CARING FOR LIFE
Attending to Health

Annual Report 2016

SINOPHARM GROUP CO. LTD.*
國藥控股股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

Stock Code: 01099

** The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name "Sinopharm Group Co. Ltd.".*

COMPANY PROFILE

Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm Group**", together with its subsidiaries referred to as the "**Group**"), which was established in January 2003 and listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") (stock code: 01099. HK) in September 2009, is a core subsidiary of China National Pharmaceutical Group Corporation ("**CNPGC**") and the largest wholesaler and retailer of pharmaceutical and healthcare products and a leading supply-chain service provider in the PRC.

The Group is mainly engaged in pharmaceutical distribution business. Leveraging on its nationwide distribution and delivery network, the Group provides comprehensive distribution, logistics and other value-added services to domestic and foreign manufacturer and suppliers of pharmaceutical products, medical equipment and supplies and other healthcare products, and also to downstream customers including hospitals, other distributors, retail drug stores and primary health services institutions.

Meanwhile, the Group manages its network of retail drug stores chain in major cities of China via direct operations and franchises to sell pharmaceutical and healthcare products to end-customers. It has become a leader in China's pharmaceutical retail industry.

Besides, the Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies, and actively engaged in the innovation of pharmaceutical, medical services and other health-related industries, to explore the synergistic development of its diversified businesses.

Taking advantage of its superior economies of scale, customer resources, network platforms and brand position, the Group will fully leverage on China's pharmaceutical and healthcare market, which shows steady and healthy growth, and capture opportunities arising from healthcare reform to further consolidate and enhance its market leadership, actively striving to become a pharmaceutical and healthcare service provider with international competitiveness.

CORPORATE PHILOSOPHY

Caring for life
Attending to health

CORPORATE VISION

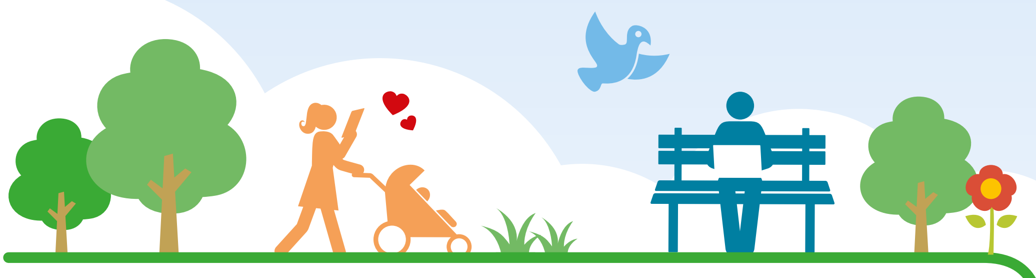
Becoming a pharmaceutical and healthcare service provider with international competitiveness

CORPORATE MISSION

Contributing to human health and good life

CORE VALUE

Benevolence and responsibility



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Corporate Information

At the date of this report

Directors

Mr. Li Zhiming
(Executive Director, Chairman and President)
Mr. Chen Qiyu
(Non-executive Director and Vice Chairman)
Mr. She Lulin *(Non-executive Director)*
Mr. Wang Qunbin *(Non-executive Director)*
Mr. Ma Ping *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Li Dongjiu *(Non-executive Director)*
Mr. Lian Wanyong *(Non-executive Director)*
Mr. Wu Yijian *(Non-executive Director)*
Ms. Li Ling *(Independent Non-executive Director)*
Mr. Yu Tze Shan Hailson
(Independent Non-executive Director)
Mr. Tan Wee Seng
(Independent Non-executive Director)
Mr. Liu Zhengdong
(Independent Non-executive Director)
Mr. Zhuo Fumin
(Independent Non-executive Director)

Supervisors

Mr. Yao Fang
(Chairman of the Supervisory Committee)
Mr. Tao Wuping
Mr. Yang Jun
Ms. Li Xiaojuan
Ms. Jin Yi

Joint Company Secretaries

Mr. Liu Yong
Mr. Liu Wei

Strategy and Investment Committee

Mr. Li Zhiming *(Chairman)*
Mr. Chen Qiyu
Mr. She Lulin
Mr. Wang Qunbin
Mr. Ma Ping
Mr. Li Dongjiu
Mr. Lian Wanyong
Ms. Li Ling
Mr. Tan Wee Seng

Audit Committee

Mr. Tan Wee Seng *(Chairman)*
Mr. Deng Jindong
Mr. Li Dongjiu
Mr. Liu Zhengdong
Mr. Zhuo Fumin

Remuneration Committee

Mr. Liu Zhengdong *(Chairman)*
Mr. Lian Wanyong
Mr. Wu Yijian
Mr. Yu Tze Shan Hailson
Mr. Zhuo Fumin

Nomination Committee

Mr. Li Zhiming *(Chairman)*
Mr. She Lulin
Mr. Wang Qunbin
Ms. Li Ling
Mr. Yu Tze Shan Hailson
Mr. Liu Zhengdong
Mr. Zhuo Fumin

Authorized Representatives

Mr. Li Zhiming
Mr. Liu Yong

Legal Advisers

As to Hong Kong and United States laws:
DLA Piper UK LLP

As to PRC law:
Beijing Jincheng Tongda & Neal Law Firm

Auditor

International auditor:
Ernst & Young

Domestic auditor:
Ernst & Young Hua Ming LLP

Principal Place of Business in Hong Kong

Room 2701
148 Electric Road
North Point, Hong Kong

Principal Place of Business and Headquarter in the PRC

Sinopharm Plaza
No. 1001 Zhongshan Road (West)
Changning District
Shanghai 200051, the PRC

Registered Office in the PRC

6th Floor, No. 221 Fuzhou Road
Shanghai 200002, the PRC

Company's Website

www.sinopharmgroup.com.cn

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Stock Code

01099

Principal Banks

Bank of Communications Co., Ltd.
Shanghai Branch
China Merchants Bank Co., Ltd.
Shanghai Branch
Bank of China Limited
Shanghai Branch
China Minsheng Banking Corp., Ltd.
Shanghai Branch
Industrial and Commercial Bank of China Limited
Shanghai Branch

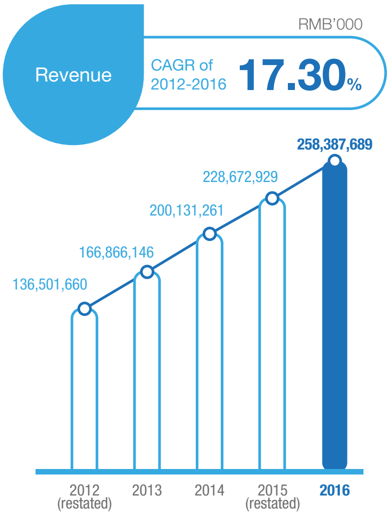
Office of Board of Directors

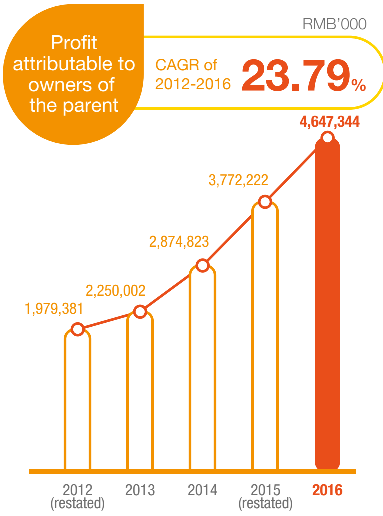
Tel: (+86 21) 2305 2666
Email: ir@sinopharm.com

