	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	37,387,876,923.36	34,030,840,901.51	9.86
Total assets	119,010,465,707.26	94,344,475,177.12	26.14

Basic Corporate Information and Major Financial Indicators

(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)	0.7219	0.7159	0.83
Diluted earnings per share (RMB per share)	0.7219	0.7159	0.83
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.6722	0.6589	2.03
Weighted average return on net assets (%)	5.48	5.91	Decreased by 0.43 percentage point
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	5.10	5.44	Decreased by 0.34 percentage point

Basic Corporate Information and Major Financial Indicators

(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	119,010,465	94,344,475	26.14
Equity attributable to equity holders of the parent	37,387,879	34,030,843	9.86
Net assets per share attributable to equity holders of the parent (RMB per share)	13.16	12.66	3.95

	Reporting Period (January to June)	Corresponding period of last year	Change compared to the corresponding period of last year (%)
Profit before income tax	3,104,936	2,754,743	12.71
Net profit attributable to the parent	2,033,306	1,925,124	5.62
Basic and diluted earnings per share (RMB)	0.72	0.72	0.83
Weighted average return on net assets (%)	5.48	5.91	-0.43 percentage point

Note on major accounting data and financial indicators of the Company

☐ Applicable ☒ Not applicable

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.

Basic Corporate Information and Major Financial Indicators

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	89,826,023.14
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	114,553,644.48
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	7,395,810.66
Reversal of provision for receivables subject to individual impairment test	52,715,639.13
Other non-operating income and expenses other than the aforesaid items	-29,231,086.08
Effect on minority interests	-44,296,966.56
Effect on income tax	-51,030,204.67
Total	139,932,860.10

An Overview of Company Businesses

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

In the first half of 2018, the national economy growth stably, the medical security system and supporting policies were increasingly complete, and the pharmaceutical industry began to show signs of sound development trends with high quality. As a leading industry & commerce integration enterprise in China, Shanghai Pharma continuously strengthened innovation in research and development, improved market share in the commercial area, accelerate market layout, and endeavored to grasp policy benefits in active response to the state's policies such as "Two-Invoice System" and "Quality Consistency Evaluation of Generic Drug", thereby taking the lead.

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

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

An Overview of Company Businesses

Pharmaceutical distribution: The Company's distribution business ranked the 3rd position in scale in the PRC, adhering to the national commercial network layout. During the Reporting Period, the distribution network covered 31 provinces, municipalities and autonomous regions, among which, its holding subsidiaries directly covered 24 provinces, municipalities and autonomous regions nationwide. The Company established a close cooperation relationship with domestic and foreign major drug manufacturers through supply chain solutions such as modern logistics delivery, information support and terminal retail distribution. It distributes a variety of products, covering more than 20,000 healthcare institutions. The distribution enterprises of the Company are engaged in medicine distribution business strictly in accordance with the requirements of the national specifications to provide the distribution services and other value-added services for products of pharmaceutical manufacturers delivered to hospital terminals, retail outlets and the third party terminal all over the country through its own logistics, third party logistics and other channels and benefit from the price difference between the purchase price and selling price.

Pharmaceutical retail: The retail business sales of the Company ranked the top of the national pharmaceutical retail industry. The retail business of Shanghai Pharmaceuticals has 1,981 chained pharmacies in 16 provinces with Shanghai Huashi Pharmacy, a subsidiary of the Company being one of the retailers with the largest number of pharmacies in East China. SPHC of the Company is committed to creating the innovative medical e-commerce model based on electronic prescription flow. The retail enterprises of the Company are engaged in medicine retail business strictly in accordance with the requirements of the national specifications to sell drugs to end consumers through pharmaceutical retail chain drug stores, operating drug stores with medical institutions and DTP pharmacy.

During the Reporting Period, the Company won the following honors:

- Ranking 896th in Top 2,000 Global Enterprises of 2018 issued by Forbes;
- Ranking third in the Top 100 Enterprises in Chinese Pharmaceutical Industry of 2017 issued by Medicine Economic Reporter

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

✓ Applicable ☐ Not applicable

Unit: RMB

Main Assets	Consolidated on 30 June 2018	Consolidated on 31 December 2017	Changes in current amount as compared to last period (%)	Explanation of material changes (over 30%)
Long-term equity investment	4,894,678,846.07	4,694,168,133.68	4.27	/
Fixed assets	7,427,076,432.71	7,154,186,829.71	3.81	/
Under construction	2,001,601,842.10	1,537,445,008.35	30.19	Increase in project construction investment during the period
Intangible assets	3,687,104,392.40	2,640,503,113.62	39.64	Acquisition of a subsidiary during the period
Goodwill	10,603,457,700.25	6,606,706,225.89	60.50	Acquisition of a subsidiary during the period

Among which, overseas assets amounted to 3,051,379,735.26 (Unit: RMB), the proportion to the total assets is 2.56%.

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

III. CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

✓ Applicable ☐ Not applicable

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

Report of The Board of Directors

I. DISCUSSION AND ANALYSIS OF THE OVERALL OPERATION

Overview

During the Reporting Period, the Company's principal business grew fast and recorded an operating income of RMB75.879 billion, representing a year-on-year growth of 15.35%, to which the pharmaceutical manufacturing business contributed RMB9.627 billion, representing a year-on-year growth of 28.31%, maintaining a high growth rate. Investment in research and development amounted to RMB479 million, representing a year-on-year increase of 28.29%. Pharmaceutical services recorded revenue of RMB66.252 billion, representing a year-on-year increase of 13.69%. The Company recorded a net profit attributable to the shareholders of the listed companies of RMB2.033 billion, representing a year-on-year growth of 5.62%, to which the pharmaceutical manufacturing contributed a profit of RMB906 million, representing a year-on-year growth of 21.65% and the pharmaceutical services contributed RMB912 million, representing a year-on-year increase of 11.60%. The profit from equity investments was RMB353 million, representing a decrease of 9.74% year-on-year. The Company's net profit increased by 11.58% year-on-year after deducting non-recurring profit or loss and profit from equity investments.

The Company's profitability kept increasing stably. Its integrated gross profit margin was 14.10%, representing an increase of 1.84 percentage point on a year-on-year basis. The integrated gross profit margin of pharmaceutical manufacturing and pharmaceutical distribution increased by 5.35 percentage points and 0.62 percentage point, respectively. The operating profit margin of the Company was 4.18% net of the administrative, sales, and R&D expenses, representing an increase of 0.17 percentage point year-on-year.

The Company maintained sound operating quality. The advantages brought about by the industry & commerce integration model became prominent in an environment with complex and varying industry policies. During the Reporting Period, the operating cash flow achieved a net inflow of RMB1.081 billion.

Performance drivers and operation highlights in the first half of the year

Pharmaceutical manufacturing

During the Reporting Period, the Company's sales revenue from the pharmaceutical manufacturing business was RMB9.627 billion, representing a year-on-year growth of 28.31%; the gross profit margin was 57.66%, representing a year-on-year growth of 5.35 percentage points.

The increase of sales income of pharmaceutical manufacturing mainly benefited from the implement of key product focus strategy and the improvement of "one product one policy". The sales revenue of 60 key species was RMB5.158 billion, representing an increase of 30.19% on a year-on-year basis. The gross profit margin of key species was 74.92%, representing an increase of 4.75 percentage points on a year-on-year basis. Among key products, 41 species had higher or the same growth rate of same product types of IQVIA.

During the Reporting Period, the Company continued to optimize the marketing system, insisted on performing benchmarking management, created professional and high-quality marketing talents, pushed forward lean management of marketing channels to create a first-class marketing system. Key actions are as follows:

- (1) Marketing Department I: hydroxychloroquine sulfate tablets (Fenle) were principally marketed by academic promotion through differentiated competition with competing products in such areas as rheumatism immunization to establish the core position and highlight the clinical values. In the first half of 2018, sales income was RMB320.25 million, representing an increase of 12.58% on a year-on-year basis, accounting for 79% of market share (from IQVIA market data, the same as follow) and exceeding the originator product; for Duloxetine Hydrochloride Enteric-coated Tablets and Capsules (Aosiping), the department digs their academic values in terms of curing Major Depressive Disorder so as to increase their awareness for using as specialized drugs. In the first half of 2018, sales income of RMB125.87 million was recorded, representing a year-on-year growth of 41.28%, exceeding the originator products.
- (2) Marketing Department II: For Bi-dobacterium triple active bacteria capsule/powder (Bifico), the department adhered to academic orientation and OTC promotion, maintaining relatively fast growth. In the first half of 2018, its sales income was RMB280.06 million, representing an increase of 29.85% year-on-year. Through in-depth distribution on the channels, Methotrexate Tablets recorded sales income of RMB100.63 million in the first half of 2018, representing an increase of 42.67% year-on-year. With the deepening of lean investment inviting, the regional coverage of Albuterol Inhaler gradually expanded and the end sales significantly increased to record a sales income of RMB188.35 million in the first half of 2018, representing a year-on-year growth of 298.57%.

During the Reporting Period, the Company increased investments in research and development. In the first half of the year, R&D expenses amounted to RMB479 million, representing an increase of 28.29% year-on-year. The Company proactively pushed forward the strategy of innovative development and international development, establishing R&D and industrialization platforms for new products in various locations across the world. Through acquisition, the Company established the SPH Philadelphia Laboratory in the United States, which serves as the overseas research platform for high-end preparations where the Company carries out drug development and application registration in the U.S., with an aim of submitting applications to both the China Food and Drug Administration ("CFDA") and the US FDA and meeting clinical needs, thereby accelerating the capacity enhancement for the Company's products. The Company officially launched the American San Diego R&D Center for overseas cooperation and equity investment in relation to biological drugs, providing the Company with access to state-of-the-art bio-pharmaceutical technologies in the world and improving the Company's innovation capacities in the bio-pharmaceutical field. The Company cooperated with leading high-end preparation teams to jointly establish Shanghai Huiyong Pharmaceutical Research Co., Ltd. (上海惠永藥物研究有限公司), which focuses on research and development of new-type preparations, critical equipment, drug delivery devices, and pharmaceutical excipients. Meanwhile, the Company entered into a research and development strategic framework agreement with Italian company Bracco Imaging S.p.A. to support the Company's development of innovative drugs for cancer.

Report of The Board of Directors

In respect of innovative drugs, the Company obtained a total of 6 clinical approvals: injection recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Coupling Agent (proposed to be used for Anaplastic large-cell lymphoma (ALCL), Hodgkin lymphoma (HL), and Cutaneous T cell lymphoma (CTCL)), SPH3348 Tablet (proposed to be used for treatment lung cancer, liver cancer, and gastric cancer), hydroxyl triptolide tablet (proposed to be used for the treatment of AIDS chronic abnormal immune activation), injection recombinant anti-HER2 humanized monoclonal antibody-MCC-DM1 coupling agent (proposed to be used for the treatment of HER2 positive locally advanced or metastatic breast cancer). The clinical application for one drug was officially accepted: SPH4480 API and its tablets (proposed to be used for diabetes).

In respect of generic drugs, the Company will continue to greatly implement the consistency evaluation works on the quality and efficacy of generic drugs, and strive for seizing the market advance chance via consistency evaluation. During the Reporting Period, Fluoxetine Hydrochloride Capsules became the first product to be approved in China. Captopril Tablets became one of the first batch of products to be approved in China. Metformin Hydrochloride Sustained-Release Tablets, Ceftriaxone Sodium for Injection, Cefalexin Capsules, Ibuprofen Sustained Release Capsules, Metformin Hydrochloride Tablets, and Hydrochlorothiazide Tablets completed evaluation and submitted the results to China Food and Drug Administration, with nearly half of the products entering the clinical study stage. During the Reporting Period, to increase its capacity utilization rate, the Company strengthened quality management throughout the lifecycle of drugs. The Company actively participated in pilot implementation of the Market Authorized Holder (MAH) System where it obtained the drug approval documents in respect of the supplemental application for Pyridostigmine Bromide Tablets and Carbamazepine Tablets, becoming the Market Authorized Holder of the said drugs.

In respect of industrial investment and merger & acquisition, the Company actively seized industry opportunities to carry out strategic layout, so as to enhance core industrial competitiveness. The Company adhered to the integrated development of crude drugs and preparations, reinforced the extension and auxiliary of industry train, promoted the extension of the exclusive crude drug Yinxing Tongzhi into high-end preparation, and acquired 51% of equity interest in Zhejiang Jiuxu Pharmaceuticals Co., Ltd. To fill product shortage of the Company in natural bio-protein and subdivision of critical illness, enrich the sales of over-billion product line and enhance the industrial core competitiveness, the Company entered into a stock purchase agreement with Takeda Pharmaceutical to acquire an additional 26% of equity interest in Techpool Bio-pharma Co., Ltd. and become its controlling shareholder. To establish a bio-pharmaceutical platform and extend the Company's competitive advantages in innovative drug segments such as gene therapy, immune cellular therapy, and biologic antibody therapy, the Company acquired the minority interest in Shanghai Sunway Biotech Co., Ltd. to achieve whole ownership. In addition, the Company strategically ventured into nuclear medicine which has higher industry barrier, participated in the initial public offering of China Isotope & Radiation Corporation in Hong Kong, so as to explore the synergy with the company in various areas including business expansion, marketing, and distribution and delivery.

Pharmaceutical distribution

During the Reporting Period, the Company's pharmaceutical distribution business achieved sales revenue of RMB66.252 billion, representing an increase of 13.21% year-on-year. The gross profit margin was 6.68%, representing an increase of 0.62 percentage point year-on-year.

During the Reporting Period, the Company actively grasped the industry opportunity to lead industry integration & upgrade and to perfect the network layout throughout the country. It successively completed the acquisition of distribution businesses in such provinces as Jiangsu, Shanghai, Liaoning, Guizhou, Sichuan, Anhui, and Hainan to expand the business coverage in key prefecture-level cities in these cities.

The integration of SPH Cardinal Health proceeded as scheduled during the Reporting Period. The alignment team comprising the core management and 63 critical employees for business functions from both companies has been established to maintain business stability and carry out full integration and alignment in various areas including business, personnel, finance, organizational structure, and information system, on the principle of business development. Central management of back office has been achieved, preliminary fusion of DTP (direct-to-patient) pharmacies and the sales segment began to materialize, and breakthroughs in the hospital supply chain business have been achieved in regions such as Chongqing and Sichuan that were previously covered by Cardinal Health. It is expected that the new management structure and management model will be adopted for trial in the second half of the year. The medical equipment platform of SPH Keyuan Xinhai Pharmaceutical Co., Ltd. began to achieve a sizable scale and the company maintained its leading position in the vaccine segment. It expanded the medicine services for clinical trial and had over 100 projects under operation.