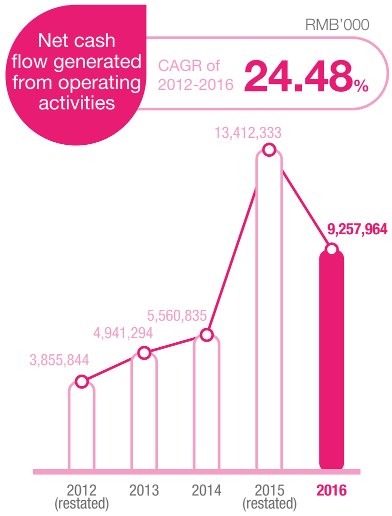
Financial Highlights

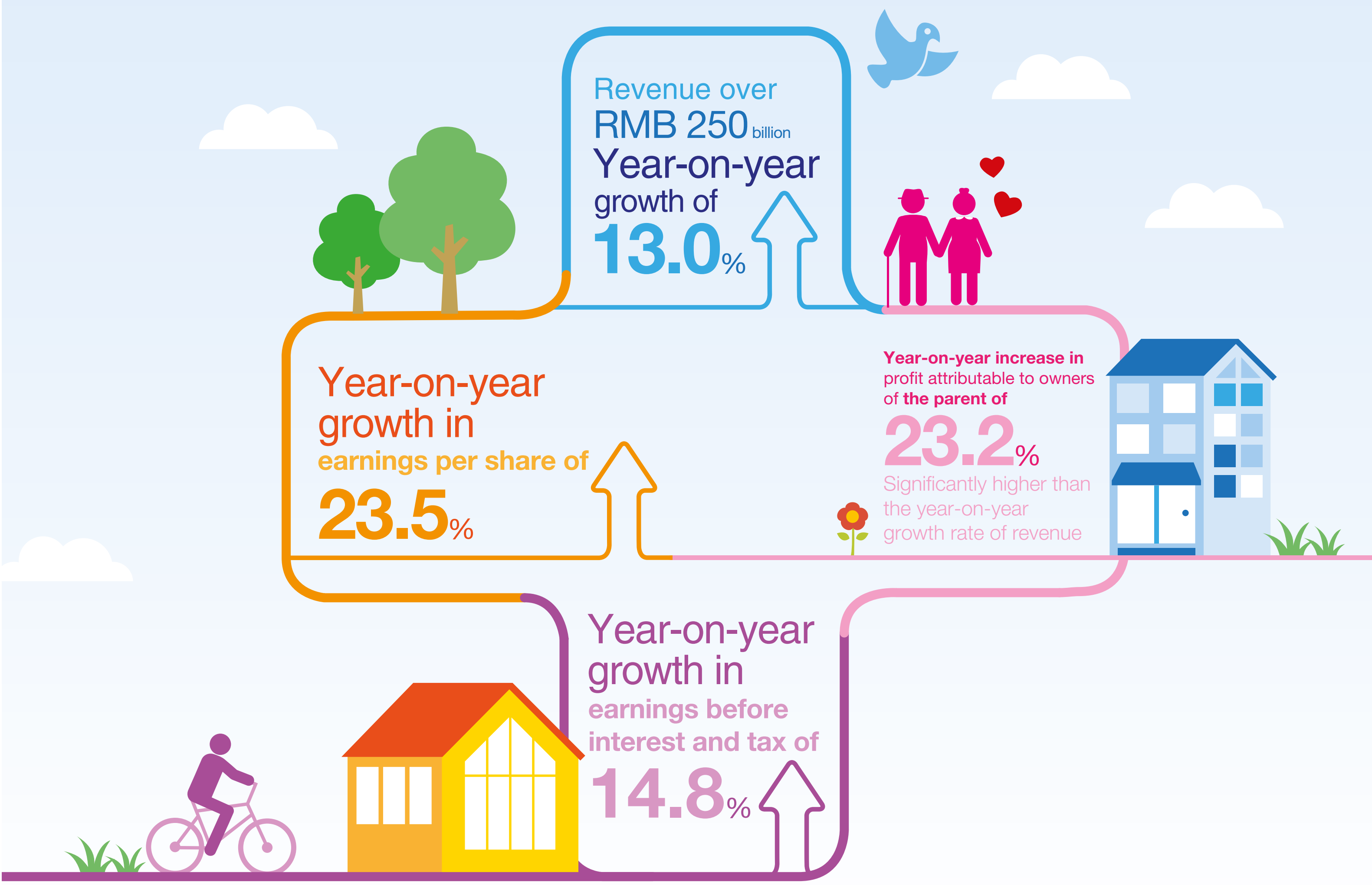
RMB'000

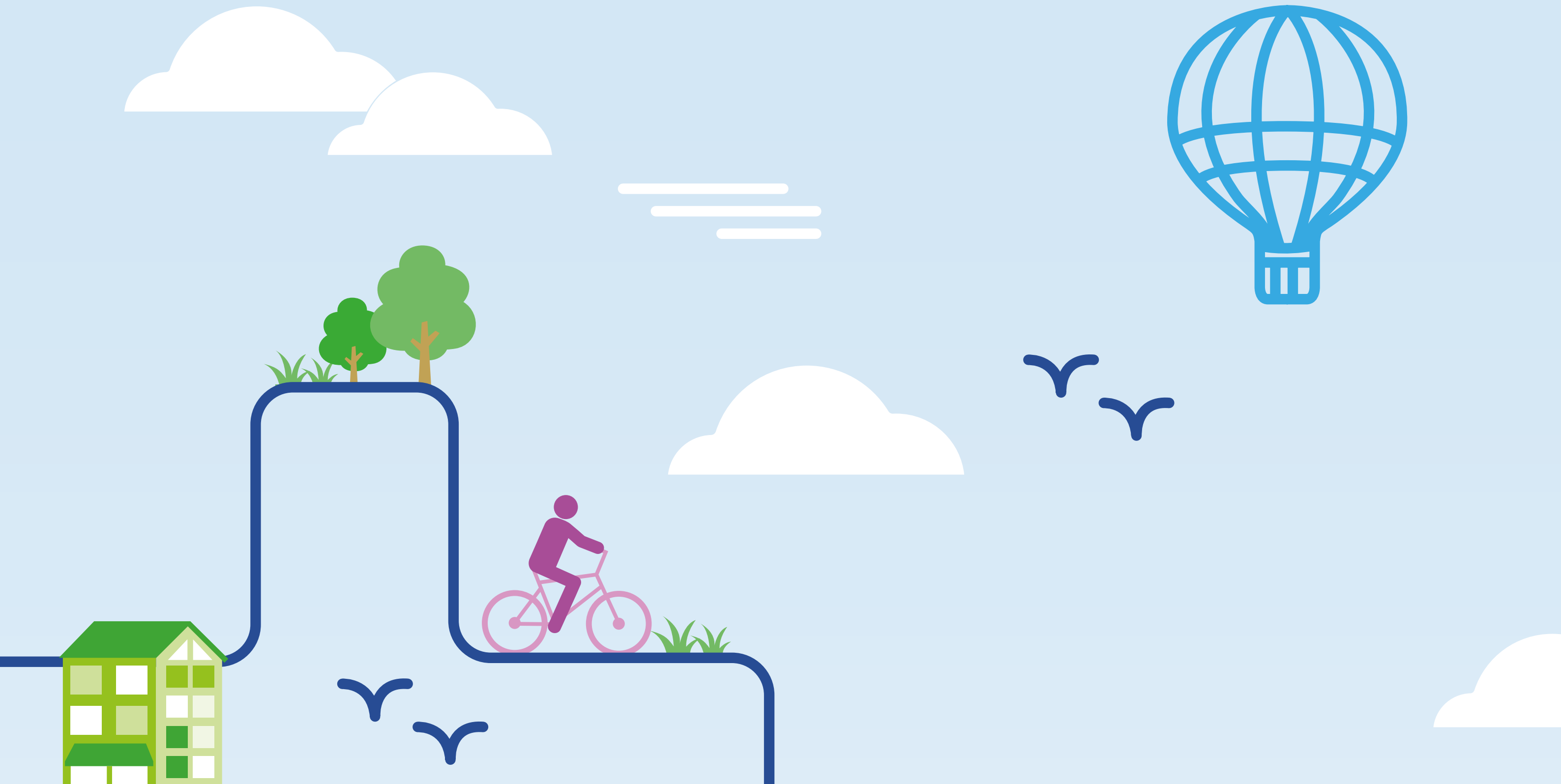
	2012-2016					
	2012 (restated)	2013	2014	2015	2015 (restated)	**2016**
Operating results						
Revenue	136,501,660	166,866,146	200,131,261	227,069,433	228,672,929	**258,387,689**
Gross profit	10,987,624	13,378,516	16,328,218	18,617,529	18,720,313	**20,670,673**
Operating profit	4,868,904	6,101,920	7,861,922	9,169,204	9,227,323	**10,213,720**
Earnings before interest and tax	5,291,329	6,280,874	8,063,294	9,396,713	9,456,979	**10,856,642**
Profit attributable to owners of the parent	1,979,381	2,250,002	2,874,823	3,760,649	3,772,222	**4,647,344**
Profitability						
Gross margin	8.05%	8.02%	8.16%	8.20%	8.19%	**8.00%**
Operating margin	3.57%	3.66%	3.93%	4.04%	4.04%	**3.95%**
Net profit margin	2.26%	2.15%	2.27%	2.51%	2.51%	**2.67%**
Asset status						
Total assets	81,127,223	105,453,110	128,655,739	138,267,028	139,429,696	**157,711,590**
Equity attributable to owners of the parent	17,283,745	21,815,546	27,381,867	30,051,626	30,110,310	**31,810,928**
Total liabilities	58,178,568	76,841,760	92,366,110	97,611,323	98,551,019	**113,179,154**
Cash and cash equivalents	9,801,502	14,001,962	15,232,356	19,919,154	19,966,052	**25,572,759**
Gearing ratio	71.71%	72.87%	71.79%	70.60%	70.68%	**71.76%**
Liquidity ratio						
Current ratio (times)	1.31	1.27	1.28	1.23	1.23	**1.33**
Inventory turnover ratio (days)	38	36	36	37	37	**37**
Trade receivables turnover ratio (days)	86	98	107	105	104	**95**
Trade payables turnover ratio (days)	88	91	95	97	97	**94**
Data per share (RMB)						
Earnings per share – Basic	0.82	0.89	1.11	1.36	1.36	**1.68**
Earnings per share – Fully diluted	0.82	0.89	1.11	1.36	1.36	**1.68**


Revenue
RMB'000
CAGR of 2012-2016 17.30%
136,501,660
166,866,146
200,131,261
228,672,929
258,387,689
2012 (restated)
2013
2014
2015 (restated)
2016


Profit attributable to owners of the parent
RMB'000
CAGR of 2012-2016 23.79%
1,979,381
2,250,002
2,874,823
3,772,222
4,647,344
2012 (restated)
2013
2014
2015 (restated)
2016


Net cash flow generated from operating activities
RMB'000
CAGR of 2012-2016 24.48%
3,855,844
4,941,294
5,560,835
13,412,333
9,257,964
2012 (restated)
2013
2014
2015 (restated)
2016


Revenue over RMB 250 billion
Year-on-year growth of 13.0%
Year-on-year growth in earnings per share of 23.5%
Year-on-year increase in profit attributable to owners of the parent of 23.2%
Significantly higher than the year-on-year growth rate of revenue
Year-on-year growth in earnings before interest and tax of 14.8%



CARING FOR LIFE

ATTENDING TO HEALTH

Adhering to the corporate philosophy of "Caring for Life, Attending to Health", Sinopharm Group has always been positioning itself as the "leader and consolidator of China's pharmaceutical distribution industry".

Chairman's Statement

Li Zhiming
Chairman & President
Executive Director

Dear shareholders,

I would like to express my heartfelt gratitude to the shareholders and the community for your great support and encouragement to Sinopharm over time. Sinopharm made significant progress in various aspects such as quality improvement and efficiency enhancement, being better and being stronger, and diversified development in 2016. The Board, the management and all the staff attribute to the shareholders with sustained and stable growth in results again for their support and caring for the growth of the Company.

Sustained and Stable Growth in the Results

During the Reporting Period, the Group recorded a revenue of RMB258,387.69 million, representing an increase of RMB29,714.76 million or 12.99% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB6,891.60 million, representing an increase of RMB1,150.69 million or 20.04% as compared with the corresponding period of last year. Profit attributable to shareholders of the Company amounted to RMB4,647.34 million, representing an increase of RMB875.12 million or 23.20% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.68, representing an increase of 23.53% as compared with the corresponding period of last year.

Compared to 2015, total assets of the Group increased from RMB139,429.70 million to RMB157,711.59 million, net assets increased from RMB40,878.68 million to RMB44,532.44 million, and gearing ratio increased from 70.68% to 71.76%.

For the year of 2016, total capital expenditure of the Group amounted to RMB1,464.49 million, which was primarily used for the expansion and development of distribution channels, upgrading the logistic delivery system and improving the level of informatisation, so as to increase the Group's market share and improve delivery efficiency.

Obtained Various Awards and Received High Recognition from the Market

In 2016, the Company remained as the largest healthcare listed company in the Hong Kong market in terms of market value and obtained various awards in the capital market. The Company was chosen as "The Best Investment Return Company" by "Fortune" magazine (Chinese version) and ranked 23rd in the "Fortune" China's 500 list. The Company was also awarded "2016 Excellent Board of China's Strategic Listed Company" from "21st Century Business Herald" and "The Best Listed Company Award" from "China Financial Market", those awards demonstrated the market's high recognition for the Company.

Economy was Stable in General and Industry Continued to Grow Stably

In 2016, the Chinese economy remained stable during a slow-down and was poised for better prospect while being stable, reform and open further advanced, economic structure adjustment accelerated, new growth momentum continued to increase, and people's livelihood continued to improve. It is expected that Chinese economy would still be able to sustain medium to high-speed growth during "13th Five-Year" period and continue to be an important driver to the growth of the world economy.

The Chinese government specifically released various healthcare policies, continued to push forward the healthcare reform, continued to step up investments in the healthcare industry and continued to enhance healthcare quality, aiming to establish a "Healthy China" that can satisfy the basic healthcare needs of the masses. The pharmaceutical distribution industry saw a sustained rigid demand and recorded a stable growth in sales and profit, the industry concentration ratio continued to increase. However, the whole industry was still facing challenges from policies, payment collection and working capital, etc.

Prospects

The healthcare industry will maintain a stable growth rate which is attributable to growth drivers such as the country's aging population, urbanisation, increase in chronic diseases, increase in healthcare investments as well as the continuous deepening of healthcare reform. The business opportunities brought by various innovative business models will also drive the future growth in the industry. The healthcare industry is still one of the industries with the highest growth potential. As the healthcare reform continues to deepen, various policies will continue to be released. Although short-term pains are likely to persist, we believe those policies will eventually contribute to the survival of the fittest in the industry and result in further compliance and consolidation. The industry's prospect will become better and better.

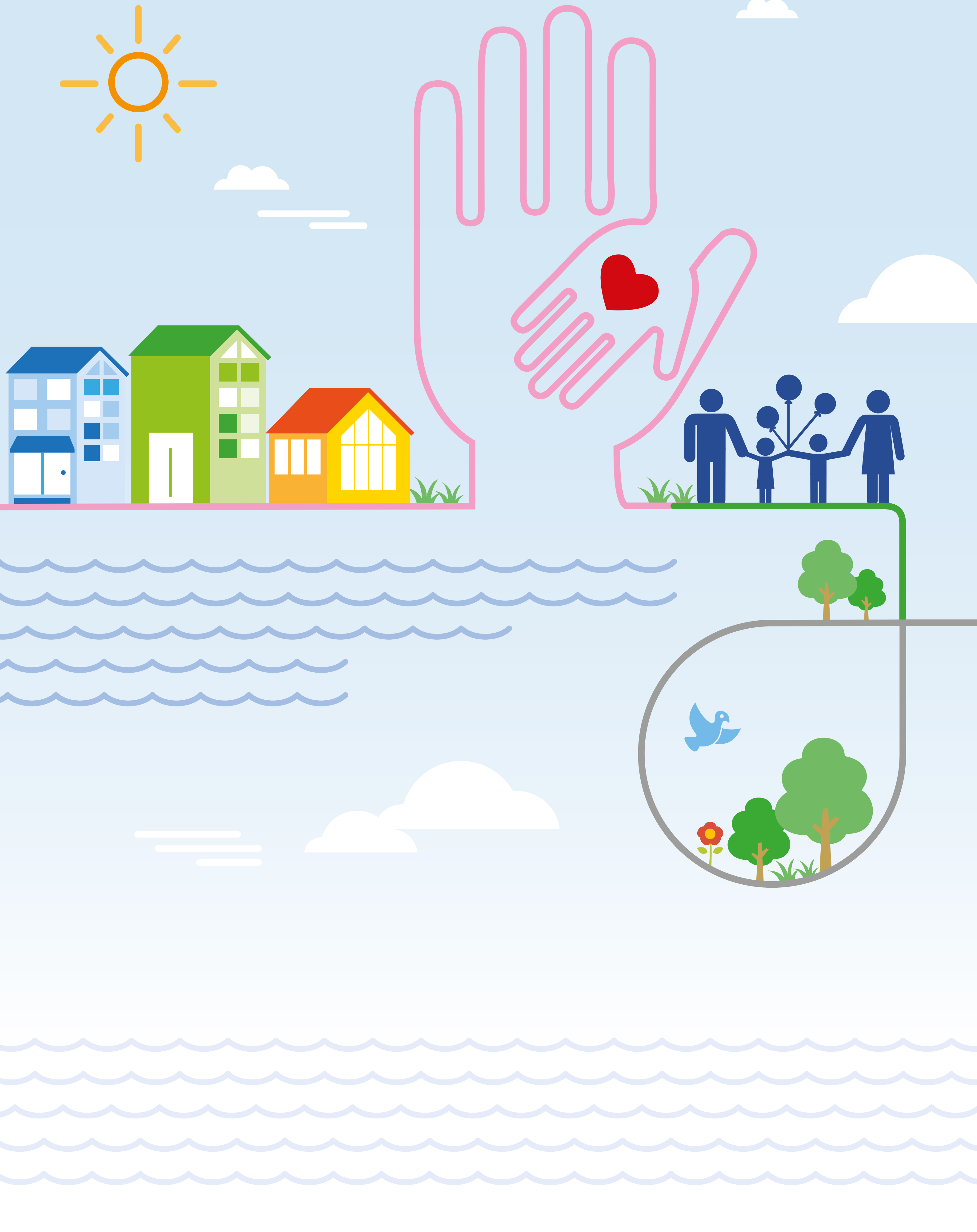
The Company adopted the restricted share incentive scheme and successfully completed the initial grant of the restricted share in 2016, which will help further improve the mechanism of benefit of and risk sharing among employees and fully arouse the proactiveness of the senior management and key employees. Looking forward, the Company will continue to capitalise on the opportunity of mixed ownership reform to further push forward reforms in various aspects such as nomination, remuneration, incentive and corporate governance and stimulate corporate vitality, so as to lay solid foundation for sustainable development.

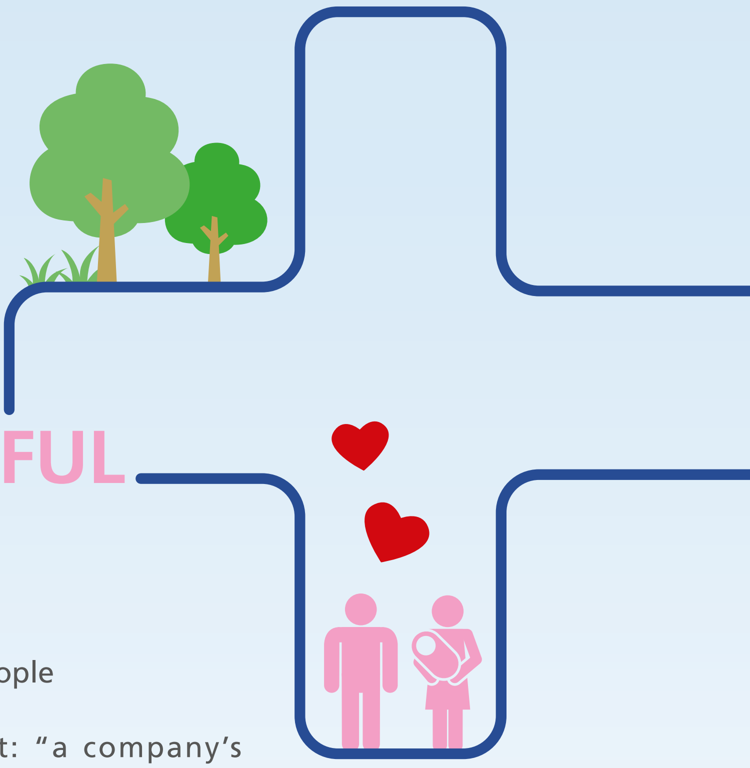
As the largest and most powerful pharmaceutical distributor in China, Sinopharm will continue to move forward by keeping up with the "New Normal" development of the pharmaceutical and healthcare industry, capitalize on the opportunities brought by structural reforms of the supply side to further stimulate corporate vitality and creativity, and continue to provide full-channel supply chain services for clients, so as to become a true first-class global pharmaceutical service provider through actively building global healthcare service platform with a new strategy of unification of distribution and retail.

Finally, I would like to express heartfelt gratitude to all the shareholders, directors, strategic partners, members of management of the Company and all my fellow colleagues. Let us continue to make great efforts hand in hand to advance the transformation of Sinopharm from distinction to excellence as well as from a traditional pharmaceutical distribution company to an innovative healthcare service provider.

Li Zhiming
Chairman

Shanghai, the People's Republic of China
24 March 2017





MOST POWERFUL

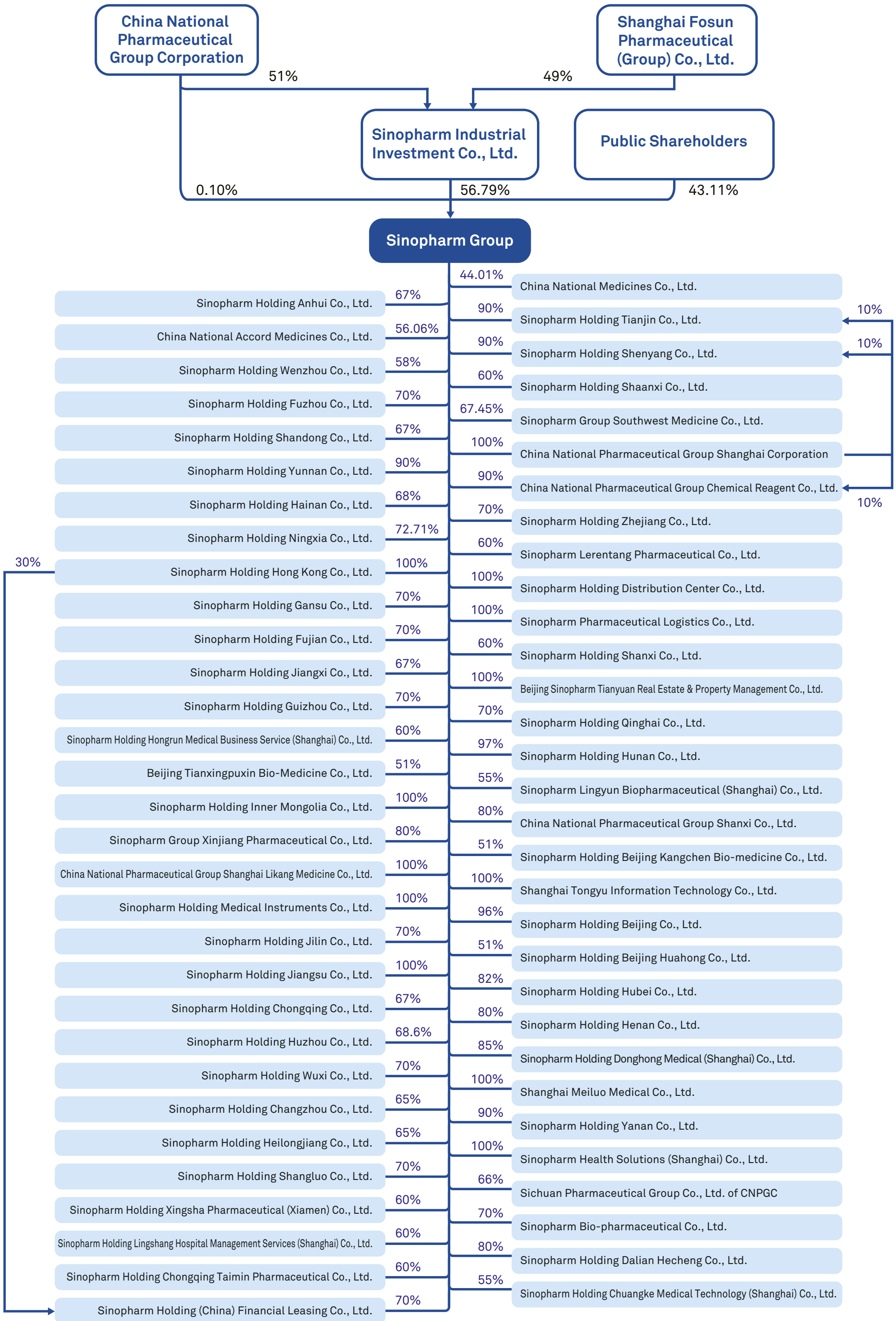
BEST PARTNER
MOST RELIABLE

Deliver health, Benefit common people

Sinopharm Group believes that: “a company’s development is closely related with people’s livelihood. The pioneering quality and professional concept will enable it to develop the health industry together with the community and create and realize superior corporate value”.

Shareholding Structure of the Group

As of the date of this report, the structure of the Group was as follows:



Industry Overview

Stable economy in general with increasing downward pressure of economic growth

China's macro economy was stable in general with improving quality of economic growth in 2016. GDP growth further slowed down to 6.7%, downward pressure of economic growth increased, indicating that the current economy is going through a relatively difficult time.

Continuous rigid demand

Despite slowdown of economic growth and frequent release of industry policies, the rigid demand of healthcare industry continued, the industry growth continued to exceed the macroeconomic growth. As more pharmaceutical companies go public, the pharmaceutical distribution and retail industries have entered into a stage of merger, acquisition and expansion, highlighting the importance of scale advantage.

Opportunities and challenges brought along with frequent release of healthcare policies

The industry was challenged by policies such as "two-invoice system", drug tender and rigorous regulation of pharmaceutical distribution, contributing to the facilitating of the survival of the fittest and a quicker consolidation within the industry, large-scale enterprises with superior control and management will win out. The concentration ratio of the industry is bound to increase in the future.

The separation of medical treatment and drug sale will bring along challenges for hospitals, but will bring along enormous opportunities for the drugs retail business. With firm support from the government for the pharmaceutical e-commerce, traditional pharmaceutical firms appealed to the Internet for new growth drivers, where enterprises with strong platforms and offline resources edges will have high potentials.

In the long run, with the contribution from the aging population, urbanization, increase in chronic diseases, rise in household income and the wider coverage of medical insurance, we believe China's healthcare industry will be filled with opportunities and featured with rapid growth. Fiercer competition and stricter regulations will accelerate the industry consolidation, and the sustained deepening of healthcare reforms will make China's healthcare system more complete and regulated. We believe that enterprises like us, with leading network advantages, compliant operations and superior corporate governance, will greatly benefit from such reforms.

Business Review

Faced with unfavourable macroeconomic and industry situation through the whole year, the Group continued to adjust structure with efficiency orientation and push transformation with quality improvement and efficiency enhancement, achieving further improvements in the development quality, further integration of platform resources and further benefits unleashed by the economic scale effect. The revenue growth of the Group continued to exceed the industry average, while profit growth continued to significantly surpass the sales growth, which further consolidated the leading position and edges of the Group.

Continuous strengthen of leading position in the distribution business

In the pharmaceutical distribution sector, the Group has forged an integrated pharmaceutical supply chain, and an advanced supply chain management mode, achieved steady and appropriate adjustments in product structures, sustainably optimized customer structure, continually expanded and integrated national distribution network. As at 31 December 2016, the distribution network covered 31 provinces, municipalities and autonomous regions across China. The Group's direct customers included 14,231 hospitals (only referring to ranked hospitals, including 1,991 largest class-three hospitals with the highest rankings), 119,931 small end-customers (including primary health services institutions and others) and 79,839 retail outlets.

The Group continued its endeavours to promote integrated operation. Meanwhile, the Group continued to strengthen the construction of national integrated logistics platform: the national pharmaceutical distribution logistics network includes 4 logistic hubs, 38 provincial logistic centres, 185 municipal level logistics outlets, 24 retail logistics outlets, with a sum of 251 logistics outlets.

Rapid growth of the retail business

In respect of retail pharmacy, aiming to establish an integrated wholesale-retail distribution model, the Group strived for the development in the pharmaceutical retail business and strengthened its leading advantages. The Group has set up a network of retail chain pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 31 December 2016, the number of retail pharmacies was 3,502 (only referring to those operated by Sinopharm Holding Guoda Drug Store Co., Ltd.), covering 18 provinces and cities across the country, among which 2,503 were directly operated by the Group and 999 were operated by franchisees. The Group witnessed a rapid increase in sales amount and a significant increase in profit as compared with the corresponding period last year and sustained its industry leading position in respect of scale.