As the largest service provider for imported drugs in China, the Company has long been serving internationally renowned pharmaceutical companies such as Roche Pharmaceutical, BMS, and AstraZeneca. During the Reporting Period, the Company entered into a strategic cooperation agreement with Sino-American Squibb for the significant new PD-1 drug Opdivo; entered into strategic cooperation agreement for products with Shanghai Roche Pharmaceutical Co., Ltd. to cooperate primarily on such areas as market expansion of new drugs and provision of channel value-added services for patients; entered into strategic cooperation and national-wide distribution agreement with Abbott China for Point-of-Care Testing (POCT) products to carry out strategic cooperation in distribution and logistics of POCT products. In addition, the Company obtained national distribution rights for the following important imported products: Spectra® Optia Apheresis System and related consumables of Japanese company Terumo, all bottled albumin products of Irish company Shire, key cancer drug Lenvima (Lenvatinib Mesylate) of Japanese company Eisai Pharmaceuticals, new HIV drug Genvoya of American company Gilead Sciences, Inc., etc.

Report of The Board of Directors

Pharmaceutical retail

During the Reporting Period, the Company achieved RMB3.134 billion of sales revenue in pharmaceutical retail business, representing a year-on-year growth of 15.45%. The gross profit margin was 15.61%, representing a year-on-year decrease of 0.39 percentage point.

As at the end of the Reporting Period, the Company had 1,981 chain retail pharmacies under its brand family, including 1,324 directly operated pharmacies. In addition, the Company had 50 operating pharmacies with medical institutions and 77 DTP pharmacies. Meanwhile, the Company actively participated in the Shanghai community's comprehensively reformed prescription extension projects to help the development of hierarchical medical system. At present, 230 community hospitals and health service centers in Shanghai have been covered, representing a market share of nearly 70%. In the first half of 2018, the number of prescriptions obtained exceeded 410,000, representing an increase of 115.4% year-on-year.

As a business platform for the development of new retail of prescription drugs, SPHC launched Series-B round of funding, further expanding the scale of "Yiyao – Electronic Prescription" platform, which dealt with more than 1.3 million electronic prescriptions, docked over 220 hospitals and cooperated with more than 130 thousand doctors in the first half of 2018. Meanwhile, after the acquisition of the business of the Cardinal Health China, SPHC officially launched the integration with the Cardinal Health China DTP pharmacies. With the joining of the Cardinal Health China DTP stores, the Company will further establish its position as the largest DTP service network for new special drugs. At the same time, SPHC entered into a comprehensive strategic cooperation agreement with the government of Jingkou District, Zhenjiang City, Jiangsu Province (江蘇省鎮江市京口區政府) to jointly establish the new layout of "Internet + medical health".

Business Plan of the Company for the Second Half of the Year

In the second half of the year, the Company will continue to focus on the work policy developed at the beginning of the year, adhere to intensive development, innovation development, international development and financing & production integrated development to promote the implement of key works in an orderly manner and make sure that the annual operating plan is completed.

In respect of manufacturing, the Company will further speed up the systematic construction of three major centers including marketing, research and development and manufacturing and improve the synergy among sales, manufacturing and research and development. The Company will continuously give high priority to the optimization of marketing system so as to build a first-rate marketing system. It will also be committed to product focus and the improvement of professional marketing ability to gradually establish its advantage in focus domains. For research and development, the Company will continue to increase investment in research and development, further implement the strategy of innovative development and international development, accelerate innovation cooperation and product license-in, continuously optimize R&D and innovation mechanism and speed up the construction of overseas R&D centers, pushing forward the establishment of R&D platform and the R&D of projects of high-end generic drugs and improved innovative drugs. The Company will seize the policy benefits brought about by the consistency evaluation and continuously push forward consistency evaluation of the quality and curative effect of generic drugs. In the second half of the year, 30 varieties and specifications are expected to be applied to the assessment center of the State Drug Administration. The Company shall advance the construction projects of key assets as planned, promote lean management and speed up the construction of quality management system, in order to create a leading industrial manufacturing system.

In respect of services, the Company will hold the industrial opportunities brought by two-invoice system, continue to deepen national network layout, strengthen coordination and integration of newly covered regions and adhere to regional leadership and service innovation, so as to enhance its position in industry. By seizing the policy opportunities of tiered medical system, the separation of medical treatments and drug sales and medical institutions procurement, the Company is committed to open cooperation and business development, accelerate the optimization and layout of new retail of prescription drugs and persistently improve comprehensive value of innovative services for medical institutions, retail terminals, patients and suppliers.

In respect of capital operation, giving priority to its long-term and sustainable development, the Company will persistently maintain a stable capital structure, make overall management of investment and financing activities of the Company, pay constant attention to the opportunities of merger and acquisition of overseas high quality assets, timely launch equity financing and debt financing and actively utilize social capital to strongly support the needs of the Company's strategy development and use capital to drive the leapfrog development of all business segments.

Report of The Board of Directors

(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 (%)
Operating income	75,878,692,993.45	65,778,872,978.60	15.35
Operating costs	64,930,920,634.53	57,520,659,569.75	12.88
Sales costs	5,217,803,090.83	3,574,277,162.58	45.98
Administration costs	1,829,231,421.81	1,475,239,349.06	24.00
R&D expenses	478,748,728.62	373,176,754.75	28.29
Finance costs	638,015,032.77	384,750,034.82	65.83
Assets impairment loss	37,477,531.55	41,153,554.29	-8.93
Credit loss	-503,817.64	/	/
Gain from changes in fair value	2,988,974.47	-3,547,480.05	/
Gain on disposal of assets	3,505,044.67	11,705,120.50	-70.06
Other income	124,743,854.67	63,793,389.32	95.54
Non-operating income	58,487,088.40	123,581,944.90	-52.67
Non-operating expense	39,469,452.97	67,483,629.28	-41.51
Income tax expense	649,784,268.74	547,594,030.77	18.66
Net cash flow generated from operating activities	1,080,517,493.81	1,259,512,127.76	-14.21
Net cash flow generated from investing activities	-5,216,615,970.75	-1,334,105,067.24	-291.02
Net cash flow generated from financing activities	7,209,929,768.44	2,037,374,650.00	253.88

Reasons for changes in operating income: Increase of sales income during the Reporting Period

Reasons for changes in operating costs: Increase of sales scale during the Reporting Period

Reasons for changes in sales costs: Increase of sales scale during the Reporting Period

Reasons for changes in administration costs: Increase of administration costs resulting from the increase in the scale of operation during the Reporting Period

Reasons for changes in R&D expenses: Increase in R&D investment during the Reporting Period

Reasons for changes in finance costs: Increase of interest expense during the Reporting Period

Reasons for changes in assets impairment loss: Reclassification of bad-debt loss to credit impairment loss during the Reporting Period

Reasons for changes in credit impairment loss: Reclassification of bad-debt loss to credit impairment loss during the Reporting Period

Report of The Board of Directors

Reasons for changes in gain from changes in fair value: Increase of fair value of derivative financial instruments during the Reporting Period

Reasons for changes in gain on disposal of assets: Decrease of gains from disposal of fixed assets and intangible assets during the Reporting Period

Reasons for changes in other income: Increase of government grants received during the Reporting Period

Reasons for changes in non-operating income: Decrease of income from relocation compensation

Reasons for changes in non-operating expense: Decrease of expense on contingencies

Reasons for changes in income tax expense: Increase of tax payable by enterprises during the Reporting Period

Reasons for changes in net cash flow generated from operating activities: Decrease in collection of loans during the Reporting Period

Reasons for changes in net cash flow generated from investing activities: Increase of receipt of payment from subsidiaries during the Reporting Period

Reasons for changes in net cash flow generated from financing activities: Issue of new H shares and increase of receipt of bank borrowing during the Reporting Period

- (1) Detailed Explanations on Significant Changes in the Composition of Profits or the Source of Profits of the Company
☐ Applicable ☒ Not applicable
- (2) Analysis of Principal Business by Industry
☒ Applicable ☐ Not applicable

Unit: RMB

By industry	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income year-on-year(%)	Increase/decrease in operating cost year-on-year(%)	Increase/decrease in gross profit margin year-on-year(%)
Manufacturing	9,626,871,235.51	3,955,081,067.26	58.92	28.31	13.44	+5.39 percentage points
Distribution	66,252,308,799.12	61,712,915,608.53	6.85	13.21	12.45	+0.63 percentage point
Retail	3,133,819,683.01	2,634,992,024.68	15.92	15.45	16.04	-0.41 percentage point
Others	48,871,863.99	29,936,959.18	38.74	60.09	153.70	-22.60percentage points
Offsetting	-3,722,836,545.89	-3,666,578,226.46				

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

Report of The Board of Directors

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

☐ Applicable ☒ Not applicable

(III) Analysis on Assets and Liabilities

☒ Applicable ☐ Not applicable

1. Assets and Liabilities

Unit: RMB

Items	Current Ending Amount	Percentage of Ending Amount to Total Assets (%)	Last Ending Amount	Percentage of Last Ending Amount to Total Assets (%)	Ratio of Current Ending Amount to Last Ending Amount (%)	Description
Derivative financial assets	3,601,975.33	0.003	642,578.95	0.001	460.55	Increase of fair value of derivative financial assets during the Reporting Period
Prepayments	2,090,666,188.78	1.76	1,391,087,485.59	1.47	50.29	Change of combination scope during the Reporting Period
Other Receivables	2,014,886,417.17	1.69	1,539,006,618.57	1.63	30.92	Change of combination scope during the Reporting Period
Other non-current assets	2,844,801,958.46	2.39	1,114,124,794.59	1.18	155.34	Reclassification due to changes in accounting policies during the Reporting Period
Available-for-sale financial assets	–	/	109,081,061.95	0.12	/	Reclassification under new financial instrument standards during the Reporting Period
Other equity instrument investments	62,673,690.67	0.05	–	/	/	Reclassification under new financial instrument standards during the Reporting Period
Other non-current financial assets	233,171,779.53	0.20	–	/	/	Reclassification under new financial instrument standards during the Reporting Period
Construction in progress	2,001,601,842.10	1.68	1,537,445,008.35	1.63	30.19	Increase in project construction investment during the Reporting Period

Report of The Board of Directors

Items	Current Ending Amount	Percentage of Ending Amount to Total Assets (%)	Last Ending Amount	Percentage of Last Ending Amount to Total Assets (%)	Ratio of Current Ending Amount to Last Ending Amount (%)	Description
Intangible assets	3,687,104,392.40	3.10	2,640,503,113.62	2.80	39.64	Acquisition of subsidiaries during the Reporting Period
Goodwill	10,603,457,700.25	8.91	6,606,706,225.89	7.00	60.50	Acquisition of subsidiaries during the Reporting Period
Deferred income tax assets	800,118,871.09	0.67	566,264,413.08	0.60	41.30	Increase in impairment reserve during the Reporting Period
Other non-current assets	382,235,239.13	0.32	733,922,584.47	0.78	-47.92	Decrease in prepaid investment payment during the Reporting Period
Short-term borrowings	25,224,341,602.74	21.20	13,745,925,305.56	14.57	83.50	Increase in bank borrowings during the Reporting Period
Derivative financial liabilities	1,057,913.16	0.001	2,433,604.67	0.003	-56.53	Decrease fair value of derivative financial liabilities during the Reporting Period
Advances	–	/	1,032,469,501.56	1.09	/	Reclassification of advances to contract liabilities during the Reporting Period
Contract liabilities	1,100,140,992.82	0.92	–	/	/	Reclassification of advances to contract liabilities during the Reporting Period
Other payables	8,476,092,676.63	7.12	5,655,972,918.17	6.00	49.86	Increase in accrued expenses during the Reporting Period
Non-current liability due within one year	2,084,754,656.33	1.75	57,573,051.38	0.06	3,521.06	Increase in bonds payable during the Reporting Period
Bonds payable	–	/	1,999,256,567.89	2.12	/	Change of bonds payable to non-current liability due within one year during the Reporting Period
Deferred income tax liabilities	867,527,579.64	0.73	620,149,536.71	0.66	39.89	Acquisition of subsidiaries during the Reporting Period

Other information: As at 30 June 2018, the Company's capitalization ratio (net debt/total equity) was 39.11%.

Report of The Board of Directors

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

☒ Applicable ☐ Not applicable

At the end of the Reporting Period, the Company's properties, buildings, machineries and equipment at book value of RMB262,406,211.85 (original price: RMB367,185,747.31) and land use rights with site area of 12,201,142.08 m² at book value of RMB90,348,453.52 (original price: RMB110,971,741.99) were pledged as collaterals for short-term borrowings of RMB363,491,684.20, long-term borrowings of RMB88,500,000.00 and long-term borrowings due within one year of RMB1,848,706.20.

At the end of the Reporting Period, accounts receivable at book value of RMB197,243,456.23 were pledged as collaterals for long-term borrowings of RMB112,067,970.00 and long-term borrowings due within one year of RMB75,313,113.00; accounts receivable at book value of RMB593,156,023.86 and banker's acceptance bills receivable of RMB144,046,012.16 were pledged as collaterals for short-term borrowing of RMB526,693,290.71.

At the end of the Reporting Period, borrowings of RMB4,135,375,000.00 for bank collaterals were obtained by pledging 100% equity of the Group's subsidiaries Shanghai Pharma Century Global Ltd., Cardinal Health (L) Co., Ltd. and Cardinal Health (HK) Co., Ltd.

At the end of the Reporting Period, the Group's restricted monetary fund balance of RMB1,404,806,360.39 was mainly security deposits to apply to the bank to draw a banker's acceptance and a letter of credit.