Further utilization of platform advantages

- The Group continued to advance marketing transformation and further explored innovative service models in marketing service capitalizing on the business platform advantages. Therefore, the Group achieved substantial growth in agent businesses.

- Through actively exploring the financial and capital market, and integrating the philosophy of "combination of industry and finance" into the new ideas of corporate transformation, the Group forged stronger competitive edges in the industry chain. The financial leasing business grew rapidly and profit increased significantly. Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management Co., Ltd. was established, industry and capital are aligned to drive the consolidation of distribution and retail industries as well as to advance Sinopharm's strategic expansion.

- Based on alignment of pharmaceutical and medical device, hospital medical services such as cleaning, sterilization and post-sale maintenance were actively promoted and achieved rapid growth in scale.

- Adapting to the "Internet +" trend, the Group grabbed the developing opportunities of pharmaceutical e-commerce and promoted the combination of traditional businesses and the Internet. As a result, businesses such as B2C and O2O achieved substantial growth.

- Capitalising on the policy opportunity to actively promote third-party logistics and national integrated cold-chain logistics service system, satisfactory progress was achieved.

Further improvement in management and control

The Group improved its management and control in finance, human resources, diversified financing, operations management, informatisation and procurement, etc., which lowered the expense ratio, the ratio of accounts receivable balance in income, as well as the accounts receivable turnover days. The capital efficiency was further improved, the operating risks were further decreased, and the enterprise competitiveness was further enhanced.

Future Plan

Continue to solidify leading position in distribution business

The distribution business still remains as an important strategic sector of the Group. The Group will continue to advance the descending of distribution network and optimize network layout, further utilizing scale and network advantages and continuously solidifying industry leading position. The Group will further advance regional integration with the aim to build regional enterprise groups with integrated management and control, various services, synergy and versatility, and high operation efficiency, so as to lay a foundation for a national integration.

Continue to promote rapid growth of retail business

The retail business still remains as a strategic sector for the structural adjustment of the Group. The Group will continue to vigorously promote the retail business to forge a pharmaceutical terminal retail network with national layout, vertical development, reasonable structure, integration of wholesale and retail, various profit growth drivers, risk defense, global perspective and overall leading position.

Continue to advance and foster innovative businesses

Innovative businesses based on main business are critical for optimizing the Group's revenue structure and profitability. The Group will continue to vigorously drive marketing transformation to help agent business achieve faster growth. The Group will continue to advance "combination of industry and finance" and vigorously promote financial services such as financial leasing and industry investment. The Group will continue to utilise current hospital resources to vigorously promote hospital medical services such as cleaning, sterilization and post-sale maintenance. The Group will continue to actively advance the progress of e-commerce project with the aim to establish a vertical e-commerce service platform integrating B2B, B2C, O2O services to provide end customers with one-stop "medical + pharmaceutical" services.

Further improve capital efficiency and control operation risk

The Group will further improve capital efficiency and control operation risk through measures such as capital management and control, low-efficiency businesses removal, investment strategy adjustment and assessment strengthening, so as to realise healthier sustainable development.

Accelerate internationalisation process and expand international business

The Group will take advantage of capital and channel advantages to promote international business. Besides, the Group will strengthen international communication, possess international vision and cultivate international talents.

Looking forward, the industry is in a vastly volatile time with change and adjustment, bringing many challenges along with new opportunities. The Group will take advantage of the mixed ownership reform and supply side structural reform, will take "new thought, new strategy, new momentum, new target" as strategic guidance, and will continue to advance transformation and upgrade, realizing sustainable development and forging a pharmaceutical healthcare service provider with international competence.

Financial Summary

The financial summary set out below is extracted from the audited financial statements of the Group for the Reporting Period which were prepared in accordance with the HKFRSs:

During the Reporting Period, the Group recorded a revenue of RMB258,387.69 million, representing an increase of RMB29,714.76 million or 12.99% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB6,891.60 million, representing an increase of RMB1,150.69 million or 20.04% as compared with the corresponding period of last year.

Profit attributable to owners of the parent amounted to RMB4,647.34 million, representing an increase of RMB875.12 million or 23.20% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.68, representing an increase of 23.53% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB258,387.69 million, representing an increase of 12.99% as compared with RMB228,672.93 million for the twelve months ended 31 December 2015, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution and retail pharmacy business. The Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB246,458.82 million, representing an increase of 13.34% as compared with RMB217,457.92 million for the twelve months ended 31 December 2015, which accounted for 94.38% of the total revenue of the Group. Such increase was primarily due to a remarkable growth in the pharmaceutical distribution business and the further expansion of the pharmaceutical distribution network of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB10,238.51 million, representing an increase of 17.29% as compared with RMB8,729.37 million for the twelve months ended 31 December 2015. The increase was primarily due to the acquisition for expansion and business growth of the Group's existing pharmacies.

- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB4,440.88 million, representing a decrease of 6.21% as compared with RMB4,734.74 million for the twelve months ended 31 December 2015.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB237,717.02 million, representing an increase of 13.22% as compared with RMB209,952.62 million for the twelve months ended 31 December 2015. The increase was primarily due to the increase in the sales revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB20,670.67 million, representing an increase of 10.42% as compared with RMB18,720.31 million for the twelve months ended 31 December 2015. The gross profit margin of the Group for the twelve months ended 31 December 2015 and 2016 were 8.19% and 8.00%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB272.29 million, representing an increase of 11.72% as compared with RMB243.73 million for the twelve months ended 31 December 2015. The increase was primarily due to the increase in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB6,618.86 million, representing an increase of 9.86% as compared with RMB6,024.83 million for the twelve months ended 31 December 2015. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, its business development and its expansion of distribution networks through new set-ups and acquisitions of companies and businesses, etc.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were RMB4,110.38 million, representing an increase of 10.74% as compared with RMB3,711.89 million for the twelve months ended 31 December 2015. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

During the Reporting Period, the proportion of the Group's administrative expenses to the total revenue of the Group decreased to 1.59% from 1.62% for the twelve months ended 31 December 2015, which was due to the implementation of cost control measures and the economies of scale of the Group.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB10,213.72 million, representing an increase of 10.69% from RMB9,227.32 million for the twelve months ended 31 December 2015.

Other Gains – Net

The other gains of the Group less other losses increased from RMB64.60 million for the twelve months ended 31 December 2015 to RMB410.73 million for the Reporting Period. The increase was primarily due to the increase in gains from disposal of subsidiaries and fixed assets by the Group.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB1,931.82 million, representing a decrease of 2.82% as compared with RMB1,987.81 million for the twelve months ended 31 December 2015. The decrease was primarily due to the decrease in financing costs of the Group.

Share of Profits and Losses of Associates

During the Reporting Period, the Group's share of profits and losses of associates was RMB232.19 million, representing an increase of 40.67% as compared with RMB165.06 million for the twelve months ended 31 December 2015.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were RMB2,033.23 million, representing an increase of RMB304.97 million as compared with RMB1,728.26 million for the twelve months ended 31 December 2015. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate decreased to 22.78% during the Reporting Period from 23.14% for the twelve months ended 31 December 2015.

Profit for the Year

As a result of the above-mentioned factors, the profit of the Group for the year of 2016 was RMB6,891.60 million, representing an increase of 20.04% as compared with RMB5,740.91 million for the twelve months ended 31 December 2015. The profit margin of the Group for the twelve months ended 31 December 2015 and 2016 were 2.51% and 2.67%, respectively.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit or net profit attributable to owners of the parent was RMB4,647.34 million, representing an increase of 23.20% or RMB875.12 million from RMB3,772.22 million for the twelve months ended 31 December 2015. The Group's net profit margin for the Reporting Period and the corresponding period of 2015 were 1.80% and 1.65%, respectively.

Profit Attributable to Non-controlling Interests

Profit attributable to non-controlling interests for the Reporting Period was RMB2,244.25 million, representing an increase of RMB275.56 million from RMB1,968.69 million for the twelve months ended 31 December 2015.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB93,781.12 million, of which approximately RMB44,119.75 million were not yet utilized. Cash and cash equivalents of RMB25,572.76 million primarily comprise cash, bank savings and income from current operating activities.

Cash flow

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2015 and 2016, respectively:

	2016 **RMB million**	2015 RMB million	2015 (Restated) RMB million
Net cash generated from operating activities	**9,257.96**	13,560.45	13,412.33
Net cash used in investing activities	**(1,606.45)**	(1,596.47)	(1,643.32)
Net cash used in financing activities	**(2,026.96)**	(7,328.09)	(7,159.75)
Net increase in cash and cash equivalents	**5,624.55**	4,635.89	4,609.26
Cash and cash equivalents at the beginning of the year	**19,966.05**	15,232.36	15,305.98
Exchange differences	**(17.84)**	50.90	50.81
Cash and cash equivalents at the end of the year	**25,572.76**	19,919.15	19,966.05

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB9,257.96 million, representing a decrease of RMB4,154.37 million from RMB13,412.33 million for the twelve months ended 31 December 2015. The decrease was primarily attributed to the outflow of operating cashflow due to the expansion of the Group's subsidiary's financial leasing business.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB1,606.45 million, representing a decrease of RMB36.87 million as compared with RMB1,643.32 million for the twelve months ended 31 December 2015.

Net cash used in financing activities

During the Reporting Period, the net cash used in financing activities of the Group was RMB2,026.96 million, which was primarily attributable to the repayment of due debts and the interests paid. The net cash used in financing activities of the Group for the twelve months ended 31 December 2015 was RMB7,159.75 million, representing a decrease of RMB5,132.79 million.

Capital Expenditure

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improving of the level of informatization. The Group's capital expenditures amounted to RMB2,135.42 million and RMB1,464.49 million for the year ended 31 December 2015 and the Reporting Period, respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to develop, it may incur additional capital expenditure. The Group's ability to obtain additional funding in future is subject to a variety of factors, including its future operational results, financial condition and cash flows, economic, political and other conditions in the mainland China and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings, etc.

Capital Structure

Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of the super short-term financing bill, the Group obtained approximately RMB11 billion for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB. There are certain loans denominated in United States Dollars ("**USD**") and Hong Kong Dollars ("**HKD**") for settlement of payments for import of drugs.

As at 31 December 2016, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in Hong Kong Dollars and small amount denominated in USD and Euro ("**EUR**") and AUD ("**AUD**").

Indebtedness

As at 31 December 2016, the Group had aggregate banking facilities of RMB93,781.12 million, of which RMB44,119.75 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2016, RMB22,362.58 million will be due within one year and RMB11,135.30 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

As at 31 December 2016, the Group's gearing ratio was 71.76% (31 December 2015: 70.68%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2016.

Foreign Exchange Risks

The Group's operations are mainly located in the PRC and most of its transactions are denominated and settled in RMB. However, the Group is exposed to foreign exchange risks on certain cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group has no corresponding hedging arrangements.

Pledge of Assets

As at 31 December 2016, part of the Group's borrowings and notes payable were secured by prepaid land lease payments with book value of RMB43.14 million, investment properties with book value of RMB19.06 million, properties, plant and equipment with book value of RMB76.69 million, trade receivables with book value of RMB1,027.18 million and finance lease receivables with book value of RMB439.81 million.

Major Acquisitions and Disposals

On 9 March 2016, the Board resolved to pass the resolutions in relation to the asset restructuring between the Group and certain subsidiaries of CNPGC and resolved to adjust the related transaction arrangement on 30 May 2016. Accordingly: (i) the Company has agreed to dispose its 26% equity interest in Sinopharm Holding A-Think Pharmaceutical Co., Ltd. and 51% equity interest in China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. to Shanghai Modern Pharmaceutical Co., Ltd. ("**Modern Pharmaceutical**") at a consideration of approximately RMB486.2098 million, which will be satisfied by the issuance of approximately 16.7312 million consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to the Company; (ii) China National Accord Medicines Co., Ltd. ("**Sinopharm Accord**") has agreed to dispose its 51% equity interest in Sinopharm Zhijun (Shenzhen) Pharmaceutical Co., Ltd., 51% equity interest in Shenzhen Zhijun Pharmaceutical Trade Co., Ltd., 51% equity interest in Sinopharm Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. and Pingshan Base at a consideration of approximately RMB2,511.3225 million, which will be satisfied by the issuance of approximately 86.4185 million consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to Sinopharm Accord; and (iii) Sinopharm Accord has agreed to acquire 51% equity interest in Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. owned by China National Pharmaceutical Foreign Trade Corporation ("**Foreign Trade Corporation**") at an aggregate consideration of approximately RMB284.7828 million. The consideration will be satisfied by the issuance of approximately 5.3230 million consideration shares in total at the issue price of RMB53.50 per consideration share by Sinopharm Accord to Foreign Trade Corporation.

Both Modern Pharmaceutical and Foreign Trade Corporation are subsidiaries and associates of CNPGC, the ultimate controlling shareholder of the Company, therefore Modern Pharmaceutical, Foreign Trade Corporation, and CNPGC are connected persons of the Group, and the each of the aforesaid transaction constitute a disclosable transaction and connected transaction exempt from the independent shareholders' approval requirement under Chapter 14 and under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), respectively. For details, please refer to announcements on the websites of the Company and the Stock Exchange dated 9 March 2016 and 30 May 2016. As at the date of this report, the aforesaid transactions have closed.

On 20 July 2016, the Company and China National Medicines Corporation Ltd. ("**SINOPHARM (CNCM LTD)**") entered into the assets transfer agreements and pass the resolutions to make revision to the related transaction proposal on 23 September 2016. Pursuant to which, the company resolved to transfer 96% equity interest in Sinopharm Holding Beijing Co., Ltd., 51% equity interest in Sinopharm Holding Beijing Huahong Co., Ltd., 51% equity interest in Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd. and 51% equity interest in Beijing Tianxinpuxin Bio-Medicine Co., Ltd. held by the Company to SINOPHARM (CNCM LTD) at an aggregate consideration of approximately RMB5,339.6946 million, which will be satisfied by issuance of approximately 212,736,835 consideration shares in total at the issue price of RMB25.10 per consideration share by SINOPHARM (CNCM LTD) to the Company. While the other minority shareholders of the aforesaid target companies also agreed to transfer their corresponding equity interests in the aforesaid target companies to SINOPHARM (CNCM LTD) on equal conditions and obtain the consideration shares issued by SINOPHARM (CNCM LTD). Upon completion of all the transactions under the assets transfer agreements, the Company's shareholding ratio in SINOPHARM (CNCM LTD) will be increased from 44.01% to 58.52%, and SINOPHARM (CNCM LTD) will continue to be a subsidiary of the Company. The Company's proposed disposal of the target assets to SINOPHARM (CNCM LTD) and the proposed acquisition of the consideration shares to be issued by SINOPHARM (CNCM LTD) contemplated under the assets transfer agreements constitute disclosable transactions under Chapter 14 of the Listing Rules. Details of the transactions are set out in the announcement of the Company published on the Company and the websites of the Hong Kong Stock Exchange on 20 July 2016 and 23 September 2016. As at the date of this report, the aforesaid transactions have been approved by China Securities Regulatory Commission and are in the process of closing.

Save as disclosed above, during the Reporting Period, the Company had no major acquisitions and disposals with respect to subsidiaries, associated and jointly-owned companies.

Major Investment

During the Reporting Period, the Group had no major investment.

Going Concern

Based on the current financial forecast and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a going concern basis.

Contingent Liabilities and Material Litigations

As at 31 December 2016, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2016, the Group had a total of 55,241 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group conducted periodic performance reviews on its employees to improve their working efficiency, and adjusted their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

Environmental Policy and Performance

The Group always attaches equal importance to business development and environmental protection. For the year ended 31 December 2016, during its daily operation, the Group has persistently exercised stringent emission control, reasonably utilized various resources and strictly complied with relevant laws, regulations, standards and other local rules, formulated and implemented relevant internal rules, so as to minimize the impacts of its production and operation on the ecological system on multiple fronts, including emission, sewage treatment, waste discharge and disposal, resources utilization, etc. Meanwhile, the Group strived to maintain and strengthen the establishment of a healthy operating environment to facilitate the healthy and orderly development of the Group. The Group has also made its best endeavours to improve the working environment for its staff. It advocated a green office and green operation concept and adhered to a principle of "Focus on Prevention of Diseases and Integrate Prevention and Treatment", aiming to achieve zero occupational diseases and minimize the risks of occupational hazards of the Company, thereby providing all of its staff with a safe, healthy, ideal and secured working environment.

Compliance with Laws and Regulations

During the Reporting Period, the Directors of the Company are not aware of any non-compliance with the relevant laws and regulations which would have a material impact on the Group.

Relationship with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees' values will facilitate the achievement of the Group's overall goals. For the year ended 31 December 2016, the Group adhered to the talent-oriented corporate culture and played an active role in cultivating first-class talents. It also attached great importance to the exploration, management and development planning of human resources, striving to create a harmonious working environment as well as a remuneration and benefit system with market competitiveness for its employees, so as to ensure the Group's advantages in terms of human resources for future development. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of the Group's brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2016, there was no significant and material dispute between the Group and its suppliers and/or customers.

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and protection of the interests of the shareholders of the Company. The Company has adopted sound governance and disclosure practices, and will continuously improve these practices and create a highly ethical corporate culture.

Composition of the Board

As at the date of this report, the Board consists of 14 directors (the "**Director(s)**"), including one executive Director, Mr. Li Zhiming; eight non-executive Directors, namely Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Deng Jindong, Mr. Li Dongjiu, Mr. Lian Wanyong and Mr. Wu Yijian; and five independent non-executive Directors, namely Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Tan Wee Seng, Mr. Liu Zhengdong and Mr. Zhuo Fumin. To the knowledge of the Company, there is no financial, business and family relationships or material/relevant relationships among members of the Board or between the Chairman and the President.

Biographical details of the Directors are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" of this annual report.

Major Responsibilities of the Board

The Board is the core of the Company's corporate governance framework and it takes several roles in representing interests, supervising resources and coordinating interests. The main functions of the Board are strategic planning, guidance on operation management and inspection and supervision. The responsibilities of the Board include formulating operation plans as well as investment proposals of the Company, preparing the proposed annual budgets and final accounts of the Company, assessing the performance of the Company and overseeing the work of senior management; formulating and reviewing the corporate governance policies and practices of the Company.

The Board shall represent the long term interest of the Company and the interest of shareholders and related party when making scientific and strategic decisions, be effectively supervised and evaluated when controlling corporate resources and conducting operation management and maintain effective stimulation and supervision over the senior management when duly delegating its power to the senior management. The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. Being different from the function and duties of the Board, the senior management of the Company are mainly in charge of the Company's production, operation and management; organizing the implementation of the Company's annual business plan and investment proposal; drafting plans for the establishment of the Company's internal management structure; drafting plans for the establishment of the Company's branch offices; drafting the Company's basic internal management system and formulating basic rules and regulations of the Company; within the authority delegated by the Board, appointing, changing or recommending shareholder representatives, directors and supervisors in its holding subsidiary or joint stock subsidiary; deciding on the establishment of the Company's branches; and other powers delegated by the Board.

The Company has separated the roles of Chairman and President, with Mr. Wei Yulin and Mr. Li Zhiming serving as the Chairman and the President of the Company during the Reporting Period, respectively. Upon Mr. Wei Yulin retired from the positions of Chairman and executive Director on 24 March 2017 due to his retirement, Mr. Li Zhiming was elected as the Chairman and concurrently serves as the President as the new President has not been appointed yet. The Chairman is responsible for managing the Board, steering the Board to formulate overall strategies and business development plans, ensuring the receipt of sufficient, complete and reliable information by each Director and the receipt of reasonable explanations for all the issues raised in the Board meetings. The President is responsible for managing the business of the Company and implementing policies, business objectives and plans formulated by the Board, and is accountable to the Board for the Company's overall operation.

The Board has established an audit committee, a remuneration committee, a nomination committee and a strategy and investment committee. Please see below for the composition and responsibilities of the audit committee, the remuneration committee, the nomination committee and the strategy and investment committee. Each committee shall provide its recommendations to the Board based on its respective terms of reference. The decisions of the Board on such recommendations shall be final, unless otherwise clearly stated in the terms of reference of these committees.

During the Reporting Period, the Board made a lot of efforts in improving the corporate governance system of the Company and enhancing the corporate governance standards, including amending the articles of association of the Company (the "**Articles of Association**") in accordance with the requirements of relevant laws, regulations and regulatory rules as amended from time to time, as well as the practice of the Company; monitoring and organising the Directors and company secretary to participate in relevant training courses; regularly reviewing the Company's compliance with the domestic and overseas regulatory requirements and its implementation of various internal corporate governance rules and policies, and reviewing the Company's compliance with the Corporate Governance Code and the disclosures in the corporate governance report.

Changes of Directors, Supervisors and Senior Management

During the Reporting Period, changes of Directors, Supervisors and Senior Management are as follows:

(1) As considered and approved by the 2016 first extraordinary general meeting of the Company held on 29 January 2016, Mr. Lian Wanyong was appointed as non-executive Director of the third session of the Board, his term of office was from 29 January 2016 to 20 September 2017. Ms. Li Xiaojuan was appointed as a shareholder representative Supervisor (the "**Supervisor(s)**") of the third session of the supervisory committee of the Company (the "**Supervisory Committee**"), her term of office was from 29 January 2016 to 20 September 2017. On 4 January 2016, Mr. Zhou Bin tendered his resignation as a non-executive Director due to work arrangement. On 8 January 2016, Mr. Lian Wanyong tendered his resignation as a shareholder representative Supervisor.

(2) As considered and approved by the 2016 second extraordinary general meeting of the Company held on 8 March 2016, Mr. Zhuo Fumin was appointed as an independent non-executive Director of the third session of the Board, his term of office was from 8 March 2016 to 20 September 2017.

(3) As considered and approved by the 2015 annual general meeting of the Company held on 16 June 2016, Mr. Wu Yijian was appointed as a non-executive Director of the third session of the Board, with a term of office from 16 June 2016 to 20 September 2017. On 25 March 2016, Mr. Liu Hailiang ceased to serve as non-executive Director due to retirement, with effect on the same day.

(4) As considered and approved by the 2016 third extraordinary general meeting of the Company held on 18 October 2016, Mr. Ma Ping was appointed as a non-executive Director of the third session of the Board with a term of office was from 18 October 2016 to 20 September 2017. On the same day Mr. Li Yuhua tendered his resignation as non-executive Director due to work arrangement.

(5) On 8 March 2016, the resolutions regarding the election of the members and chairman of each of the special committees under the third session of the Board were considered and approved at the 2016 third extraordinary Board meeting. Their composition is as follows:

Board Committee	**Chairman**	**Members**
Audit Committee	Mr. Tan Wee Seng	Mr. Deng Jindong, Mr. Li Dongjiu, Mr. Liu Zhengdong and Mr. Zhuo Fumin
Remuneration Committee	Mr. Liu Zhengdong	Mr. Tan Wee Seng, Mr. Zhuo Fumin, Mr. Liu Hailiang and Mr. Lian Wanyong
Nomination Committee	Mr. Wei Yulin	Mr. She Lulin, Mr. Wang Qunbin, Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong and Mr. Zhuo Fumin
Strategy and Investment Committee	Mr. Wei Yulin	Mr. She Lulin, Mr. Wang Qunbin, Mr. Chen Qiyu, Mr. Li Yuhua, Mr. Li Dongjiu, Ms. Li Ling, Mr. Tan Wee Seng and Mr. Lian Wanyong

(6) As considered and approved by 11th meeting of the third session of the Board held on 19 August 2016, the composition of remuneration committee was changed as follows:

Members of remuneration committee of the third session of the Board were changed from "Mr. Liu Zhengdong (Chairman), Mr. Tan Wee Seng, Mr. Zhuo Fumin, Mr. Lian Wanyong (Mr. Liu Hailiang resigned on 16 June 2016)" to "Mr. Liu Zhengdong (Chairman), Mr. Yu Tze Shan Hailson, Mr. Zhuo Fumin, Mr. Lian Wanyong, Mr. Wu Yijian", the term of office of above members of remuneration committee was the same as their term of office as Directors.

(7) As considered and approved by the 13th extraordinary Board meeting in 2016 of the Company held on 18 October 2016, Mr. Ma Ping was appointed as a member of strategy and investment ceased to serve as committee of the third session of the Board, his term of office was the same as his term of office as a director. Mr. Li Yuhua as a member of strategy and investment committee of the third session of the Board due to resignation.