3. Other information

☐ Applicable ☒ Not applicable

(IV) Analysis on Investment Conditions

1. Overall Analysis on External Equity Investments

☒ Applicable ☐ Not applicable

	Unit: RMB0'000
Amount of Investments during the Reporting Period	557,655.29
Increase or Decrease in Amount of Investments	432,203.43
Amount of Investment in the Same Period of Prior Year	125,451.86
Percentage of Increase or Decrease in Amount of Investments (%)	344.52

Report of The Board of Directors

(1) Significant Equity Investments

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Acquiree	Time of acquisition	Purchasing cost	Principal business activities	Proportionate interest acquired	Acquisition method	Capital source	Partner	Income of acquiree from acquisition date to the year end (RMB0'000)	Net profit of acquiree from acquisition date to the year end (RMB0'000)	Whether involved in litigation
Cardinal Health (L) Co., Ltd.	2 February 2018	363,346.42	Sales of drugs	100.00%	Acquisition from third parties	External financing and borrowing	Third parties	901,915.00	-3,400.70	No
Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	1 May 2018	59,021.66	Sales of drugs	51.74%	Acquisition from third parties	Own fund	Third parties	67,947.81	2,049.24	No

(2) Significant Non-equity Investments

☐ Applicable ✓ Not applicable

(3) Financial Assets Measured at Fair Value

✓ Applicable ☐ Not applicable

Unit: RMB0'000

Code	Name	Initial Investment Cost	Ending Carrying Amount	Profit or Loss during Reporting Period	Change in Owners' Equity during Reporting Period	Change in Fair Value	Source of Capital	Purchase or Sales during the Reporting Period
000931	Zhongguancun Development Group	9.93	13.73	-3.55	/	-3.55	Own fund	No
600675	China Enterprise	39.00	386.47	-101.54	/	-101.54	Own fund	No
601328	Bank of Communications	472.01	329.17	-26.95	/	-26.95	Own fund	No
00455(HK)	Tianda Holdings	8,785.19	6,267.37	/	-767.26	-767.26	Own fund	No
	Derivative financial assets	/	360.20	302.70	/	302.70	/	Purchased
Total		9,306.13	7,356.94	170.66	-767.26	170.66	/	

Report of The Board of Directors

(V) Sales of Major Assets and Equities

☐ Applicable ☒ Not applicable

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

☒ Applicable ☐ Not applicable

Unit: RMB100 million

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Owners' Equity	Business Income	Net Profit
Shanghai Pharma Co., Ltd.	Sales of drugs	100%	50.00	467.42	107.95	400.67	7.43
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100%	13.00	202.30	47.00	154.71	2.72
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100%	11.92	42.12	21.92	26.13	1.59
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	2.25	21.85	14.99	8.15	1.16
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	19.43	11.80	13.69	0.49
Shanghai TCM Co., Ltd.	Production and sales of drugs	100%	8.08	52.65	22.29	24.00	2.18
SPH Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75%	1.29	16.23	14.41	5.70	0.58
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	0.79	36.75	19.00	26.30	1.29
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	5.46	27.94	21.99	5.39	2.60
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	10.12	6.21	6.17	0.34
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	6.45	4.75	2.22	0.15
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	0.84	3.82	2.57	1.91	0.25
Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	0.51	7.46	4.19	2.80	0.24

Report of The Board of Directors

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Owners' Equity	Business Income	Net Profit
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	5.37	3.22	2.54	0.53
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	1.01	2.17	1.16	0.97	-0.01
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	1.27	5.81	2.95	1.21	0.38
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	90.25%	1.41	5.06	3.55	1.33	0.19
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	7.76	1.58	5.62	0.21
Zeus Investment Limited	Production and sales of health products	59.61%	15.63 ^{note}	21.25	15.47	4.39	0.04

Note: The registered capital of Zeus Investment Limited was in Australian dollar. The amount has been translated based on the middle rate of Australia dollar against RMB published by the central bank as at the end of the Reporting Period.

(VII) 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

Report of The Board of Directors

(III) 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 gradual implementation of Consistency of Quality and Efficacy Evaluation for Generic Drugs, continuous reform on assessment and approval for pharmaceutical products, gradual and full implementation of two-invoice system, continuous press on tender price reduction, full implementation of zero mark-up of drug and medical charge control, significant effect has been brought to the development of the pharmaceutical industry, bringing risks of industry competitive landscape to the Company;
2. The comprehensive implementation of the two-invoice system had an impact on the sales to distributors, and tender price reduction and zero mark-up of drug resulted in unoptimistic return period of business.
3. The fluctuations in prices of build medicinal materials have brought significant effect on the cost of the Company's TCM products;
4. Exchange risk may arise from the settlement currency used in overseas purchase of drugs;
5. Risk of fluctuation in export prices of APIs;
6. Environmental Protection Risk: With the issuance of new environmental protection law and regulations, the environmental protection requirements will become stricter and the control of pollutants from the production of APIs will be strengthened, resulting in increase in expenses paid by the Company for work safety, compliance and environmental protection;
7. Impairment test for goodwill is based on the forecast of future cash flow and contains the management's relevant assumptions and professional judgments. Goodwill is exposed to certain risks of impairment.

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

III. DISCLOSED PURSUANT TO THE REQUIREMENTS OF THE HONG KONG LISTING RULES

1. Capital structure

As at the end of the Reporting period, the asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 62.96%, representing an increase of 5.01 percentage points over the beginning of the period. The interest coverage ratio (EBIT/Interest Expenses) was 5.86 times (same period of 2017: 7.51 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 39.11%.

During the Reporting Period, Shanghai Pharmaceuticals has a good liquidity and financial resources. As at the end of the Reporting period, the balance of bank loans and bonds payable due within one year were RMB26.311 billion and RMB2.0 billion respectively, of which the balance of loans in New Zealand Dollar amounted to RMB268 million, the balance of loans in US Dollar amounted to RMB4.135 billion, and the balance of loans and bonds payable at a fixed ratio amounted to RMB22.531 billion; the net amount of accounts receivable and notes receivable was RMB40.728 billion, representing an increase of 25.37% on a year-on-year basis, the increased receivable is mainly due to business expansion and the expanded range of consolidation; the balance of accounts payable and notes payable was RMB33.217 billion, representing an increase of 21.70% on a year-on-year basis.

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

2. Exchange Rate Fluctuation Risk and Any Hedging

Shanghai Pharmaceuticals conducts its operations mainly in China and makes settlements in RMB for its principal businesses. However, foreign exchange risks still exist in recognized assets and liabilities denominated in foreign currencies and future foreign currency transactions (the main currencies denominating are US dollar and Hong Kong dollar, Australian dollar and New Zealand dollar). The Company is not involved in any related hedging.

Report of The Board of Directors

3. Contingent Liabilities

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

Guarantor	Secured Party	Amount Secured (RMB'000)	Starting Date	Expiry Date
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	1,012.10	23 March 2018	23 September 2018
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	250.15	25 May 2018	25 August 2018
Shanghai Pharma Co., Ltd.	Chongqing Medicines Shanghai Sales Co., Ltd.	630.12	25 May 2018	25 November 2018

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

4. Employees, Remuneration Policy and Training Scheme

As of 30 June 2018, Shanghai Pharmaceuticals had a total of 44,288 employees, including 898 R&D personnel.

The Company adhered to the remuneration management concept of “Position, Ability, Performance and Market” and constructed differentiated remuneration systems for management staff, marketing staff, R&D staff, technical quality management staff and production staff so as to effectively motivate the employees and stimulate their creativity, continually improve the Company’s business results and enhance the achievement of the Company’s strategic goal. The Company carried out market research of remuneration, improving the staff revenue growth and underpinning mechanisms related to the Company’s operating performance, so that employees can share the achievements of enterprise development. The Company improved annual and term performance evaluation system of senior management of the Company and management group of the subsidiaries and upgraded performance-based incentive and restraint mechanism.

Focusing on the Company’s strategy and the annual priorities, combined with the staff’s own positions and career development needs, the Company provided professional, efficient and personalized training courses and solutions for the staff. According to the requirements of the national regulatory authorities, the Company organized employees to receive GMP, GSP, operation skills, occupational safety, environmental protection and other systematic training every year. According to the requirements for the compliance of listed companies, the Company organized management at all levels to receive legal, internal control, risk management and other special training. In order to improve the management level and leadership ability, the Company carried out the senior management leadership development project and the “Large Wild Goose” (new manager) learning project in forms of lectures on special topics, purpose-driven visiting and internal sharing.

Significant Events

I. GENERAL MEETING

Session	Date of convening	Websites designated for information disclosure of resolutions	Date of information disclosure of resolutions
2017 Annual General Meeting	26 June 2018	The Company's announcement Lin No. 2018-036 was disclosed on the Shanghai Stock Exchange (http://www.sse.com.cn/).	27 June 2018

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

Significant Events

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 occurs during the Reporting Period ☒ No material litigations and arbitrations occurs 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

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

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

Equity incentives

☐ Applicable ☒ Not applicable

Other instructions

☐ Applicable ☒ Not applicable

Employee share schemes

☐ Applicable ☒ Not applicable

Other incentive schemes

☐ Applicable ☒ Not applicable

Significant Events

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 2018	Please refer to the Company's announcement Lin No. 2018-013
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Renewal of the Commercial Factoring Services Framework Agreement with Shangshi Commercial Factoring Co., Ltd. and Daily Connected Transactions/ Continuing Connected Transactions	Please refer to the Company's announcement Lin No. 2018-015
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Renewal of the Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Related/ Connected Transactions	Please refer to the Company's announcement Lin No. 2016-010
The Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Renewal of the Daily Connected Transactions Framework Agreement with Jiangxi Nanhua Medicines Co., Ltd. and Daily Connected Transactions/Continuing Connected Transactions	Please refer to the Company's announcement Lin No. 2016-016

Significant Events

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

✓ Applicable ☐ Not applicable

Unit: RMB0'000

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 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	Leasing housing to connected party	Leasing housing to connected party	Negotiated based on the market price	207.62	66.33	cash	207.62	N/A
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	80.56	100.00	cash	80.56	N/A
Shanghai Pharmaceutical (Group) Co., Ltd.	Parent company	Leasing housing to connected party	Leasing housing to connected party	Negotiated based on the market price	105.38	33.67	cash	105.38	N/A
Shanghai Pharmaceutical (Group) Co., Ltd.	Parent company	Leasing housing and equipment and accepting property services from connected party	Leasing housing and equipment	Negotiated based on the market price	2,023.25	100.00	cash	2,023.25	N/A
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	267,104.21	100.00	cash	267,104.21	N/A
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	199,193.37	100.00	cash	199,193.37	N/A
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	105,475.50	100.00	cash	105,475.50	N/A

3. Events not disclosed in the temporary announcements

☐ Applicable ✓ Not applicable

Significant Events

(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

Overview of Events	Search Index
Connected Transaction Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. in Relation to Proposed Acquisition of 100% Equity Interest in Wholly-Owned Subsidiaries of a Controlling Shareholder, Further Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. in Relation to Proposed Acquisition of 100% Equity Interest in Wholly-Owned Subsidiaries of a Controlling Shareholder and Connected Transaction, Progress Announcement Shanghai Pharmaceuticals Holding Co., Ltd. in Relation to Proposed Acquisition of 100% Equity Interest in Wholly-Owned Subsidiaries of a Controlling Shareholder and Connected Transaction	Please refer to the Company's announcements Lin No.2018-019, Lin No.2018-021 and Lin No.2018-039

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
Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. in Relation to Participation in the Initial Public Offering in Hong Kong of China Isotope & Radiation Corporation and Connected Transaction	Please refer to the Company's announcements Lin No. 2018-032

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

On 15 November 2017, SIIC Medical Science and Technology (Group) Limited, a wholly-owned subsidiary of the Company, entered into a Shareholder Loan Agreement with Shanghai Industrial Investment (Holdings) Co., Ltd. in Shanghai, under which Shanghai Shangshi provided SIIC Medical Science and Technology a loan of US\$100 million (translated to RMB664 million. See the Company's announcement Lin 2017-048 for details) to support the overseas investment merger by the Company and its subsidiaries. During the Reporting Period, the Company has repaid Shanghai Shangshi the principal and interest of the loan totaling US\$101.4 million.

3. *Events not disclosed in the temporary announcements*
☐ Applicable ☒ Not applicable

Significant Events

(V) Other Significant connected transactions

☐ Applicable ☒ Not applicable

(VI) Other

☐ Applicable ☒ Not applicable

XI. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

1 Trusteeship, contracting and leasing

☐ Applicable ☒ Not applicable

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	Guaranteed party	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Any counter Guarantee	Guarantee provided to related parties
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,051,561.91	24 October 2017	24 January 2018	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,124,716.48	24 October 2017	24 April 2018	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,073,145.13	21 December 2017	21 March 2018	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,213,458.89	21 December 2017	21 June 2018	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,098,921.09	23 March 2018	23 June 2018	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	1,012,105.23	23 March 2018	23 September 2018	Joint guarantee	No	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	250,153.12	25 May 2018	25 August 2018	Joint guarantee	No	No	No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	630,122.90	25 May 2018	25 November 2018	Joint guarantee	No	No	No	No	Associate
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)											3,991,302.34
Total remaining balance guaranteed at the end of the Reporting Period (A)(excluding those provided to its subsidiaries)											1,892,381.25
Guarantees provided by the Company and its subsidiaries to subsidiaries											
Total value guaranteed for its subsidiaries during the Reporting Period											2,446,028,227.42
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)											3,437,620,942.21
Total value guaranteed by the Company (including those provided to its subsidiaries)											
Total value guaranteed (A+B)											3,439,513,323.46
Percentage of total value guaranteed in the Company's net assets (%)											9.2
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)											2,434,503,914.52
Amount of total value guaranteed exceeding 50% of net assets (E)											
Total of value guaranteed for the above three items (C+D+E)											2,434,503,914.52
Details of possible joint and several settlement liabilities for undue guarantee											
Details of guarantee											

3 Other material contracts

☐ Applicable ☒ Not applicable

XII. POVERTY ALLEVIATION MEASURES OF THE LISTED COMPANY

☐ Applicable ☒ Not applicable

XIII. CONVERTIBLE CORPORATE BONDS

☐ Applicable ☒ Not applicable

XIV. ENVIRONMENT

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

☒ Applicable ☐ Not applicable

1. Information on discharge of pollutants

☒ Applicable ☐ Not applicable

No.	Name of key pollutant discharging units	Name of key pollutants	Discharge mode	Number and distribution of outlets	Discharge		Implemented standards for discharge of pollutants	Approved total amount of discharge/ Tonne
					concentration/ mg/L	Total discharge amount/Tonne		
1	Sine Pharmaceutical Factory	COD			42	3.83	Standards of Pollution Discharge Standard of Biopharmacy Industry (DB31/373-2010) and Water Quality Standard on Discharge of Sewage into Cities and Towns Sewer (GB/T31962-2015)	5.5
		Ammonia nitrogen			2.06	0.21		2.15
2	SPH New Asiatic	COD		One main outlet was established in the factory area	15	4.81	Standards of Pollution Discharge Standard of Biopharmacy Industry (DB31/373-2010) and Water Quality Standard on Discharge of Sewage into Cities and Towns Sewer (GB/T31962-2015)	Environmental protection authorities have not approved in 2018
		Ammonia nitrogen			7.632	3.34		
3	Zhongxi Sunve	COD	Continuous		22	0.70	Standards of Water Quality Standard on Discharge of Sewage into Cities and Towns Sewer (GB/T 31962-2015)	13.50
		Ammonia nitrogen			0.1	0.003		0.10
4	SPH No.1 Biochemical and Pharmaceutical	COD		One main outlet was established in the factory area	24.89	0.8913	DB 31/373-2006 Pollution Discharge Standard of Biopharmacy Industry	2.12
		Ammonia nitrogen			3.22	0.1153		0.33
		SO ₂		Three air outlets were distributed on the absorption equipment	1	0.0570	DB 31/387-2014 Emission Standard of Air Pollutants for Boilers (No.1 Modification List)	1.73
		NO _x			52.83	2.9787		17.25
		Volatile organic compound (VOCs)			5.77	0.2566	DB 31/933-2015 Emission Standard of Air Pollutants	0.68
5	Changzhou Pharmaceutical	COD	Interval	One main outlet was established in the factory area	317	29.11	Contract signed with the Changzhou Southeast Industrial Wastewater Treatment Plant Co., Ltd.	105
		Ammonia nitrogen			19.98	1.84		9.45

None of the above companies has exceeded the discharge standard.