(8) As considered and approved by the 14th extraordinary Board meeting in 2016 of the Company held on 28 October 2016, Mr. Liu Yong was appointed as secretary to the Board, joint company secretary and authorised representative of the Company, which took effect on the same day. Mr. Ma Wanjun ceased to serve as secretary to the Board, joint company secretary and authorised representative due to work arrangement.

(9) On 25 April 2016, Mr. Guo Junyu tendered his resignation as vice president of the Company.

Changes upon the Reporting Period:

On 24 March 2017, Mr. Wei Yulin, due to the fact that he has reached retirement age, has tendered his resignation as the Chairman of the Board (legal representative), the executive Director and the chairman of each of the Nomination Committee and Strategy and Investment Committee of the Board with immediate effect. Mr. Wei Yulin has confirmed that he has no disagreement with the Board and there is no other matter relating to his resignation that needs to be brought to the attention of the shareholders or creditors of the Company. The Board wishes to express its heartfelt appreciation for Mr. Wei Yulin's remarkable contribution during his tenure of service.

On 24 March 2017, Mr. Li Zhiming, the executive Director and President of the Company, and a member of the Investment Committee of the Board, was elected as the Chairman of the Board (legal representative) and appointed as the chairman of the Nomination Committee and the chairman of the Strategy and Investment Committee of the Board. The term of office of Mr. Li Zhiming begins from the date of approval of the election at this Board meeting, and will last until the expiry of the term of the current the Board. Mr. Li Zhiming will serve as the President until the appointment of the new President by the Board.

Board Meetings and General Meetings

The Board convened twenty meetings, fifteen of which were by voting through communications during the Reporting Period and notices for regular Board meetings were given to each Director at least 14 days prior to the meetings.

During the Reporting Period, the attendance record of each of the Directors at the meetings of the Board was as follows:

Directors	Attendance/ No. of meetings held
Executive Director	
Mr. Wei Yulin (resigned)	20/20
Mr. Li Zhiming	20/20
Non-executive Directors	
Mr. Chen Qiyu(1)	19/20
Mr. She Lulin	20/20
Mr. Wang Qunbin(2)	17/20
Mr. Li Yuhua(3) (resigned)	15/16
Mr. Ma Ping(4)	4/4
Mr. Deng Jindong(5)	18/20
Mr. Li Dongjiu	20/20
Mr. Lian Wanyong(6)	16/17
Mr. Liu Hailiang(7) (resigned)	9/10
Mr. Wu Yijian(8)	10/10
Independent non-executive Directors	
Ms. Li Ling(9)	19/20
Mr. Yu Tze Shan Hailson	20/20
Mr. Tan Wee Seng(10)	19/20
Mr. Liu Zhengdong(11)	18/20
Mr. Zhuo Fumin(12)	16/17

Notes:

(1) Mr. Chen Qiyu attended one meeting not in person but by his proxy, which was not included in the attendance;

(2) Mr. Wang Qunbin attended three meetings not in person but by his proxy, which were not included in the attendance;

(3) Mr. Li Yuhua attended one meeting not in person but by his proxy, which was not included in the attendance; a total of sixteen meetings were held during his term of office as a Director during 2016;

(4) A total of four meetings were held during Mr. Ma Ping's term of office as a Director;

(5) Mr. Deng Jindong attended two meetings not in person but by his proxy, which were not included in the attendance;

(6) Mr. Lian Wanyong attended one meeting not in person but by his proxy, which was not included in the attendance; A total of seventeen meetings were held during his term of office as a Director during 2016;

(7) Mr. Liu Hailiang attended one meeting not in person but by his proxy, which was not included in the attendance; a total of ten meetings were held during his term of office as a Director during 2016;

(8) A total of ten meetings were held during Mr. Wu Yijian's term of office as a Director;

(9) Ms. Li Ling attended one meeting not in person but by her proxy, which was not included in the attendance;

(10) Mr. Tan Wee Seng attended one meeting not in person but by his proxy, which was not included in the attendance;

(11) Mr. Liu Zhengdong attended two meetings not in person but by his proxy, which were not included in the attendance;

(12) Mr. Zhuo Fumin attended one meeting not in person but by his proxy, which was not included in the attendance; a total of seventeen meetings were held during his term of office as a Director during 2016.

At Board meetings, the Company's senior management reported the information of business activities and data of development of the Company to all Directors on a timely basis. The executive Directors also met with and consulted the non-executive Directors for their opinions on the Company's business development and operations regularly. If any Director has conflict of interest in any proposed resolution to be considered at the Board meeting, such Director shall abstain from voting on such resolution.

During the Reporting Period, the attendance record of each Director at the general meetings was as follows:

Directors	Attendance/ No. of meetings held
Executive Director	
Mr. Wei Yulin (resigned)	5/5
Mr. Li Zhiming	2/5
Non-executive Directors	
Mr. Chen Qiyu	3/5
Mr. She Lulin	0/5
Mr. Wang Qunbin	1/5
Mr. Li Yuhua (resigned)	0/4
Mr. Ma Ping	1/1
Mr. Deng Jindong	0/5
Mr. Li Dongjiu	5/5
Mr. Lian Wanyong	4/4
Mr. Liu Hailiang (resigned)	2/3
Mr. Wu Yijian	1/2
Independent non-executive Directors	
Ms. Li Ling	5/5
Mr. Yu Tze Shan Hailson	5/5
Mr. Tan Wee Seng	5/5
Mr. Liu Zhengdong	4/5
Mr. Zhuo Fumin	2/3

Training for Directors

On 30 December 2016, DLA Piper UK LLP, the Hong Kong legal advisers of the Company, provided training materials to all the Directors, and all the Directors have completed the review and study of these materials.

Training for Joint Company Secretaries

On 15 November 2016, Mr. Liu Yong attended the training of company secretary provided by the Company's Hong Kong legal adviser, DLA Piper UK LLP. Both Mr. Liu Yong and Dr. Liu Wei attended 42nd seminar on Enhanced Continuing Professional Development programme provided by The Hong Kong Institute of Chartered Secretaries from 19 December 2016 to 21 December 2016. Mr. Liu Yong and Dr. Liu Wei had attended relevant professional training for no less than 15 hours during the Reporting Period.

Audit Committee

At the date of this report, the audit committee of the Company comprises five Directors, including three independent non-executive Directors, being Mr. Tan Wee Seng, Mr. Liu Zhengdong and Zhuo Fumin and two non-executive Directors, being Mr. Deng Jindong and Mr. Li Dongjiu. Mr. Tan Wee Seng currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information and reporting process for financial information as well as the systems for risk management and internal control. These responsibilities include, among others:

- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- formulating and implementing policies on the engagement of an external auditor to supply non-audit services; and
- monitoring integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in the statements and reports.

During the Reporting Period, five meetings were held by the audit committee, which mainly reviewed and considered auditor's report to the audit committee for 2015, audit fee for 2015, the appointment of auditors for 2016, the 2016 first quarterly financial report, the 2016 interim financial report, the 2016 third quarterly financial report and the annual audit plans for 2016, etc..

The attendance record of the committee members at the meeting during the Reporting Period was as follows:

Directors	**Attendance/ No. of meetings held**
Mr. Tan Wee Seng	5/5
Mr. Deng Jindong(1)	4/5
Mr. Li Dongjiu	5/5
Mr. Liu Zhengdong (2)	4/5
Mr. Zhuo Fumin	5/5

Notes:

(1) Mr. Deng Jindong attended one meeting by proxy instead in person, which was not included in the attendance;

(2) Mr. Liu Zhengdong attended one meeting by proxy instead in person, which was not included in the attendance.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016. The audit committee believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The audit committee has reviewed all material internal control rules, including the financial and operational and compliance controls, as well as risk management in 2016. The audit committee was satisfied with the effectiveness and sufficiency of the internal control mechanism in its operations. In addition, the audit committee has also reviewed the adequacy of resources, qualification and experiences of employees in relation to the accounting and financial reporting function of the Company and the adequacy of training courses taken by the employees and the relevant budgets.

The audit committee has reviewed the remuneration of the auditors for 2016 and recommended the Board to re-appoint Ernst & Young as the international auditor for 2017 and Ernst & Young Hua Ming LLP as the domestic auditor for 2017, subject to the approval of shareholders at the forthcoming annual general meeting.

Nomination Committee

At the date of this report, the nomination committee of the Company comprises seven Directors, including four independent non-executive Directors, being Ms. Li Ling, Mr. Yu Tze Shan Hailson, Mr. Liu Zhengdong and Mr. Zhuo Fumin; two non-executive Directors, being Mr. She Lulin and Mr. Wang Qunbin; and one executive Director Mr. Li Zhiming. Mr. Li Zhiming currently serves as the chairman of the nomination committee. The primary responsibilities of the Company's nomination committee are to formulate the nomination procedures and standards for candidates for Directors. These responsibilities include, among others:

- reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, and the succession plans for Directors (in particular the Chairman and the President); and
- formulating, implementing and reviewing from time to time the policy concerning diversity of Board members.

The nomination procedures of the Directors are as follows: the nomination committee shall firstly propose a list of candidates for Directors, which shall then be submitted by the committee to the Board for review; the Board shall then submit the relevant proposal to the general meeting for shareholders' approval.

The examination procedures of the candidates for Directors are: (1) to collect, or require relevant department of the Company to collect the particulars of the occupation, education, designation, detailed work experience and all part-time jobs of the candidates and summarize the same in written materials; (2) to hold nomination committee meetings to examine the qualifications of the candidates in accordance with the requirements applicable to a Director and to state the opinion and recommendations on appointments in the form of proposals; and (3) to carry out other relevant work according to decisions of or feedback from the Board.

During the Reporting Period, four meeting was held by the nomination committee which mainly reviewed considered the proposals to appoint Mr. Lian Wanyong as a non-executive Director of third session of the Board of the Company, to appoint Mr. Zhuo Fumin as an independent non-executive Director of third session of the Board of the Company, to appoint Mr. Wu Yijian as a non-executive Director of third session of the Board of the Company, and to appoint Mr. Ma Ping as a non-executive Director of third session of the Board of the Company.

In order to ensure a diversity on the Board and improve the Company's corporate governance, the Board has approved the Board diversity policy formulated by the nomination committee, which summarized as: other than complying with relevant requirements under the relevant laws, regulations and rules (including but not limited to Company Law of the PRC, the Listing Rules and the Articles of Association), the Company should also consider various diversity factors, including professional skills, industry experience, culture and education background, ethnicity, gender, age, etc. when designing the Board's composition. The selection of candidates will finally be determined based on their merits and contribution to the Board. Meanwhile, the Company's diversity policy also includes monitoring, reporting and reviewing system to ensure the effectiveness and successful implementation of the policy. The Company will set measurable objectives to implement the Board diversity policy and will review such objectives from time to time to ensure the suitableness and the progress on achieving these objectives.

The attendance record of the committee members at the meeting during the Reporting Period was as follows:

Directors	**Attendance/ No. of meetings held**
Mr. Wei Yulin (resigned)	4/4
Mr. She Lulin	4/4
Mr. Wang Qunbin	4/4
Ms. Li Ling	4/4
Mr. Yu Tze Shan Hailson	4/4
Mr. Liu Zhengdong	4/4
Mr. Zhuo Fumin(1)	2/2

Note:

(1) Mr. Zhuo Fumin was appointed as a member of nomination committee of the third session of the Board on 8 March 2016, a total of two meetings of nomination committee were held during his term of office in 2016.

Remuneration Committee

At the date of this report, the remuneration committee of the Company comprises five Directors, including three independent non-executive Directors, being Mr. Liu Zhengdong, Mr. Yu Tze Shan Hailson and Mr. Zhuo Fumin, and two non-executive Directors, being Mr. Lian Wanyong and Mr. Wu Yijian. Mr. Liu Zhengdong currently serves as the chairman of the remuneration committee. The primary responsibilities of the Company's remuneration committee are to formulate and review the remuneration policies and schemes for the Directors and senior management of the Company. These responsibilities include, among others:

- making recommendations to the Board on the Company's remuneration policies and structure for Directors and senior management of the Company;

- determining the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board in relation to the remuneration of non-executive Directors; and

- reviewing and approving performance-based remuneration by reference to corporate goals determined by the Board from time to time.