Significant Events

2. Construction and operation of pollution prevention & treatment facilities

✓ Applicable ☐ Not applicable

No.	Key pollutant discharging units	Construction status	Running status
1	Sine Pharmaceutical Factory	Built a sewage treatment station with the daily capacity of 1,000 tonnes of sewage	Running normally with sewage discharged after meeting relevant standards
2	SPH New Asiatic	Built a sewage treatment station with the daily capacity of 4,000 tonnes of sewage	Running normally with sewage discharged after meeting relevant standards
3	Zhongxi Sunve	Built two sewage treatment stations with the daily capacity of 150 tonnes and 300 tonnes of sewage, respectively, and one exhaust gas incinerator	Running normally with sewage and exhaust gas discharged after meeting relevant standards
4	SPH No.1 Biochemical and Pharmaceutical	Built a biochemical sewage treatment station with the daily capacity of 330 tonnes of biochemical sewage	Running normally with sewage discharged after meeting relevant standards
5	Changzhou Pharmaceutical	Built a sewage treatment station with the daily capacity of 1,500 tonnes of sewage	Running normally with sewage discharged after meeting relevant standards

3. *Environmental impact assessment on construction project and other administrative licensing situations for environmental protection of the construction project*

✓ Applicable ☐ Not applicable

The construction of all 5 key pollutant-discharging companies was conducted with the environmental impact assessment procedures performed and the completion inspection and acceptance of the construction project was completed in accordance with the 'three simultaneousities' system, and all 5 companies have obtained or are applying for the Pollutant Discharge Permit. The EIA report of 'Metformin Hydrochloride International Project' of Sine Pharmaceutical Factory is under compilation and implementation. Two pipeline projects, the 'Gel' project and 'Injection' project, of SPH New Asiatic Pharmaceutical (Asia Pioneer Pharmaceutical Factory) obtained the environmental impact assessment approval in 2016 and are under construction. The 'Technological Upgrade Project of Raw Materials Workshop of SPH No. 1 Biochemical and Pharmaceutical Co., Ltd. at Jianchuan Road' (上海上藥第一生化藥業有限公司劍川路原料車間技改項目) has obtained EIA Report approval (Min Huan Bao Xu Ping [2018] No.9) from Minhang Environmental Protection Bureau.

4. *Contingency plan for emergency environmental incident*

✓ Applicable ☐ Not applicable

No.	Key pollutant discharging units	Environmental protection bureau accepting filing	Environmental protection filing no. of contingency plan for emergency environmental incidents	Date of filing
1	Sine Pharmaceutical Factory	Environmental Protection Bureau of Pudong New District	02-310115-2017-015-L	July 2017
2	SPH New Asiatic	Environmental Protection Bureau of Pudong New District	02-310115-2017-010-L	February 2017
3	Zhongxi Sunve	Environmental Protection Bureau of Fengxian District	02-310120-2017-026-H	October 2017
4	SPH No.1 Biochemical and Pharmaceutical	Environmental Protection Bureau of Minhang District	3102212015001 (Expired. Renewal being applied)	February 2015
5	Changzhou Pharmaceutical	Tianning Environmental Enforcement Bureau of Changzhou City	3204022018011M	February 2018

All of the above companies will conduct contingency drill and training on emergency environmental incidents in the second half of the year as per the requirements of the contingency plans.

Significant Events

5. *Environmental self-detection scheme*

☒ Applicable ☐ Not applicable

All of the five key pollutant discharging units have developed environmental self-monitoring scheme or installed automatic detection equipment. Meanwhile, they have commissioned professional third-party detection companies to test key pollutants, the results of which indicated that all discharge met relevant standards.

6. *Other environmental information which shall be disclosed*

☐ Applicable ☒ Not applicable

(III) Environmental information of companies other than those falling under key pollutant discharging units

☒ Applicable ☐ Not applicable

The Company enforced accountability, strengthened awareness, increased investment, and constantly improved in strict accordance with requirements of relevant environmental protection regulations. During the Reporting Period, the Company and its subsidiaries made the following efforts:

1. Passed the review for the certificate of environmental management system, and received annual review and monitoring of third parties. Tested waste water, exhaust gas, waste solid, and other pollutants of the Company. Results of the test indicated that all pollutants were discharged upon meeting relevant standards. Certificate renewal review is performed every three years.
2. Completed air pollution rectification and treatment, prepared and filed contingency plans, applied for pollutant discharge permits, and carried out publicity activities on the Environment Day; proactively performed self-inspection on environmental protection work, pointed out detected issues on-site and proposed rectification suggestions to help companies improve environmental management capabilities.

(III) Explanation of reasons for non-disclosure of environmental information of companies other than those falling under key sewage emission entities

☐ Applicable ☒ Not applicable

(IV) Description of the follow-up progress or changes in the disclosure of environmental information during the reporting period

☐ Applicable ☒ Not applicable

XV. INFORMATION 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

The Ministry of Finance issued the following revision and interpretations of Accounting Standards for Business Enterprise in 2017 and 2018:

1. Accounting Standards for Business Enterprise No.14 – Revenue (Revised);
2. Accounting Standards for Business Enterprise No.22 – Recognition and Measurement of Financial Instrument (Revised), Accounting Standards for Business Enterprise No.23 – Transfer of Financial Assets (Revised), Accounting Standards for Business Enterprise No.24 – Hedge Accounting (Revised), Accounting Standards for Business Enterprise No.37 – Presentation and Reporting of Financial Instrument (Revised);
3. Notice on Revision of the 2018 Illustrative Financial Statements (Cai Kuai [2018] No.15);

The Group implements the above accounting standards for business enterprise and revises relevant contents of the accounting policies from 1 January 2018. For details, see II (30) in Chapter 10.

(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

Significant Events

Progress on the litigation matters of Pien Tze Huang

- (1) Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd. (hereinafter referred to as 'Pien Tze Huang') sued Xiamen Traditional Chinese Medicine Co., Ltd. (hereinafter referred to as 'Xiamen Traditional Chinese Medicine'), Xiamen Evening News Media Development Co., Ltd. and Xiamen Daily at Zhangzhou Municipal Intermediate People's Court (hereinafter referred to as 'Zhangzhou Intermediate Court') for unfair competition. Xiamen Traditional Chinese Medicine filed an application for objection to jurisdiction to Zhangzhou Intermediate Court on 13 March 2014. On 4 April 2014, Xiamen Traditional Chinese Medicine received Civil Judgment (2014) Zhang Min Chu Zi No. 35-3, in which Zhangzhou Intermediate Court rejected the objection to the case's jurisdiction by Xiamen Traditional Chinese Medicine at first instance. On 13 April 2014, Xiamen Traditional Chinese Medicine appealed to Fujian Provincial Higher People's Court (hereinafter referred to as 'Fujian Higher Court') for objection to jurisdiction. On 23 June 2014, Fujian Higher Court issued Civil Judgment (2014) Min Min Zhong Zi No. 660 to revoke Civil Judgment (2014) Zhang Min Chu Zi No. 35-3 issued by Zhangzhou Intermediate Court at final instance and transferred the case to the jurisdiction of Xiamen Municipal Intermediate People's Court (hereinafter referred to as 'Xiamen Intermediate Court'). On 18 August 2014, Xiamen Traditional Chinese Medicine received Notice from Xiamen Municipal Intermediate People's Court, Fujian Province (2014) Xia Min Chu Zi No. 937. It was noted that Fujian Higher Court further transferred the case to the jurisdiction of Fuzhou Municipal Intermediate People's Court (hereinafter referred to as 'Fuzhou Intermediate Court'). On 22 October 2014, Xiamen Traditional Chinese Medicine received notice from Fuzhou Intermediate Court that the time period for producing evidence on the case was extended to 7 November 2014. On 5 December 2014, Xiamen Traditional Chinese Medicine received Notice on Members of Collegial Panel from Fuzhou Intermediate Court and the Statement of Claim submitted by Pien Tze Huang. Pien Tze Huang made some amendments to the original statement of claim. On 19 December 2014, Xiamen Traditional Chinese Medicine filed an objection to the jurisdiction of Fuzhou Intermediate Court for the reason that the amended claims of the plaintiff were beyond its scope of jurisdiction. According to the Civil Judgment (2014) Rong Min Chu Zi No. 1431-1 received by Xiamen Traditional Chinese Medicine on 9 January 2015, its objection to the jurisdiction was rejected by the Fuzhou Intermediate Court at the first instance. On 19 January 2015, Xiamen Traditional Chinese Medicine further submitted its appeal for objection to the jurisdiction to the Fujian Higher Court. On 4 March 2015, the Civil Judgment (2015) Min Min Zhong Zi No. 446 was issued by the Fujian Higher Court as a final verdict, which repealed the aforesaid appeal and affirmed that the lawsuit shall be governed by the Fuzhou Intermediate Court. On 8 May 2015, Fuzhou Intermediate Court convened pretrial conference against the case. On 3 August 2015, Fuzhou Intermediate Court convened pretrial conference against the case again. On 31 August 2015, Fuzhou Intermediate Court convened the third pretrial conference against the case. The case was separately judged by Fuzhou Intermediate Court on 22 December 2015 and 5 January 2016. On 20 March 2017, Xiamen Traditional Chinese Medicine received the Judgment (2014) Rong Min Chu Zi No. 1431 from Fuzhou Intermediate Court, which supported part of litigation request of Pien Tze Huang. On 1 April 2017, Xiamen Traditional Chinese Medicine filed an appeal to the Fujian Higher Court during the appeal period. On 31 July 2017, the case has been formally accepted by Fujian Higher Court. Fujian Higher Court conducted the second trial against this case on 30 October 2017, 19 December 2017, 8 January 2018 and 5 February 2018 respectively.

- (2) On 18 June 2014, Xiamen Traditional Chinese Medicine applied to Trademark Bureau of State Administration for Industry and Commerce of the People's Republic of China (referred to as 'Trademark Bureau of State Administration for Industry and Commerce') for registering trademarks of 'Pill of Eight Treasures Pien Tze Huang' ('八寶丹片仔黃') (Application No: 11683990) and 'Pien Tze Huang Pill of Eight Treasures' ('片仔黃八寶丹') (Application No: 11683929) on items under the fifth category of 'traditional Chinese medicine' on 1 November 2012 in respect of Pien Tze Huang, asking for the rejection of registering these two contentious trademarks according to relevant regulations. On 30 October 2015, Trademark Bureau of State Administration for Industry and Commerce made decisions that trademarks were not allowed to register, including trademark of 'Pill of Eight Treasures Pien Tze Huang' No.11683990 [(2015) Shang Biao Yi Zi No.0000052574] and trademark of 'Pien Tze Huang Pill of Eight Treasures' No.11683929 [(2015) Shang Biao Yi Zi No.0000052569], and the registration of the two trademarks of Pien Tze Huang was rejected. On 21 March 2016, Xiamen Traditional Chinese Medicine received the review application for the above decision of non-registration submitted by Pien Tze Huang, which was sent by the Trademark Appraisal Committee of the State Administration for Industry and Commerce. On 18 April 2016, Xiamen Traditional Chinese Medicine submitted the defense materials in relation to review of decision of non-registration against Pien Tze Huang to the Trademark Appraisal Committee of the State Administration for Industry and Commerce. On 3 March 2017, the Trademark Appraisal Committee of the Trademark Bureau of State Administration for Industry and Commerce made the review decision that trademarks were not allowed to register, including trademark of 'Pill of Eight Treasures Pien Tze Huang' No.11683990 [(2017) Shang Ping Zi No.0000018006] and trademark of 'Pien Tze Huang Pill of Eight Treasures' No.11683929 [(2017) Shang Ping Zi No. 0000018011], and the registration of the two trademarks of Pien Tze Huang was rejected. On 18 April 2017, Pien Tze Huang filed an administrative lawsuit to Beijing Intellectual Property Court, asking for the cancellation of the review decision of non-registration, and Xiamen Traditional Chinese Medicine took part in the litigation as the third party of the case. On 25 October 2017, Beijing Intellectual Property Court conducted the first trial against this case, and Xiamen Traditional Chinese Medicine attended in the trial as the third party. On 28 February 2018, Beijing Intellectual Property Court made the first-instance judgement denying the plaintiff Pien Tze Huang's claims. On 11 April 2018, Xiamen Traditional Chinese Medicine received statement of claim submitted by Pien Tze Huang in respect of aforesaid judgment of the first instance, which was sent by Beijing Higher People's Court.