During the Reporting Period, five meetings were held by the remuneration committee, which mainly considered the specific assessment regarding treatment of unprofitable subsidiaries for 2015, the performance appraisal measures of the senior management for 2016, the report on assessment and incentive settlement of the senior management for 2015, determination of remuneration for the third session of the Board for 2016, the report on assessment and annual remuneration settlement of the senior management for 2015, the remuneration standards of the senior management for 2016 and filing of annual remuneration settlement of departed personnel, incentive targets of the senior management for 2016, Sinopharm H share stock incentive scheme, the revision of the Regulations on Relevant Expenses and Treatment Standards due to Work Needs for Sinopharm's Directors and Supervisors, implementation details of restricted share of H share, etc..

The attendance record of the committee members at the meeting during the Reporting Period was as follows:

Directors	**Attendance/ No. of meetings held**
Mr. Liu Zhengdong(1)	4/5
Mr. Yu Tze Shan Hailson(2)	2/2
Mr. Liu Hailiang(3) (resigned)	3/3
Mr. Zhuo Fumin(4)	4/4
Mr. Lian Wanyong(5)	4/4
Mr. Wu Yijian(6)	2/2

Notes:

(1) Mr. Liu Zhengdong attended one meeting not in person but by his proxy, which was not included in the attendance;

(2), (6) Mr. Yu Tze Shan Hailson and Mr. Wu Yijian were appointed as members of remuneration committee of the third session of the Board on 19 August 2016, a total of two meetings of remuneration committee were held during their terms of office in 2016;

(3) Mr. Liu Hailiang resigned due to retirement reason on 16 June 2016, a total of three meetings of remuneration committee were held during his term of office in 2016;

(4), (5) Mr. Zhuo Fumin and Mr. Lian Wanyong were appointed as members of remuneration committee of the third session of the Board on 8 March 2016, a total of four meetings of remuneration committee were held during their terms of office in 2016.

Strategy and Investment Committee

As at the date of this report, the strategy and investment committee of the Company comprises nine Directors, including one executive Director, namely Mr. Li Zhiming, six non-executive Directors, namely Mr. Chen Qiyu, Mr. She Lulin, Mr. Wang Qunbin, Mr. Ma Ping, Mr. Li Dongjiu and Mr. Lian Wanyong, and two independent non-executive Directors, namely Ms. Li Ling and Mr. Tan Wee Seng. Mr. Li Zhiming currently serves as the chairman of the strategy and investment committee.

The strategy and investment committee is a special organization under the Board. It is mainly responsible for conducting research and making recommendations on the long-term development strategies and major investment decisions of the Company, and supervising and reviewing the implementation of annual operation plans and investment proposals under the authorization of the Board.

During the Reporting Period, eight meetings were held by the strategy and investment committee, which were mainly about discussing various strategies of the Company; making decision on and giving guidance to the projects, such as asset restructuring, financing, equity investment, project constructions, assets projects.

The attendance record of the committee members at the meeting during the Reporting Period was as follows:

Directors	**Attendance/ No. of meetings held**
Mr. Wei Yulin (resigned)	8/8
Mr. Chen Qiyu[1]	7/8
Mr. She Lulin	8/8
Mr. Wang Qunbin[2]	3/8
Mr. Li Yuhua[3] (resigned)	6/7
Mr. Ma Ping[4]	1/1
Mr. Li Zhiming	8/8
Mr. Li Dongjiu	8/8
Ms. Li Ling[5]	7/8
Mr. Tan Wee Seng[6]	7/8
Mr. Lian Wanyong[7]	6/7

Notes:

(1) Mr. Chen Qiyu attended one meetings not in person but by his proxy;

(2) Mr. Wang Qunbin attended five meetings not in person but by his proxy;

(3) Mr. Li Yuhua attended one meeting not in person but by his proxy; a total of seven meetings of strategy and investment committee were held during his term of office in 2016;

(4) Mr. Ma Ping was appointed as a member of strategy and investment committee of the third session of the Board on 18 October 2016, a total of one meeting of strategy and investment committee was held during his term of office in 2016;

(5) Ms. Li Ling attended one meeting not in person but by her proxy;

(6) Mr. Tan Wee Seng attended one meeting not in person but by his proxy;

(7) Mr. Lian Wanyong attended one meeting not in person but by his proxy, a total of seven meetings of strategy and investment committee were held during his term of office in 2016.

Term of Office of the Non-Executive Directors

Names	Position	Commencement Date	Expiry Date
Chen Qiyu	non-executive Director	21 September 2014	20 September 2017
She Lulin	non-executive Director	21 September 2014	20 September 2017
Wang Qunbin	non-executive Director	21 September 2014	20 September 2017
Ma Ping	non-executive Director	18 October 2016	20 September 2017
Deng Jindong	non-executive Director	21 September 2014	20 September 2017
Li Dongjiu	non-executive Director	21 September 2014	20 September 2017
Lian Wanyong	non-executive Director	29 January 2016	20 September 2017
Wu Yijian	non-executive Director	16 June 2016	20 September 2017
Li Ling	independent non-executive Director	21 September 2014	20 September 2017
Yu Tze Shan Hailson	independent non-executive Director	21 September 2014	20 September 2017
Tan Wee Seng	independent non-executive Director	21 September 2014	20 September 2017
Liu Zhengdong	independent non-executive Director	21 September 2014	20 September 2017
Zhuo Fumin	independent non-executive Director	8 March 2016	20 September 2017

Compliance with the Corporate Governance Code

The Company has adopted all the code provisions contained in the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules (the "**Corporate Governance Code**") as the Company's code on corporate governance. On 9 December 2015, Mr. Lyu Changjiang resigned as an independent non-executive director and the member of nomination committee and the appointment of Mr. Zhuo Fumin as an independent non-executive Director and the member of nomination committee was considered and approved at the 2016 second extraordinary general meeting held on 8 March 2016. Save for the disclosed above, during the Reporting Period, the Company had complied with the code provisions set out in the Corporate Governance Code.

Securities Transactions by Directors and Supervisors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the standards for governing the transactions of the Company's listed securities by the Directors and the Supervisors. Having made specific enquiries with all Directors and Supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

Remuneration of Auditors

The Company's domestic auditor, Ernst & Young Hua Ming LLP and international auditor, Ernst & Young are the independent external auditors of the Group. The remuneration paid and payable by the Group to Ernst & Young Hua Ming LLP and Ernst & Young in respect of the services provided during the Reporting Period is as follows:

Services provided	Fee paid and payable
Statutory audit service provided for 2016	RMB20,574,855.33
Non-statutory audit service provided for 2016	RMB1,760,600.00
Non-audit service – tax consultancy services	RMB5,625,000.00

Confirmation by the Directors and Auditors

The Directors have reviewed the effectiveness of the risk management and internal control system of the Group. The review covered all the material aspects of its internal controls, including the supervision of the financial and operational and compliance affairs, as well as risk management.

The Directors are responsible for supervising the preparation of annual accounts in order to give a true and fair view of the financial position, operating results and cash flow of the Company during the year. For the purpose of the preparation of the financial statements for the Reporting Period, the Directors have selected appropriate accounting policies, adopted applicable accounting principles, made judgments and assessments that are prudent and reasonable and ensured the financial statements were prepared on a going concern basis. The Directors have confirmed that the Group's financial statements were prepared in accordance with the requirements of laws and applicable accounting principles.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Company to operate as a going concern. The statement of auditors about their reporting responsibilities on the financial statements is set out in the independent auditor's report.

Shareholders' Rights

Two or more shareholders representing a total of over 10% (inclusive) shares carrying the right to vote at the meeting to be convened may sign one or more written requests of the same format and contents, and submitted to the Board for the convening of an extraordinary general meeting or a class meeting. The Board shall furnish a written reply stating its agreement or disagreement to convene the extraordinary general meeting or a class meeting within ten days upon receipt of such requisition.

When the Company convenes an annual general meeting, shareholders who individually or jointly hold five percent (5%) or more (inclusive) of the shares carrying on voting rights of the Company shall be entitled to propose new resolutions in writing to the Company. The Company shall include resolutions falling within the scope of power of the general meeting into the agenda of such meeting. Shareholders who individually or jointly hold three percent (3%) or more of the shares of the Company shall be entitled to propose resolutions and submit the same in writing to the Board ten (10) days prior to the date of the general meeting.

The shareholders may put enquiries to the Board via the office phone number and email address of the Board office as stated in this annual report.

Amendments to the Articles of Association

Upon approval by shareholders of the Company at the shareholders' general meeting convened on 29 January 2016, the Company resolved to, in accordance with the requirements of relevant laws, regulations and regulatory rules, as well as the practice of the Company, make certain amendments to the Articles of Association in relation to the rules of procedure of the Board of Directors, internal audit regulations and the Communist Party of China organisation. For details, please refer to the announcements dated 13 October 2015, 16 December 2015 and 29 January 2016, and the circulars dated 15 October 2015 and 14 January 2016 of the Company.

Effective Communications with Investors

The Group had made remarkable improvements in investor relations in 2016 under the leadership and support of the Board and management. The Group has participated in a number of investment forums and successfully communicated with many fund management companies through various means. The Group organized on-site visits to its logistics centers, distribution centers and retail drug stores for a number of fund management companies to facilitate investors' direct understanding of and contact with the Company. The Company and its subsidiaries also received various fund investors for on-site visits. In the future, the Company will maintain effective communications with investors through road shows after the issuance of annual reports and interim reports as well as through general meetings.

Implementation of Non-Competition Agreement

The independent non-executive Directors have reviewed the compliance by CNPGC of the "Non-Competition Agreement" and confirmed that CNPGC has complied with the terms of such agreement during the year ended 31 December 2016. At the same time, CNPGC also confirms to the Company that it has complied with the terms of the Non-Competition Agreement.

The independent non-executive Directors are not aware of any breach of the terms of the "Non-Competition Agreement" by CNPGC and therefore, no remedy action was taken by the Company during the year ended 31 December 2016.

In accordance with the "Non-Competition Agreement" entered into between the Company and CNPGC, if CNPGC or any of its subsidiaries (other than the Company) is aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the core business of the Company (the "**Business Opportunity**"), it will inform the Company of the Business Opportunity in writing immediately in the first place. Whether to take up the Business Opportunity is up to the independent non-executive Directors.

Save as disclosed above, during the Reporting Period, Directors (including independent non-executive Directors) did not make any decisions in relation to whether to exercise or terminate an option or a right of first refusal and take up or waive any Business Opportunity.

Risk Management and Internal Control

The Board has established a risk management and internal control system in accordance with the requirements of paragraph C.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules and continues to monitor and review the effectiveness of its operation. The system is designed to manage rather than eliminate the risk of failure to meet business objectives, to promote effective and efficient operations, to ensure reliable financial reporting and compliance with applicable laws and regulations, as well as to safeguard the assets of the Group.

Characteristics of the Risk Management and Internal Control Organisation System

In accordance with the requirements of Rule C.2.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules, the Group has established a sound risk management and internal control organization system which includes the Board, its Audit Committee, management of the Group, the risk and operation management department, legal compliance department, audit department and other departments to ensure that the Group has sufficient resources, qualified and experienced staffs, training courses and related budget for risk management and internal audit. Each department of the Group serves as the frontline in risk management and internal control; and the risk and operation management department, legal compliance department and the management of the Group are the higher level supervisors for risk management and internal control; while the highest level of supervision is carried out by the Audit Committee under the Board and the audit department, an independent supervision department that conducts internal audit for the Group's risk management system. As the highest decision maker for the Group's risk management and internal control, the Board assumes the ultimate responsibility for the establishment of a sound risk management and internal control system as well as the effectiveness of the risk management work carried out across the Group.

Implementation of Risk Management and Internal Control

The Group reviews the effectiveness of the risk management and internal control systems every year and assesses all important aspects of internal control such as supervision on financial, operation and compliance affairs, etc. based on the five elements of internal control, namely, the internal environment, risk assessment, control activities, information and communication as well as internal supervision. After the risk assessment, it was found out that the number of material risks in 2016 remained unchanged compared with 2015. The top 10 risks include compliance risk, capital risk, competition strategy risk, synergy risk in business integration, human resource risk, management and control risk in core business, investment decision risk and drug quality risk, etc. with compliance risk, capital risk and competition strategy risk being the 3 major risks in 2016.