Significant Events

- (3) On 17 August 2015, Xiamen Traditional Chinese Medicine filed with Fuzhou Intermediate Court to claim against Pien Tze Huang, Railway Station Pharmacy of Fuzhou Huichun Medicine Chain Co., Ltd. (referred to as 'Huichun Medicine Railway Station Pharmacy'), Fuzhou Huichun Medicine Chain Co., Ltd. (referred to as 'Huichun Medicine') for unfair competition, demanding to issue an order to Pien Tze Huang to stop infringing false propaganda on 'Babaodan' series products of Xiamen Traditional Chinese Medicine; compensate economic loss and reasonable rights fee totaling RMB2.997 million to Xiamen Traditional Chinese Medicine; to issue a public statement on provincial press and its official website for consecutive six months clarifying the facts and eliminating adverse effects to Xiamen Traditional Chinese Medicine arising from its false propaganda; to issue an order to Huichun Medicine Railway Station Pharmacy and Huichun Medicine to jointly compensate Xiamen Traditional Chinese Medicine an economic loss of RMB3,000; and to issue an order to the three defendants to jointly assume all the legal costs to the case. Fuzhou Intermediate Court accepted the case with case (2015) Rong Min Chu Zi No. 1518 on that day. Pien Tze Huang submitted its objection to the jurisdiction to the Fuzhou Intermediate Court, claiming Fuzhou Intermediate Court was beyond its scope of jurisdiction and asking for transfer the case to Zhangzhou Intermediate Court. On 22 September 2015, Fuzhou Intermediate Court issued Civil Judgment (2015) Rong Min Chu Zi No. 1518 and rejected the objection to the jurisdiction of Pien Tze Huang. Pien Tze Huang was not satisfied with the judgment, and appealed to Fujian Higher Court. On 7 December 2015, Fujian Higher Court issued Civil Judgment (2015) Min Min Zhong Zi No. 2095 to revoke Fuzhou Intermediate Court's Civil Judgment and transferred the litigation involving Pien Tze Huang in the case to the jurisdiction of Zhangzhou Intermediate Court, and the litigations involving Huichun Medicine and Huichun Medicine Railway Station Pharmacy were still under trial by Fuzhou Intermediate Court. The details are as follows:

1) The part heard by Fuzhou Intermediate Court

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

2) The part heard by Zhangzhou Intermediate Court

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

Changes in Ordinary Shares and Information about Shareholders

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in Shares

1. Table of changes in Shares

Unit: shares

		Before the change		Increase/decrease in the change (+,-)	After the change	
		Number of shares	Proportion (%)	New shares issued	Number of shares	Proportion (%)
1.	Trade restricted Shares	81,600	0.003	0	81,600	0.003
2.	Shares without trade restrictions	2,688,828,938	99.997	+153,178,784	2,842,007,722	99.997
	Overseas listed foreign shares	765,893,920	28.48	+153,178,784	919,072,704	32.34
3.	Total	2,688,910,538	100	+153,178,784	2,842,089,322	100

2. Explanation of changes in Shares

☒ Applicable ☐ Not applicable

Pursuant to the general mandated granted at the general meeting and approved by Zheng Jian Xu Ke [2017] No. 2424 of CSRC, in January 2018, the Company has successfully allotted and issued an aggregate of 153,178,784 new H shares with a nominal value of RMB1 each to not fewer than six (6) and not more than ten (10) Placees, who and whose ultimate beneficial owners are overseas third parties independent of the Company and not connected persons of the Company in accordance with the general mandated granted at the 2016 annual general meeting. Upon completion of this placing, the total number of shares in issue of the Company increased from 2,688,910,538 shares to 2,842,089,322 shares, of which the total number of H shares in issue increased from 765,893,920 shares to 919,072,704 shares, and the number of A shares in issue of the Company remained at 1,923,016,618 shares. The issue price in this placing is HK\$20.43 per share, and the closing price of H shares of the Company at the date of the placing is HK\$21.9. The Company raised funds of HK\$3.129 billion, but after deducting the listing fees paid overseas, the net proceeds of HK\$3.116 billion is used for industrial manufacturing, distribution business expansion and supplementary working capital.

Changes in Ordinary Shares and Information about Shareholders

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

Use of proceeds	Net proceeds	Utilization of proceeds as at the end of the reporting period	Proposed utilization of the remaining proceeds and expected timetable
Development of the pharmaceutical manufacturing and distribution businesses of the Company and replenish its working capital	HK\$3.116 billion	HK\$2.970 billion	The remaining proceeds amounted to HK\$146 million will be used to fund the development of replenishing its working capital before the end of March 2019.

3. *Impacts (if any) of changes in Shares occurred during the period from the end of the Reporting Period to disclosure date of the interim report on financial indicators such as earnings per share and net asset per share*

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

(II) Changes in trade-restricted shares

☐ Applicable ☒ Not applicable

II. INFORMATION ABOUT SHAREHOLDERS

(I) Number of shareholders

The total number of ordinary shareholders as at the end of the Reporting Period 68,345

Note: Among the 68,345 shareholders as at the end of the Reporting Period, 66,285 were A-share holders and 2,060 were H-share holders

Changes in Ordinary Shares and Information about 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 Status Number	Nature of shareholders
HKSCC NOMINEES LIMITED	153,240,664	882,943,884	31.07	0	Unknown	Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	25.21	0	N/A	State-owned legal person
SILC and its wholly-owned subsidiaries and Shanghai Shangshi	0	238,586,198	8.39	0	Unknown	State-owned legal person and foreign shareholders
China Securities Finance Corporation Limited	8,612,059	139,252,355	4.9	0	N/A	Unknown
Shanghai Guosheng and Shanghai Shengrui	0	43,100,900	1.52	0	Unknown	State-owned legal person
NSSF 604 Combination	4,014,040	25,159,950	0.89	0	N/A	Unknown
Central Huijin Investment Ltd.	0	24,891,300	0.88	0	N/A	Unknown
Shenergy Group	0	23,199,520	0.82	0	N/A	State-owned legal person
NSSF 103 Combination	/	21,999,771	0.77	0	N/A	Unknown
NSSF 116 Combination	0	13,574,631	0.48	0	N/A	Unknown

Changes in Ordinary Shares 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	882,943,884	Overseas listed foreign shares	882,943,884
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	139,252,355	RMB ordinary shares	139,252,355
Shanghai Guosheng and Shanghai Shengrui	43,100,900	RMB ordinary shares	24,585,800
		Overseas listed foreign shares	18,515,100
NSSF 604 Combination	25,159,950	RMB ordinary shares	25,159,950
Central Huijin Investment Ltd.	24,891,300	RMB ordinary shares	24,891,300
Shenergy Group	23,199,520	RMB ordinary shares	23,199,520
NSSF 103 Combination	21,999,771	RMB ordinary shares	21,999,771
NSSF 116 Combination	13,574,631	RMB ordinary shares	13,574,631
Note on connected relations or concerted actions of the above Shareholder	SIIC is the De Facto Controller of Shanghai Shangshi, which is a controlling shareholder of Shanghai Pharmaceutical (Group). Shanghai Shengrui is a wholly-owned subsidiary of Shanghai Guosheng, which is a wholly-owned subsidiary of Shanghai SASAC. The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the "Administrative Measures on Disclosure of Changes in Shareholders' Shareholdings in Listed Companies".		
Note on shareholders of Preference Shares with voting rights restored and number of shares held	/		

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 Shanghai Shangshi and 18,515,100 H Shares held by Shanghai Guosheng and Shanghai Shengrui through Southbound Trading. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

Changes in Ordinary Shares and Information about Shareholders

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

☒ Applicable ☐ Not applicable

Unit: Share

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

(III) Strategic investors or general 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 substantial shareholders and other persons in the Shares and underlying shares

As at 30 June 2018, according to the information available to the Company and to the knowledge of the directors, the following shareholders had interests or short positions in the Shares or underlying Shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the shareholders' general meetings of the Company. For details of interests of directors, supervisors, and senior management, please refer to Chapter VIII "Directors, Supervisors and Senior Management":

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/A Shares held as at the end of the Reporting Period to the entire issued H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group ^{Note 1 (1)}	A Shares/ H Shares	Interests of controlled corporation	955,102,237(L)	48.82 (A shares)/ 1.77 (H shares)	33.60
Shanghai Shangshi group ^{Note 1 (2)}	A Shares	Beneficial owner/Interests of controlled corporation	938,317,837(L)	48.79	33.02
Shanghai Pharmaceutical (Group)	A Shares	Beneficial owner	716,516,039(L)	37.26	25.21
Credit Suisse (Hong Kong) Limited	H Shares	Interests commonly held with another person	99,632,100(L) 99,632,100(S)	10.84(L) 10.84(S)	3.51(L) 3.51(S)
Credit Suisse AG	H Shares	Interests of controlled corporation	99,632,100(L) 99,632,100(S)	10.84(L) 10.84(S)	3.51(L) 3.51(S)
JPMorgan Chase & Co.	H Shares	Beneficial owner/investment manager/custodian/approved lending agent	64,556,975(L) 191,500(S) 60,497,095(P)	7.02(L) 0.02(S) 6.58(P)	2.27(L) 0.01(S) 2.13(P)
National Council for Social Security Fund	H Shares	Beneficial owner	69,629,220(L)	7.58(L)	2.45(L)
BlackRock, Inc.	H Shares	Interests of controlled corporation	49,503,053(L) 1,887,100(S)	5.39(L) 0.21(S)	1.74(L) 0.07(S)

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

Changes in Ordinary Shares and Information about Shareholders

- Note 1: (1) SIIC is a wholly-owned subsidiary of Shanghai SASAC. SIIC group refers to SIIC and its wholly-owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate the State-owned Assets of Shanghai Overseas Companies, its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC group held 955,102,237 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 16,284,400 H Shares were directly held by SIIC group, and 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi group.
- (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,317,837 A Shares held by Shanghai Shangshi group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi group, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).
- Note 2: (1) 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 2018, the Company was not aware of any other person (other than the directors, supervisors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

(III) PURCHASE, SALES AND REDEMPTION OF SHARES

During the Reporting Period, neither the Company nor the subsidiaries of the Company purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

Information Related to Preference Shares

☐ Applicable ☒ Not applicable

Directors, Supervisors, Senior Management

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

III. DISCLOSURES REQUIRED BY THE HONG KONG LISTING RULES

☒ Applicable ☐ Not applicable

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

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

Save as disclosed in this report, as at 30 June 2018, 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) The changes of the directors' and supervisors' biographies

Independent non-executive director WAN Kam To: Serves as an independent non-executive director of Haitong International Securities Group Limited (Listed on the Hong Kong Stock Exchange, Stock Code: 00665) from June 2018.

Independent non-executive director CAI Jiangnan: Mr. CAI Jiangnan served as an independent non-executive director of WuXi AppTec Co., Ltd. (Listed on the Shanghai Stock Exchange in May 2018, Stock Code: 603259) from March 2017.

(III) Audit Committee

The Audit Committee under the Board of the Company has reviewed the Company's 2018 interim report and agreed with the accounting treatment adopted by the Company.

(IV) 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.

(V) Compliance with the Model Code

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.

Relevant Information of the Corporate Bonds

✓ Applicable ☐ Not applicable

I. BASIC INFORMATION OF CORPORATE BONDS

RMBO'000

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

Information of payment of interest of Corporate Bonds

✓ Applicable ☐ Not applicable

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

Other information of Corporate Bonds

☐ Applicable ✓ Not applicable

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

Bond Custodian	Name	Credit Suisse Founder Securities Limited
	Office Address	15/F, South Tower, Financial Street Centre, No. 9A Financial Street, Xicheng District, Beijing
	Contact Person	Liu Changjiang, Zhang Haibin
	Contact Number	010-6653 8666
Credit Rating Agency	Name	Zhong Cheng Xin Credit Rating Co., Ltd. (中誠信證券評估有限公司)
	Office Address	24/F, Anji Building, No. 760 Tibet South Road, Huangpu District, Shanghai

Other information:

☐ Applicable ✓ Not applicable

III. USE OF RAISED FUNDS FROM THE CORPORATE BONDS

☒ Applicable ☐ Not applicable

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

IV. INFORMATION OF THE CREDIT RATING OF THE CORPORATE BONDS

☒ Applicable ☐ Not applicable

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

During the period of track rating, ZCX Rating completed the regular track rating of the year on 23 May 2018, in which the credit rating of the subject is AAA with stable rating outlook. The credit rating of this tranche of bonds is maintained at AAA. Furthermore, from the date of issuing the rating report, ZCX Rating will pay close attention to information in relation to the Company and bonds. Where there occur any major events which may exert influence on the bonds' credit rating, ZCX Rating will launch irregular track rating promptly as it considers necessary, based on the relevant information provided by the Company, and make investigation, analysis in this regard and issue the rating results of the irregular track rating.

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

Relevant Information of the Corporate Bonds

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

☒ Applicable ☐ Not applicable

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

VI. MEETINGS OF HOLDERS OF CORPORATE BONDS

☒ Applicable ☐ Not applicable

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

VII. PERFORMANCE OF THE CUSTODIAN OF THE CORPORATE BONDS

☒ Applicable ☐ Not applicable

The custodian of the bonds of “16 SPH 01” is Credit Suisse Founder Securities Limited. During the Reporting Period, Credit Suisse Founder Securities Limited strictly follows the requirements of laws and regulations such as “Administration Measures for the Issuance and Dealing of Corporate Bonds” and “Practice Code for the Custodian of the Corporate Bonds” and obligations of the “Bonds Custody Agreement” to perform its responsibilities as the custodian of bonds. On 27 June 2018, it issued the custody “Report of Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2016 Corporate Bonds (First Tranche) (2017)”, and disclosed on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn/>) on 29 June 2018.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATOR AS OF THE END OF REPORTING PERIOD AND THE END OF PREVIOUS YEAR (OR THE REPORTING PERIOD AND SAME PERIOD OF PREVIOUS YEAR)

☒ Applicable ☐ Not applicable

Unit: RMB

Major indicator	End of the Reporting Period	End of last year	Increase or decrease as at the end of the Reporting Period over the end of the previous year (%)
Current ratio	1.22	1.38	-11.59
Quick ratio	0.88	1.01	-12.87
Asset-liability ratio (%)	62.96%	57.95%	+5.01 percentage points
Loan repayment ratio (%)	100%	100%	/

	The Reporting Period (January-June)	Same period of the previous year	Increase or decrease in the Reporting Period over the same period of the previous year (%)
EBITDA interest coverage ratio	6.78	8.54	-20.61
Interest repayment ratio (%)	100%	100%	/

IX. EXPLANATION ON OVERDUE DEBTS

☐ Applicable ☒ Not applicable

Relevant Information of the Corporate Bonds

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

☐ Applicable ☒ Not applicable

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

☒ Applicable ☐ Not applicable

The Company keeps good credit records with each major bank and other financial institutions, and maintains long-term cooperative partnership with domestic major commercial banks, which make it enjoys strong ability in indirect debt financing. As of 30 June 2018, the total amount of the Group's credit line from bank was RMB72.5 billion, of which RMB28.2 billion was used. The Company may carry out financing activities within the Group's above facilities limit to support the business development. The Company repaid the principal and interest of its loans from the banks on time.

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

☒ Applicable ☐ Not applicable

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

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

☐ Applicable ☒ Not applicable

Financial Report

I. AUDITOR'S REPORT

☐ Applicable ☒ Not applicable

II. FINANCIAL STATEMENTS

Attached.

Catalogue of Documents Available for Inspection

Catalogue of Documents Available for Inspection	The financial statements signed and sealed by the legal representative, chief financial officer and the principal in charge of accounting
	The original documents of the Company and the original copy of the announcements disclosed in the designated newspapers of China Securities Regulatory Commission during the Reporting Period

Chairman: **Zhou Jun**

Submission date approved by the Board of Directors: 28 August 2018

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Assets			
Non-current assets			
Land use rights	7	1,418,588	1,284,041
Investment properties	7	239,919	254,924
Property, plant and equipment	7	10,173,714	9,386,260
Intangible assets	7	13,013,371	8,092,080
Investments in jointly controlled entities	8	708,273	662,551
Investments in associates	9	4,186,406	4,031,617
Deferred income tax assets	14	800,119	566,264
Available-for-sale financial assets		—	109,081
Financial assets at fair value through other comprehensive income		62,674	—
Financial asset at fair value through profit or loss		233,172	—
Other non-current prepayments		382,235	733,923
Other long-term receivables		675,150	581,479
		31,893,621	25,702,220
Current assets			
Inventories		21,401,932	17,269,956
Trade and other receivables and other current asset	10	47,678,523	36,529,576
Derivative financial instruments		3,602	643
Restricted cash		1,404,807	1,272,666
Cash and cash equivalents		16,627,980	13,569,414
		87,116,844	68,642,255
Total assets		119,010,465	94,344,475
Equity attributable to owners of the company			
Share capital	11	2,842,089	2,688,910
Share premium		16,428,252	14,068,206
Other reserves		484,056	695,440
Retained earnings		17,633,482	16,578,287
		37,387,879	34,030,843
Non-controlling interests		6,689,437	5,645,005
Total equity		44,077,316	39,675,848

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	13	1,009,143	2,958,799
Provisions		75,908	75,908
Deferred income tax liabilities	14	867,528	620,150
Termination benefit obligations		53,760	51,866
Other non-current liabilities		641,876	632,958
Other long-term payables		665,327	697,135
		3,313,542	5,036,816
Current liabilities			
Trade and other payables and other current liabilities	12	42,738,068	35,115,294
Contract Liabilities		1,100,141	—
Derivative financial instruments		1,058	2,434
Current income tax liabilities		478,540	722,406
Borrowings	13	27,301,800	13,791,677
		71,619,607	49,631,811
Total liabilities		74,933,149	54,668,627
Total equity and liabilities		119,010,465	94,344,475

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

Interim Condensed Consolidated Income Statement

		Unaudited Six months ended 30 June	
	Note	2018 RMB'000	2017 RMB'000
Revenue	6	75,878,693	65,778,873
Cost of sales		(65,217,944)	(57,717,249)
Gross profit		10,660,749	8,061,624
Distribution and selling expenses		(5,217,803)	(3,574,277)
General and administrative expenses		(2,348,531)	(1,927,200)
Net impairment losses on financial assets		504	—
Other income		135,209	182,130
Other losses – net	16	(12,763)	(17,505)
Gains on disposal of subsidiaries and an associate		86,321	—
Operating profit	15	3,303,686	2,724,772
Finance income		96,109	87,327
Finance expenses		(647,785)	(448,379)
Share of profit of jointly controlled entities	8	142,697	143,487
Share of profit of associates	9	210,229	247,536
Profit before income tax		3,104,936	2,754,743
Income tax expense	18	(649,784)	(547,594)
Profit for the period		2,455,152	2,207,149
Profit attributable to:			
Owners of the Company		2,033,306	1,925,124
Non-controlling interests		421,846	282,025
		2,455,152	2,207,149
Earnings per share attributable to owners of the Company during the period (expressed in RMB per share)			
– Basic and diluted	19	0.72	0.72

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Interim Condensed Consolidated Statement of Comprehensive Income

		Unaudited	
		Six months ended 30 June	
	Note	2018	2017
		RMB'000	RMB'000
Profit for the period		2,455,152	2,207,149
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Available-for-sale financial assets			
– Gross		—	29,453
– Tax	14	—	(13,661)
Share of other comprehensive income of investments in associates		43	712
Currency translation differences, net		(239,852)	40,944
Loss allowance of debt investments at FVOCI		1,241	—
<i>Items that will not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income		(7,673)	—
Other comprehensive income for the period, net of tax		(246,241)	57,448
Total comprehensive income for the period		2,208,911	2,264,597
Attributable to:			
– Owners of the Company		1,822,118	1,949,167
– Non-controlling interests		386,793	315,430
Total comprehensive income for the period		2,208,911	2,264,597

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

Interim Condensed Consolidated Statement of Changes in Equity

	Unaudited						Non-controlling interests RMB'000	Total equity RMB'000
	Attributable to owners of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
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		–	(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

Interim Condensed Consolidated Statement of Changes in Equity

Note	Unaudited Attributable to owners of the Company					Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 31 December 2017 as originally presented	2,688,910	14,068,206	695,440	16,578,287	34,030,843	5,645,005	39,675,848
Change in accounting policy	–	–	(196)	102,605	102,409	3,140	105,549
Balance at 1 January 2018	2,688,910	14,068,206	695,244	16,680,892	34,133,252	5,648,145	39,781,397
Comprehensive income							
Profit for the period	–	–	–	2,033,306	2,033,306	421,846	2,455,152
Other comprehensive income							
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	(7,673)	–	(7,673)	–	(7,673)
Currency translation differences, net	–	–	(204,799)	–	(204,799)	(35,053)	(239,852)
Share of other comprehensive income of associates	–	–	43	–	43	–	43
Loss allowance of debt investments at FVOCI	–	–	1,241	–	1,241	–	1,241
Total other comprehensive income	–	–	(211,188)	–	(211,188)	(35,053)	(246,241)
Total comprehensive income	–	–	(211,188)	2,033,306	1,822,118	386,793	2,208,911
Transactions with owners							
Issuance of new H shares	153,179	2,376,125	–	–	2,529,304	–	2,529,304
Capital injections from non-controlling interests	–	540	–	–	540	4,080	4,620
Acquisitions of subsidiaries	–	–	–	–	–	807,203	807,203
Transaction with non-controlling interests	–	(16,619)	–	–	(16,619)	2,113	(14,506)
Dividends	–	–	–	(1,079,994)	(1,079,994)	(157,808)	(1,237,802)
Others	–	–	–	(722)	(722)	(1,089)	(1,811)
Total transaction with owners	153,179	2,360,046	–	(1,080,716)	1,432,509	654,499	2,087,008
Balance at 30 June 2018	2,842,089	16,428,252	484,056	17,633,482	37,387,879	6,689,437	44,077,316

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

Interim Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	1,937,816	1,684,679
Interest paid	(677,532)	(440,969)
Income tax paid	(955,078)	(510,866)
Net cash generated from operating activities	305,206	732,844
Cash flows from investing activities		
Cash paid in respect of acquisition of subsidiaries, jointly controlled entities and associates	(4,243,794)	(624,644)
Purchases of treasury bills	(702,109)	(3,850,000)
Proceeds from redemption of treasury bills	703,386	3,860,950
Purchases of property, plant and equipment ("PP&E") and investment properties	(849,535)	(928,903)
Proceeds from disposal of PP&E and investment properties	6,750	22,183
Proceeds from disposal of land use rights and intangible assets	1,575	6,036
Purchases of land use rights and intangible assets	(63,230)	(40,862)
Interest received	97,779	85,699
Dividends received	210,975	12,852
Proceeds from disposal of available-for-sale financial assets	–	36,050
Proceeds from disposal of financial asset at fair value through profit or loss	362	–
Proceeds from disposal of subsidiaries and an associate	72,026	–
Proceeds from Government grant of plant relocation, net	–	37,706
Other cash flows (used in)/generated from investing activities	(353,021)	134,528
Net cash used in investing activities	(5,118,836)	(1,248,405)
Cash flows from financing activities		
Cash injection from non-controlling interests	4,620	11,420
Proceeds from issuance of new H shares	2,529,303	–
Acquisition of non-controlling interests	(67,251)	(116,616)
Proceeds from borrowings	26,677,411	12,191,262
Repayments of borrowings	(21,102,494)	(9,521,043)
Dividends paid by the Group	(119,480)	(86,434)
Others cash flows used in financing activities	(34,648)	(247)
Net cash generated from financing activities	7,887,461	2,478,342
Net increase in cash and cash equivalents	3,073,831	1,962,781
Cash and cash equivalents at beginning of the period	13,569,414	10,979,744
Exchange losses on cash and cash equivalents	(15,265)	(20,246)
Cash and cash equivalents at end of the period	16,627,980	12,922,279

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

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, 2018.

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 2017, which have been prepared in accordance with HKFRSs.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

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

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

3.2 Impact of changes in accounting policies

(a) *Impact on the financial statements*

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

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

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more detail by standard below.

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(a) Impact on the financial statements (continued)

Balance sheet (extract)	31 Dec 2017 As originally presented RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 Restated RMB'000
Non-current assets				
Deferred tax assets	566,264	17,489	–	583,753
Financial assets at fair value through other comprehensive income (FVOCI)	–	70,346	–	70,346
Financial assets at fair value through profit or loss (FVPL)	–	234,792	–	234,792
Available-for-sale financial assets	109,081	(109,081)	–	–
Other long-term receivables	581,479	(2,907)	–	578,572
Current assets				
Trade and other receivables and other current assets	36,529,576	(66,593)	–	36,462,983
Total assets	94,344,475	144,046	–	94,488,521
Non-current liabilities				
Deferred income tax liabilities	620,150	38,495	–	658,645
Current liabilities				
Trade and other payables and other current liabilities	35,115,294	–	(1,032,470)	34,082,824
Contract liabilities	–	–	1,032,470	1,032,470
Total liabilities	54,668,627	38,495	–	54,707,124
Net assets	39,675,848	105,551	–	39,781,397
Other Reserves	695,440	(196)	–	695,244
Retained earnings	16,578,287	102,603	–	16,680,892
Non-controlling interests	5,645,005	3,144	–	5,648,145
Total equity	39,675,848	105,549	–	39,781,397

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(b) *HKFRS 9 Financial Instruments – Impact of adoption*

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

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

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

	Notes	RMB'000
Restated retained earnings 31 December 2017		16,578,287
Reclassify investments from available-for-sale to FVPL	(1)	2,105
Remeasure investments from available-for-sale to FVPL	(1)	196,057
Increase in provision for trade receivables and other receivables	(2)	(69,500)
Increase in provision for debt investments at FVOCI	(2)	(2,546)
Decrease in other comprehensive income relating to provision for debt investments at FVOCI	(2)	637
Increase in deferred tax liabilities	(1)	(38,497)
Increase in deferred tax assets	(2)	17,489
Impact on non-controlling interest		(3,140)
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		102,605
Opening retained earnings 1 January – HKFRS 9 (before restatement for HKFRS 15)		16,680,892

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(1) Classification and measurement

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

Financial assets – 1 January 2018	Notes	FVPL RMB'000	FVOCI (Available- for-sale 2017) RMB'000	Cost Method (Available- for-sale 2017) RMB'000
Closing balance 31 December 2017 – IAS 39		–	78,960	30,121
Reclassify investments from available-for-sale to FVPL	(i)	8,614	(8,614)	–
Remeasurement of equity investments from cost method to fair value method	(i)	226,178	–	(30,121)
Opening balance 1 January 2018 – HKFRS 9		234,792	70,346	–

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

	Notes	Effect on AFS reserves RMB'000	Effect on FVOCI reserve RMB'000	Effect on retained earnings RMB'000
Opening balance – IAS 39		(15,400)	–	–
Reclassify investments from available-for-sale to FVPL	(i)	(2,105)	–	2,105
Reclassify investments from available-for-sale to FVOCI	(ii)	17,505	(17,505)	–
Remeasurement of equity investments from cost method to fair value method		–	–	196,057
Total impact		15,400	(17,505)	198,162
Opening balance – HKFRS 9		–	(17,505)	198,162

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(1) Classification and measurement (continued)

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

Certain equity investments were reclassified from available-for-sale to financial assets at FVPL (RMB234,792,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of RMB2,105,000 were transferred from the available-for-sale financial assets reserve to retained earnings and fair value gains of RMB196,057,000 were recognised in retained earnings on 1 January 2018. In the six months to 30 June 2018, net fair value losses of RMB1,320,000 relating to these investments were recognised in profit or loss, along with deferred tax income of RMB330,000.

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

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

(2) Impairment of financial assets

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

- Trade receivables for sales of inventory
- Debt investments carried at amortised cost, and
- Debt investments carried at FVOCI

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (continued)

(2) Impairment of financial assets (continued)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 3 (b) above.

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

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables.

Aging as at 1 January 2018	Less than 6 months	6 months to 12 months	Over 1 year	Total
Expected loss rate	0.69%	4.74%	90.01%	3.79%
Gross carrying amount	28,656,973	2,987,039	997,751	32,641,763
Loss allowance	(197,502)	(141,716)	(898,123)	(1,237,341)

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

	Trade receivables RMB'000	Note receivables RMB'000
At 31 December 2017 – calculated under IAS 39	1,174,868	–
Amounts restated through opening retained earnings	61,873	600
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	1,236,741	600

The loss allowances increased by a further RMB1,301,000,000 for trade receivables during the six months to 30 June 2018. The increase would have been RMB11,824,000 lower under the incurred loss model of IAS 39.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(b) *HKFRS 9 Financial Instruments – Impact of adoption (continued)*

(2) Impairment of financial assets (continued)

Other debt investments at amortized cost and at FVOCI

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

Other investments at amortized cost include dividends receivables, deposit receivables and other receivables due from related parties. Applying the expected credit risk model resulted in the recognition of a loss allowance of RMB7,027,000 on 1 January 2018.

The loss allowance for debt instruments at FVOCI on transition to HKFRS 9 as a result of applying the expected credit risk model was immaterial, but the Group recognized a loss allowance of RMB2,546,000 as at 1 January 2018.

(c) *HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018*

(1) Classification

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

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(c) *HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)*

(2) Measurement

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

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

Debt instruments

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(c) *HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)*

(2) Measurement (continued)

Equity instruments

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

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

Impairment

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

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) *HKFRS 15 Revenue from Contracts with Customers – Impact of adoption*

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

		IAS 18 carrying amount 31 Dec 2017 RMB'000	Reclassification RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Trade and other payables	(1)	35,115,294	(1,032,470)	34,082,824
Contract liabilities	(2)	–	1,032,470	1,032,470

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Impact of changes in accounting policies (continued)

(e) *HKFRS 15 Revenue from Contracts with Customers – Accounting policies*

(1) Sales of goods – wholesale

Sales are recognised when the products have been shipped to the specific location in accordance with the sales contract and the customers have inspected and accepted the products. No element of financing is deemed present as the sales are made with a credit term varied by customers' credit risk, which is consistent with market practice.

The products are often sold with retrospective volume discounts based on aggregate sales over a period of time. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method.

(2) Sales of goods – retail pharmacy operations

The Group operates a chain of retail pharmacy for selling medicines and other pharmaceutical products. Revenue from the sale of goods is recognised when a Group's entity sells a product to the customer.

(3) Sales of service

Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual cost of service provided at the end of the reporting period as a proportion of the cost of total services to be provided. At the end of the reporting period, the Group assesses the stage of completion and adjusts the amount to reflect the effects of the customer's credit risk.

Revenue is recognised by the stage of completion. The Group presents unconditional rights to consideration as trade receivables. In other conditions that the services rendered exceed the payment, a contract asset is recognised. The Group adopts the expected credit loss model for its trade receivables and contract assets. If the payments exceed the services rendered, a contract liability is recognised. Net value of contract assets and liabilities is presented regarding one contract.

Notes to the Interim Condensed Consolidated Financial Information

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Impact of standards issued but not yet applied by the entity

(a) *HKFRS 16 Leases*

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,099,806,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRS 17	Insurance contracts	1 January 2021

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.

Notes to the Interim Condensed Consolidated Financial Information

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 2017.

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 2017.

There have been no changes in the risk management department since year ended 31 December 2017 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.

Notes to the Interim Condensed Consolidated Financial Information

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

As at 30 June 2018 and 31 December 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 2018					
Borrowings	27,302,203	695,904	298,464	14,775	28,311,346
Interest payables	529,472	24,316	11,171	–	564,959
Other long-term liabilities	–	7,178	1,674,596	250,319	1,932,093
Derivative financial instruments	1,058	–	–	–	1,058
Financial liabilities as included in trade and other payables	41,701,202	–	–	–	41,701,202
	69,533,935	727,398	1,984,231	265,094	72,510,658
At 31 December 2017					
Borrowings	13,791,677	2,684,479	263,521	11,542	16,751,219
Interest payables	324,441	92,451	9,685	–	426,577
Other Long-term payables	–	7,123	1,754,807	251,763	2,013,693
Derivative financial instruments	2,434	–	–	–	2,434
Financial liabilities as included in trade and other payables	32,957,317	–	–	–	32,957,317
	47,075,869	2,784,053	2,028,013	263,305	52,151,240

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 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
As at 30 June 2018				
Derivative financial instruments	–	3,602	–	3,602
Financial assets at fair value through profit or loss	7,294	–	225,878	233,172
Financial assets at fair value through other comprehensive income	62,674	–	–	62,674
	69,968	3,602	225,878	299,448
Liabilities				
As at 30 June 2018				
Derivative financial instruments	–	1,058	–	1,058

Notes to the Interim Condensed Consolidated Financial Information

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

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

The following table presents the Group's financial assets that are measured at fair value as at 31 December 2017.

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

- (1) 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. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- (2) 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.

Notes to the Interim Condensed Consolidated Financial Information

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

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

(3) Financial instruments in level 3

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- 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.

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

The following table presents the changes in level 3 instruments for the half-year ended 30 June 2018:

	Unlisted equity investments RMB'000
Opening balance 31 December 2017	–
Change in accounting policy	226,178
Opening balance 1 January 2018	226,178
Disposals	(300)
Closing balance 30 June 2018	225,878

(1) Valuation inputs and relationships to fair value

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

Description	Fair value at 30 June 2018 RMB'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Unlisted equity securities	225,878	Multiple (PE, PB, etc.)	5 – 45	Increased multiple would increase FV

Notes to the Interim Condensed Consolidated Financial Information

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation (continued)

(c) *Fair value of other financial instruments (unrecognised)*

The Group also has a member of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since these financial instruments are either close to current market rates or are short-term in nature.

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.

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:

Notes to the Interim Condensed Consolidated Financial Information

6. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2018

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	7,985,708	64,282,843	3,102,744	507,398	–	75,878,693
Inter-segment revenue	1,641,164	1,969,465	31,076	92,250	(3,733,955)	–
Segment revenue	9,626,872	66,252,308	3,133,820	599,648	(3,733,955)	75,878,693
Revenue less expense by nature	1,139,480	1,804,684	16,662	168,163	(34,070)	3,094,919
Other income						135,209
Gains on disposal of subsidiaries and associates						86,321
Other losses – net						(12,763)
Finance costs – net						(551,676)
Share of profit of jointly controlled entities	128,778	13,919	–	–	–	142,697
Share of profit of associates	171,016	23,462	–	15,751	–	210,229
Profit before income tax						3,104,936
Income tax expense						(649,784)
Profit for the period						2,455,152

Notes to the Interim Condensed Consolidated Financial Information

6. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2017

	Production segment <i>RMB'000</i>	Distribution segment <i>RMB'000</i>	Retail segment <i>RMB'000</i>	Others <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
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)

Other segment items included in the condensed consolidated interim financial information for the six months ended 30 June 2018 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	247,146	146,983	15,092	15,700	–	424,921
Amortisation of intangible assets and land use rights	35,890	112,383	428	14,030	–	162,731
Capital expenditure	555,137	366,716	11,852	76,798	–	1,010,503

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)

The segment assets and liabilities as at 30 June 2018 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	475,363	232,910	–	–	–	708,273
Investment in associates	2,780,235	511,629	–	894,542	–	4,186,406
Other assets	23,753,573	86,516,804	1,955,434	31,738,068	800,119	144,763,998
Elimination						(30,648,212)
Total assets						119,010,465
Segment liabilities	8,391,579	65,621,550	1,386,021	11,796,009	1,346,068	88,541,227
Elimination						(13,608,078)
Total liabilities						74,933,149

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	118,210,346	73,587,081
Unallocated:		
Current income tax liabilities	–	478,540
Deferred tax assets/liabilities – net	800,119	867,528
Total	119,010,465	74,933,149

Notes to the Interim Condensed Consolidated Financial Information

6. SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 30 June 2017 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	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 <i>RMB'000</i>	Liabilities <i>RMB'000</i>
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

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

	Land use rights RMB'000	Investment properties RMB'000	PP&E RMB'000	Intangible assets RMB'000
Six months ended 30 June 2018				
Opening net book amount 1 January 2018	1,284,041	254,924	9,386,260	8,092,080
Additions	215,505	–	1,244,372	5,112,976
Depreciation and amortisation charge (Note 15)	(21,127)	(5,951)	(418,970)	(141,604)
Internal transfer	(10,770)	(9,067)	5,252	14,585
Disposals	(756)	–	(16,920)	(4)
Others	(48,305)	13	(26,280)	(64,662)
Closing net book amount 30 June 2018	1,418,588	239,919	10,173,714	13,013,371
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

Notes to the Interim Condensed Consolidated Financial Information

8. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	<i>RMB'000</i>
Six months ended 30 June 2018	
Opening net book amount 1 January 2018	662,551
Additions	4,863
Share of profit for the period	142,697
Declaration of Dividends	(101,838)
Closing net book amount 30 June 2018	708,273
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

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 2018 <i>RMB'000</i>
Assets	1,539,511
Liabilities	621,905
Revenues	971,835
Share of profit	128,776
Percentage held	50.00%

Notes to the Interim Condensed Consolidated Financial Information

9. INVESTMENTS IN ASSOCIATES

	RMB'000
Six months ended 30 June 2018	
Opening net book amount 1 January 2018	4,031,617
Additions	311,471
Share of profit for the period	210,229
Share of other comprehensive income	43
Declaration of dividends	(31,554)
Transfer to subsidiaries (Note 17)	(335,400)
Closing net book amount 30 June 2018	4,186,406
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

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 2018 RMB'000
Assets	8,743,968
Liabilities	5,404,317
Revenues	5,089,575
Share of profit	114,246
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 2018 RMB'000
Assets	2,254,527
Liabilities	215,433
Revenues	528,839
Share of profit	(7,527)
Share of other comprehensive income	33
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 2018 RMB'000
Assets	3,428,774
Liabilities	2,536,858
Revenues	3,591,920
Share of profit	42,018
Percentage held	30.00%

Notes to the Interim Condensed Consolidated Financial Information

10. TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables		
Accounts receivable	41,843,524	32,552,228
Less: allowance for impairment	(1,299,388)	(1,174,868)
Accounts receivable – net	40,544,136	31,377,360
Notes receivable	185,273	89,535
Less: Provision for impairment	(1,241)	–
Trade receivables – net	40,728,168	31,466,895
Other receivables	2,562,007	2,028,189
Less: allowance for impairment	(557,823)	(589,832)
Other receivables – net	2,004,184	1,438,357
Prepayments	2,090,666	1,391,087
Tax recoverable	1,164,694	1,114,125
Dividends receivable	9,783	97,561
Interest receivables	918	3,089
Bank acceptance notes	1,680,110	1,018,462
	47,678,523	36,529,576

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 (accounts receivable and notes receivable) at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Less than 6 months	36,363,028	28,656,973
6 months to 12 months	4,481,259	2,987,039
Over 1 year	1,184,510	997,751
	42,028,797	32,641,763

Notes to the Interim Condensed Consolidated Financial Information

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 2018	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of Shares	–	153,179	–	153,179	153,179
At 30 June 2018	1,923,016	919,073	1,923,016	919,073	2,842,089
At 1 January 2017	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of Shares	–	–	–	–	–
At 30 June 2017	1,923,016	765,894	1,923,016	765,894	2,688,910

12. TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Accounts payable	29,839,213	23,346,280
Notes payable	3,378,173	3,948,914
Advances received from customers	–	1,032,470
Payables for purchase of PP&E and land use rights	253,698	311,819
Staff welfare and salary payables	649,213	700,846
Tax liabilities other than income tax	388,079	418,990
Accrued expenses	3,036,170	2,040,029
Deposits	1,482,754	1,004,471
Payables arising from acquisition of subsidiaries	971,173	281,291
Dividends payable	1,210,034	51,715
Others	1,529,561	1,978,469
	42,738,068	35,115,294

Notes to the Interim Condensed Consolidated Financial Information

12. TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES (continued)

As at 30 June 2018 and 31 December 2017, aging analysis of the accounts payables and notes payables is as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Less than 6 months	28,571,403	23,795,192
6 months to 12 months	2,366,978	2,261,235
Over 1 year	2,279,005	1,238,767
	33,217,386	27,295,194

13. BORROWINGS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Non-current	1,009,143	2,958,799
Current (a)	27,301,800	13,791,677
Total borrowings	28,310,943	16,750,476

Notes to the Interim Condensed Consolidated Financial Information

13. BORROWINGS (continued)

Movement in borrowings is analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2018	
Opening net book amount 1 January 2018	16,750,476
Additions	15,492,163
Acquisition of subsidiaries	5,218,178
Deduction	(9,149,874)
Closing net book amount 30 June 2018	28,310,943

	<i>RMB'000</i>
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

- (a) On 26 January 2016 the Group issued a bond with 3 years maturity and a rate of 2.98% for a total nominal value of RMB2,000,000,000. The bonds mature three years from the issue date at their nominal value on 25 January 2019 and have been reclassified to current borrowings as at 30 June 2018. As at 30 June 2018, the fair value of the bonds approximated their carrying amount. 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 2018 RMB'000	31 December 2017 RMB'000
Deferred income tax assets	800,119	566,264
Deferred income tax liabilities	(867,528)	(620,150)
Deferred income tax liabilities – net	(67,409)	(53,886)

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

	As at 30 June 2018 RMB'000	2017 RMB'000
At 1 January	(74,892)	(23,745)
Recognised in the consolidated income statements (Note 18)	1,496	24,711
Acquisition of subsidiaries	11,452	(40,358)
Recognised in equity	(5,465)	(16,340)
Deferred income tax liabilities – net	(67,409)	(55,732)

15. OPERATING PROFIT

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

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Depreciation of PP&E	418,970	325,973
Depreciation of investment properties	5,951	7,727
Amortisation of		
– land use rights	21,127	17,381
– intangible assets	141,604	87,101
Employee benefit expenses	3,042,718	2,523,411
Provision for impairment of trade and other receivables	–	32,621
Net impairment losses on financial assets	(504)	—
Write-down of inventories to net realisable value	35,913	8,533

Notes to the Interim Condensed Consolidated Financial Information

16. OTHER LOSSES – NET

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Losses of financial assets at fair value through profit or loss, net	(1,320)	(198)
Gains/(losses) of derivative financial instruments, net	4,309	(3,349)
Gains on disposals of PP&E	3,090	5,127
Gains on disposals of intangible assets	–	6,578
Foreign exchange (losses)/gains	(45,790)	13,932
Others – net	26,948	(39,595)
	(12,763)	(17,505)

17. GAINS ON DISPOSAL OF SUBSIDIARIES AND AN ASSOCIATE

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Disposal of subsidiaries and an associate	49,133	–
Gain on deemed disposal of investments in an associate (Note 23 (a)(ii))	37,188	–
	86,321	–

On 1 May 2018, the Group acquired the additional 17.84% equity interests in Liaoning International Pharmaceutical Trading Co., Ltd. (“Liaoning International Pharmaceutical Trading”) at cash consideration of approximately RMB217,629,000 (the “Acquisition”). Before the Acquisition, Liaoning International Pharmaceutical Trading was an associate of the Group and accounted for using the equity method accounting. Because of obtaining control over Liaoning International Pharmaceutical Trading, the Group began to consolidate it from the date of the Acquisition. Consequently, in recording such transaction, the Group recognised (a) deemed disposal of the 33.9% equity interests held in Liaoning International Pharmaceutical Trading at their fair value of RMB372,588,000 at the acquisition date, (b) deemed acquisition of 51.74% equity interests in Liaoning International Pharmaceutical Trading at a consideration of RMB590,217,000 at the acquisition date, and (c) deemed disposal gain of RMB37,188,000 in the income statement.

Notes to the Interim Condensed Consolidated Financial Information

18. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Current income tax, PRC enterprise income tax	651,280	572,305
Deferred income tax	(1,496)	(24,711)
	649,784	547,594

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

19. EARNINGS PER SHARE

For the six months ended 30 June 2018 and 2017, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	2,033,306	1,925,124
Number of ordinary shares (thousands)	2,816,560	2,688,910
Basic earnings per share (RMB)	0.72	0.72

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 2018 and 2017.

20. DIVIDENDS

	Six months ended 30 June	
	2018 RMB'000	2017 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 2018 and 2017.

A dividend of approximately RMB1,079,994,000 relates to year 2017 was proposed in June, 2018 (2017: RMB968,008,000).

Notes to the Interim Condensed Consolidated Financial Information

21. CONTINGENCIES AND GUARANTEES

Outstanding loan guarantees

	30 June 2018 RMB'000	31 December 2017 RMB'000
Outstanding loan guarantees provided to related parties	1,892	5,463

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.

22. COMMITMENTS

(a) Capital commitments

(i) Constructions

Capital expenditure contracted for at the end of 30 June 2018 and 31 December 2017 but not yet incurred is as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
PP&E	640,583	520,097

(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 2018 RMB'000	31 December 2017 RMB'000
No later than 1 year	365,551	293,565
Later than 1 year and no later than 2 years	254,261	217,335
Later than 2 years and no later than 5 years	336,666	266,043
Later than 5 years	143,328	172,652
	1,099,806	949,595

Notes to the Interim Condensed Consolidated Financial Information

22. COMMITMENTS (continued)

(b) Operating lease commitments (continued)

(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 2018 RMB'000	31 December 2017 RMB'000
No later than 1 year	56,958	57,239
Later than 1 year and no later than 2 years	39,987	43,565
Later than 2 years and no later than 5 years	73,204	73,452
Later than 5 years	64,602	72,861
	234,751	247,117

(c) Investment commitments

On 15 May 2018, the Group entered into an agreement (the Agreement) with Takeda Phrama AG. Pursuant to the Agreement, the Group is committed to purchase 100% equity interests in Takeda Chromo Beteiligungs AG ("Takeda Chromo") who held 26.34% equity interest of Techpool Bio-pharma Co., Ltd. (the "Techpool") with a consideration approximately USD144,000,000 (approximately RMB915,000,000) (the "Acquisition"). After the Acquisition, the Group will effectively obtain substantial control over the Techpool with equity interests increased from 40.80% to 67.14%. As at 30 June 2018, the Group has not made any payment mentioned above.

On 19 June 2018, Shanghai Pharmaceuticals (HK), a wholly-owned subsidiary of the Company, and Sure Advance Holdings, a subsidiary of SIIC (a controlling shareholder of the Company), respectively entered into a cornerstone investment agreement with China Isotope, CICC and CLSA, pursuant to which, the Company, through Shanghai Pharmaceuticals (HK), and Sure Advance Holdings, participated in the initial public offerings of China Isotope in Hong Kong. The aggregate subscription price payable by Shanghai Pharmaceuticals (HK) under the Cornerstone Investment Agreement for the investor shares will not exceed RMB160 million. The Company intends to pay the consideration via its internal fund. As at 30 June 2018, the Company has not made any payment mentioned above.

Notes to the Interim Condensed Consolidated Financial Information

23. BUSINESS COMBINATION

(a) Significant business combinations not under common control

- (i) On 2 February 2018, the Group acquired 100% equity interests in Cardinal Health (L) Co., Ltd., (“Cardinal Health (L)”) a group of companies specialising in the pharmaceutical distribution, from a wholly owned subsidiary of Cardinal Health, Inc., and consequently the Group effectively obtained the right to control its pharmaceutical business and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its market share. The goodwill of RMB2,757,093,000 arising from the acquisition is attributable to the acquired noncontractual customer relationship and economics of scale expected from combining the operations of the Group and Cardinal Health (L). 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 RMB3,633,464,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	Cardinal Health (L) RMB'000
Cash	3,633,464
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	212,711
PP&E	143,778
Intangible assets	673,848
Long-term investment	6,619
Inventories	4,010,221
Deferred income tax assets	245,670
Trade and other receivables and other current assets	7,286,783
Deferred income tax liabilities	(148,146)
Trade and other payables and other current liabilities	(7,071,142)
Contract liabilities	(59,530)
Current income tax liabilities	(38,464)
Borrowings	(4,302,225)
Total identifiable net assets	960,123
Non-controlling interests	(83,752)
Goodwill	2,757,093
	3,633,464

Notes to the Interim Condensed Consolidated Financial Information

23. BUSINESS COMBINATION (continued)

(a) Significant business combinations not under common control (continued)

- (ii) On 1 May 2018, the Group acquired 51.74% equity interests in Liaoning International Pharmaceutical Trading Co., Ltd. ("Liaoning International Pharmaceutical Trading") from certain independent third parties for a cash consideration of approximately RMB590,217,000 (the "Acquisition"), and consequently the Group effectively obtained the right to control its pharmaceutical business and consolidated it into the consolidated financial statements.

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

As a result of the Acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB284,758,000 arising from the acquisition is attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entities. None of the goodwill recognised is expected to be deductible for income tax purposes.

Notes to the Interim Condensed Consolidated Financial Information

23. BUSINESS COMBINATION (continued)

(a) Significant business combinations not under common control (continued)

(ii) (continued)

The following table summarizes the consideration, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	Liaoning International Pharmaceutical Trading RMB'000
Fair value of the existing 33.90% equity investment in Liaoning International Pharmaceutical Trading before the Acquisition	372,588
Consideration for the purchase of acquiring 17.84% equity investment in Liaoning International Pharmaceutical Trading	217,629
Total consideration	590,217
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	105,773
Restricted cash	140,679
Land use right	45,732
PP&E	22,776
Intangible assets	168,639
Inventories	298,830
Deferred income tax assets	4,887
Trade and other receivables and other current assets	1,750,707
Deferred income tax liabilities	(42,709)
Trade and other payables and other current liabilities	(1,043,620)
Contract liabilities	(31,653)
Current income tax liabilities	(213)
Borrowings	(829,455)
Total identifiable net assets	590,373
Non-controlling interests	(284,914)
Goodwill	284,758
	590,217

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 (Holding) Co., Ltd (上海實業(集團)有限公司)	Ultimate holding company
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Shangshi (Group) Co., Ltd (上海上實(集團)有限公司)	Intermediate holding company
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Overseas United Investment Co., Ltd (上海海外聯合投資股份有限公司)	Controlled by Shanghai Industrial Group
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Jointly controlled entity
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai 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 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責任公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司)	Associate
Shanghai Industrial Group Finance Co., Ltd. (上海上實集團財務有限公司)	Associate
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘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
Guangzhou Ruixun Medicine Co., Ltd. (廣州銳訊醫藥有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司)	Former associate
Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Former associate

Notes to the Interim Condensed Consolidated Financial Information

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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.

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

For the six months ended 30 June 2018 and 2017, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Six month ended 30 June	
	2018 RMB'000	2017 RMB'000
Sales of goods and render of service		
Jiangxi Nanhua Medicines Co., Ltd.	1,054,755	1,056,965
Liaoning International Pharmaceutical Trading Co., Ltd.	51,402	50,926
Shanghai Hutchison Pharmaceutical Co., Ltd.	50,429	41,655
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	32,183	40,780
Shanghai Ivyuan Pharmacy Co., Ltd.	17,179	11,254
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	6,169	7,055
Shanghai Roche Pharmaceutical Co., Ltd.	5,273	–
Shanghai Jianer Pharmacy Co., Ltd.	3,374	2,216
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	1,353	1,058
Shanghai Luoda Pharmaceutical Co., Ltd.	1,005	42,045
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	2	104
Shanghai Huaren Pharmaceutical Co., Ltd.	–	3,004
Jilin Yatai Huashi Pharmaceutical Co., Ltd.	–	56
Others	5,533	3,831
	1,228,657	1,260,949

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	
	2018	2017
	RMB'000	RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	542,257	1,506,572
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	239,027	253,604
Guangzhou Ruixun Medicine Co., Ltd.	167,377	–
TECHPOOL Bio-Pharma Co., Ltd.	86,698	58,672
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	69,637	76,265
Shanghai Hutchison Pharmaceutical Co., Ltd.	33,646	61,633
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	21,279	493
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	14,680	5,804
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	9,982	9,245
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	7,337	6,075
Shanghai Luoda Pharmaceutical Co., Ltd.	–	19,135
Shanghai Huaren Pharmaceutical Co., Ltd.	–	18,546
Others	1,309	1,383
	1,193,229	2,017,427

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	4,793	5,347
Shanghai Pharmaceutical (Group) Co., Ltd.	1,053	–
Shanghai Hutchison Pharmaceutical Co., Ltd.	1,017	1,017
	6,863	6,364

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	
	2018	2017
	RMB'000	RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	11,351	10,835
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	6,761	7,562
Shanghai indu-land property Co., Ltd.	2,120	2,619
	20,232	21,016
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest income		
Shanghai Industrial Group Finance Co., Ltd.	1,512	899
Interest expense		
Shanghai Industrial Group Finance Co., Ltd	39,741	26,435
Shanghai Industrial Investment (Holding) Co., Ltd	8,922	–
	48,663	26,435

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 2018, the Group has cumulatively paid approximately RMB170,613,000 to Fudan Zhangjiang with respect to the Agreements.

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Deposit in related parties, net		
Shanghai Industrial Group Finance Co., Ltd.	(542,444)	(496,252)
Loan received from related parties, net		
Shanghai Industrial Group Finance Co., Ltd.	1,205,000	833,300
Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	(1,201,300)	(643,300)
Loan to related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	—
Discount of bank acceptance notes		
Shanghai Industrial Group Finance Co., Ltd.	483,948	83,198
Accounts receivable factoring		
Shanghai Industrial Group Finance Co., Ltd.	1,800,000	—

Notes to the Interim Condensed Consolidated Financial Information

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(b) Key management compensation

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Salaries and fee	3,575	3,466
Bonuses	16,325	11,594
Retirement plans contributions	420	406
	20,320	15,466

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 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	645,613	694,530
Other receivables	31,017	46,477
Prepayments	607	4,279
Dividends receivable	9,808	94,748
	687,045	840,034

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 2018 RMB'000	31 December 2017 RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	581,925	603,008
Shanghai Hutchison Pharmaceutical Co., Ltd.	22,375	21,727
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	17,561	27,530
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	11,420	8,788
Shanghai Ivyuan Pharmacy Co., Ltd.	3,932	2,989
Shanghai Roche Pharmaceutical Co., Ltd.	3,752	–
Sino-American Shanghai Squibb Pharmaceuticals Ltd	1,927	–
Shanghai Huaren Pharmaceutical Co., Ltd.	108	1,433
Liaoning International Pharmaceutical Trading Co., Ltd.	–	18,838
Shanghai Luoda Pharmaceutical Co., Ltd.	–	3,702
Others	2,613	6,515
	645,613	694,530
Less: Provision for impairment	(8,210)	(7,461)
	637,403	687,069
	30 June 2018 RMB'000	31 December 2017 RMB'000
Other receivables due from		
Shanghai Overseas United Investment Co., Ltd.	13,297	13,297
Shanghai Roche Pharmaceutical Co., Ltd.	3,893	23,689
Shanghai Huaren Pharmaceutical Co., Ltd.	3,014	1,500
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	1,461	1,461
Others	9,352	6,530
	31,017	46,477
Less: Provision for impairment	(7,404)	(7,391)
	23,613	39,086

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 2018 RMB'000	31 December 2017 RMB'000
Less than 3 months	645,340	703,852
3 months to 6 months	5,040	12,564
6 months to 12 months	1,768	13,317
1 year to 2 years	13,298	9
Over 2 years	11,184	11,265
	676,630	741,007

	30 June 2018 RMB'000	31 December 2017 RMB'000
Prepayments due from		
Shanghai Roche Pharmaceutical Co., Ltd.	519	–
Jiangxi Nanhua Medicines Co., Ltd.	–	2,318
Others	88	1,961
	607	4,279

	30 June 2018 RMB'000	31 December 2017 RMB'000
Dividends receivable		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	6,304	–
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,054	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,450	1,450
Sino-American Shanghai Squibb Pharmaceuticals Ltd	–	93,298
	9,808	94,748

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 2018 RMB'000	31 December 2017 RMB'000
Trade Payables	448,753	357,307
Other Payables	55,102	708,495
Advances	–	379
Dividends Payable	364,640	8,079
Interest Payables	–	3,880
Contract Liabilities	11	–
	868,506	1,078,140

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	266,129	248,572
TECHPOOL Bio-Pharma Co., Ltd.	63,851	45,741
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	37,091	36,255
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	28,171	5,317
Guangzhou Ruixun Medicine Co., Ltd.	18,632	–
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	15,008	6,643
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	7,143	–
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	6,141	2,614
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	2,219	8,035
Shanghai Hutchison Pharmaceutical Co., Ltd.	195	255
Shanghai Luoda Pharmaceutical Co., Ltd.	–	1,186
Shanghai Huaren Pharmaceutical Co., Ltd.	–	895
Others	4,173	1,794
	448,753	357,307

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 2018 RMB'000	31 December 2017 RMB'000
Other payables due to		
Shanghai Shangshi (Group) Co., Ltd	39,200	39,200
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,348	9,324
Shanghai Pharma Group	3,913	4,000
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	2,135	2,135
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	287	287
Jiangxi Nanhua Medicines Co., Ltd.	89	–
Shanghai Industrial Investment (Holding) Co., Ltd	–	653,420
Others	130	129
	55,102	708,495

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 2018 RMB'000	31 December 2017 RMB'000
Less than 3 months	397,967	1,004,777
3 months to 6 months	43,459	701
6 months to 12 months	44,358	42,222
1 year to 2 years	1,958	3,925
Over 2 years	16,113	14,177
	503,855	1,065,802

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 2018 RMB'000	31 December 2017 RMB'000
Advances due to		
Liaoning International Pharmaceutical Trading Co., Ltd.	–	241
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	–	99
Others	–	39
	–	379
Contract liabilities		
Others	11	–
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	280,276	8,000
Shanghai Shangshi (Group) Co., Ltd	84,285	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	364,640	8,079

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)

Interest payable

	30 June 2018 RMB'000	31 December 2017 RMB'000
Shanghai Shangshi (Group) Co., Ltd.	–	2,384
Shanghai Industrial Group Finance Co., Ltd.	–	1,496
	–	3,880

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Outstanding loan guarantees provided by the Group to		
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	1,892	5,463

	30 June 2018 RMB'000	31 December 2017 RMB'000
Outstanding loan guarantees given to the Group by		
Shanghai Pharmaceutical (Group) Co., Ltd.	700	700
Shanghai Industrial Group Finance Co., Ltd.	–	12,000
	700	12,700

Notes to the Interim Condensed Consolidated Financial Information

24. SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Borrowings due to related parties		
Shanghai Industrial Group Finance Co., Ltd.	1,032,200	1,058,500
Deposit due from related parties		
Shanghai Industrial Group Finance Co., Ltd.	6,379	–
Cash at bank due from related parties		
Shanghai Industrial Group Finance Co., Ltd.	1,449,490	1,991,934

(f) Other transactions with related party

	As at 30 June 2018 RMB'000	2017 RMB'000
Subsidiary bought by the Group from		
Shanghai Pharmaceutical (Group) Co., Ltd.	275,943	–

25. SUBSEQUENT EVENTS

(a) Business Combination

On 21 August 2018, Shanghai Pharmaceuticals (HK), a wholly-owned subsidiary of the Company, acquired 100% equity interests in Takeda Chromo Beteiligungs AG (“Takeda Chromo”) for cash consideration of approximately USD\$144,000,000 (approximately RMB915,000,000) (the “Acquisition”) from Takeda Phrama AG. Consequently the Group acquired additional 26.34% equity interests which was held by Takeda Chromo. Before the Acquisition, the Group held 40.80% equity interests in Techpool Bio-pharma Co., Ltd. (“the Techpool”). Hence, the Group effectively obtained substantial control over the Techpool with equity interest increased to 67.14%. The operating results and assets and liabilities of the acquired company will be consolidated from 21 August 2018.

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

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