In terms of compliance risk, the government implements more stringent regulations on and pays much attention to the pharmaceutical industry as it is a special industry that relates to the lives, health and safety of the public, and the laws, regulations and industrial standards are improved and increasingly strict. Further, with the continuous optimisation of the market economy, integrity is crucial to the long-term development of a company. As a leader in the pharmaceutical industry in the country, the Group is under great pressure in striving to fulfil its compliance obligation as its members, employees and partners from upstream and downstream are located all over the nation.

With regards to capital risk, it has become a market consensus that downward pressure of the economy was intensifying in 2016, and the Company had to optimise its structure and explore for growth opportunities at the same time to cope with the deepening supply-side reform. In view of the above, it is evident that the capital-driven business mode was under high capital pressure.

As for competition strategy risk, the Group was greatly stressed as its development opportunities was constrained due to slowdown of the pharmaceutical distribution industry, continuous implementation of healthcare reform and more fierce competition in regional markets of the pharmaceutical industry brought by homogeneous competition of traditional distribution business.

In 2016, the Group formulated practical and feasible management proposals based on its actual situation and carried out effective risk management in various approaches.

The Group strived to further improve its risk and internal control management system, establish sound system and procedures and implement its supervision work effectively. It also sought to carry out the risk control thoroughly by means of prevention in advance, supervision during the process and following up afterwards. To this end, the risk and operation management department instructed other functional departments to sort out and make amendments to the management system of the Group and release the modified management system.

Meanwhile, the Group strengthened its management on each professional business in its headquarter as well as its supervision on and guidance to the secondary subsidiaries. It also enhanced its audit supervision and inspection on the implementation of key internal control systems by its subsidiaries in every level by conducting follow-up activities, inspection and ad-hoc audit thereon. Based on an interactive supervision mechanism, the audit, legal compliance and discipline inspection departments and other relevant departments cooperated in the supervision to strengthen management vulnerabilities, ensure implementation of the system, carry out rectification and follow-up activities and improve the accountability mechanism.

Formation of the Long-term Risk Management and Internal Control Mechanism

Focusing on the overall strategic objective, the Group established the risk management system gradually by implementing the basic procedures of risk management in each aspect of management and its course of business. It sorted out and identified potential risks thoroughly from the headquarter level to the operational level, developing a Risk Database of the Sinopharm Group (《國藥控股風險資料庫》), a systematic and sophisticated database peculiar to the Group, as the foundation of its risk management and internal control.

Every year, the Group instructs each department to identify, analyse and assess the material risks of the Group on the basis of the changing internal and external environment and taking into consideration the possibility and impact of the risk. In light of the actual operation and management of its professional business, each department formulates detailed risk management proposals against material risks on a case by case basis.

The risk and operation management department prepares the Report on Overall Risk Management of the Sinopharm Group (《國藥控股全面風險管理報告》) annually to summarise the risk management work of the previous year and review the supervision, inspection and timely rectification of all material risks. The report also sets out the risk management plan for the next year as well as resources and events that need coordination and further instruction, and is finally submitted to the management and Board of the Group for approval.

The Group's procedures for financial reporting and information disclosure, etc. are in strict compliance with the requirements of the Listing Rules. Office of Board of Directors enacted the Rules on the Insider Information Management in Sinopharm Group Co. Ltd.《國藥控股股份有限公司內幕信息管理制度》, which was passed by approval of the Board, and has set up standard control procedures for information collection, classification, approval and disclosure. Prior to disclosing relevant information to the public, the Group will ensure that such information is absolutely classified and will maintain a register of insiders as required. The Supervisory Committee is responsible for the supervision of insider information management.

In the Board meeting held on 24 March 2017, the Board reviewed the risk management and internal control during the reporting period and concluded that there had been no deficiency in material risk control and they had not been aware of any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group during the period from 1 January 2016 to the date of this Report. The Board is of the opinion that the risk management and internal control system of the Group is effective and sufficient.

Directors

Mr. Li Zhiming, aged 54, executive Director, Chairman (Legal Representative) and President, Secretary of Party Committee. Mr. Li joined the Company in May 2010 as the vice President, and has served as the President and executive Director since November 2013 and January 2014, respectively, and the Chairman and the secretary of Party Committee since March 2017. Mr. Li was the chief legal advisor, the secretary of disciplinary committee, chairman of labour union and the deputy secretary of the Party Committee of the Company from October 2012 to March 2017. He has more than 35 years of working experience, over 31 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Li graduated from the Xinjiang Commerce College with associate degree and a major in finance and accounting in July 1981, and graduated from the economic management discipline of the Urumqi Branch of Xi'an Military Academy with associate degree in July 1997. Mr. Li was qualified as a senior economist and a chief pharmacist. Mr. Li was the deputy director of finance department of Xinjiang New & Special Ethnic Drug Store, deputy general manager and chief accountant of Xinjiang Pharmaceutical Industry and Trade Company, deputy general manager and chief accountant of Xinjiang New & Special Ethnic Drug Corporation, and deputy director of the office of the preparatory and leading group of Xinjiang Pharmaceutical Administration Bureau steering the construction of the group entity from July 1985 to July 1996. Mr. Li was general manager, chairman of the board of directors, secretary of the Party Committee of Xinjiang New & Special Ethnic Drug Corporation, and the director, general manager, vice chairman, chairman, and secretary of the Party Committee of Xinjiang Pharmaceutical Group Company (currently known as Sinopharm Group Xinjiang Medicines Co., Ltd.) from July 1996 to February 2016. Mr. Li is currently the director of Sinopharm Industrial Investment Co., Ltd., China National Accord Medicines Co., Ltd., China National Medicines Co., Ltd., Sinopharm Holding Hong Kong Co., Ltd., Sinopharm Holding Guoda Drugstores Co., Ltd., vice chairman of Shanghai Shyndec Pharmaceutical Co., Ltd., and chairman of Sinopharm Group Xinjiang Medicines Co., Ltd., Sinopharm Holding (China) Finance Leasing Co., Ltd. and Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management Co., Ltd.

Mr. Chen Qiyu, aged 45, non-executive Director and vice Chairman, joined the Company on 16 January 2003, and had served as the chief Supervisor until 31 May 2010. He has served as a non-executive Director since 31 May 2010 and has been the vice Chairman since November 2013. He has over 24 years of working experience. He obtained a bachelor's degree in genetics from Fudan University in July 1993 and a master's degree of business administration from China Europe International Business School in September 2005. Mr. Chen was previously the chief financial officer, the board secretary, general manager, president and vice chairman of the board of directors of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from July 1998 to May 2010, and has been its director and chairman since May 2005 and June 2010, respectively. He has served as the vice president of each of Fosun International Limited and Shanghai Fosun High Technology (Group) Co., Ltd. since August 2010 and January 2011, respectively. Mr. Chen has been the executive director of Fosun International Limited and the director of Shanghai Fosun High Technology (Group) Co., Ltd. since 10 July 2015. Mr. Chen has been a director of Tianjin Pharmaceuticals Group Co., Ltd., Zhejiang DIAN Diagnostics Co., Ltd., Beijing Sanyuan Food Co., Ltd. and Maxigen Biotech Inc. since February 2009, May 2010, September 2015 and December 2015, respectively. Mr. Chen served as the supervisor, director as well as the director and general manager of Sinopharm Industrial Investment Co., Ltd from July 2008 to March 2014 successively, and has served as the vice chairman of the same since March 2014 till now. Mr. Chen is currently also the member of Shanghai 12th Committee of the Chinese People's Political Consultative Conference, the chairman of China Medical Pharmaceutical Material Association and Shanghai Biopharmaceutics Industry Association, the vice chairman of China Pharmaceutical industry Research and Development Association, the vice chairman of China Pharmaceutical Industry Association and the vice-chief commissioner of China Medicinal Biotech Association, etc..

Mr. She Lulin, aged 60, non-executive Director, joined the Group as a non-executive Director on 16 January 2003. He was the vice Chairman and has served as the Chairman of from August 2007 to November 2013. He has around 33 years of working experience, over 30 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. She obtained a bachelor's degree in science, majoring in Pharmacy, from Nanjing Pharmaceutical Institution (currently known as China Pharmaceutical University) in July 1982 and a master's degree in business administration for executives from Tsinghua University in July 2005. Mr. She was previously the deputy head of the office, assistant to the general manager, deputy general manager and general manager of China National Pharmaceutical Group Guangzhou Corporation from August 1982 to August 1996. Mr. She was also the vice chairman of the board of directors and general manager of CNPGC from December 1998 to October 2004. Mr. She was a director, general manager and the secretary of Party Committee of CNPGC from October 2004 to October 2009. He was the vice chairman of the board of directors, general manager and deputy secretary of Party Committee of CNPGC since October 2009. Mr. She has been the chairman of the board of directors and legal representative of Sinopharm Industrial Investment Co., Ltd. from July 2008 to November 2013. Mr. She was the chairman of the board of directors of China National Medicines Co., Ltd. from December 1998 to January 2001.

Mr. Wang Qunbin, aged 47, non-executive Director, joined the Group on 16 January 2003, and has been a non-executive Director since then. He has around 25 years of working experience, over 22 years of which is management experience in biological medicine. Mr. Wang obtained a bachelor's degree in science, majoring in genetics, from Fudan University in July 1991. Mr. Wang was previously a lecturer at the Genetic Research Institute of Fudan University from September 1991 to September 1993, and then a director and the general manager of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from 1995 to October 2007 and a director of Tianjin Pharmaceutical Holdings Ltd. from March 2001 to February 2009. Mr. Wang has served as a director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since October 2007, and was its chairman of the board of directors from October 2007 to June 2010. Mr. Wang was a director and the president of Shanghai Fosun High Technology (Group) Co., Ltd. since November 1994 and January 2009, respectively. He has been an executive director and the president of Fosun International Limited (a company listed on the Hong Kong Stock Exchange) since August 2005 and January 2009, respectively. Mr. Wang has been a director of Henan Lingrui Pharmaceutical Company Ltd. (a company listed on the Shanghai Stock Exchange) since May 2002, and was also a director of Sinopharm Industrial Investment Co., Ltd. from July 2008 to March 2014. Mr. Wang is currently the honorary chairman of the Huzhou Chamber of Commerce in Shanghai and the vice chairman of China Chamber of International Commerce.

Mr. Ma Ping, aged 60, has over 34 years of working experience and currently serves as an external director of China National Pharmaceutical Group Corporation. Mr. Ma received a bachelor degree from chemistry department of Fudan University in 1982. Mr. Ma served as principal clerk, engineer, vice director and director of Ministry of Labor and Personnel, National Pharmaceutical Administration, State Planning Commission, respectively from February 1982 to March 1992. He served as department manager, project manager, general manager of London Export Corporation, Hoechst (China), Lotus Healthcare, respectively from March 1992 to April 1994. He co-founded and served as managing director of BMP from April 1994 to October 1996. He served as investment director, business development director of Sinogen International Ltd. from October 1996 to May 1998. He served as vice president, COO, China general manager of United Medical Industrial Group from May 1998 to March 2000. He served as director, vice general manager of Tonghua Golden-horse Group (a Shenzhen Stock Exchange-listed company, stock code: 000766) from March 2000 to September 2001. He served as director, general manager of BMP (a Nasdaq-listed company, stock code: BJGP) from September 2001 to December 2005. He served as director, general manager of BioPro Pharmaceutical Inc.

from December 2005 to December 2011. He has been serving as director of BioPro Pharmaceutical Inc. and project consultant of Principle Capital since December 2011, and has been serving as an external director of China National Pharmaceutical Group Corporation since May 2016.

Mr. Deng Jindong, aged 52, non-executive Director, joined the Group on 30 August 2007, and has been a non-executive Director since then. He has over 29 years of working experience, over 24 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the accounting department of CNPGC from April 2000 to October 2001, from October 2001 to October 2002 and from October 2002 to October 2004, respectively. Mr. Deng has been the chief accountant of CNPGC since October 2004. Mr. Deng was a director and chief financial officer, and a director of Sinopharm Industrial Investment Co., Ltd. from July 2008 to August 2015 and from August 2015 to January 2016, respectively. He has also been its chairman since January 2016.

Mr. Li Dongjiu, aged 52, non-executive Director, joined the Group on 18 October 2013, and has been a non-executive Director since then. Mr. Li is a professor-level senior engineer and Doctor of Engineering, has over 29 years of working experience in the pharmaceutical industry, over 24 years of which relates to management experience in the pharmaceutical and healthcare products industry. Mr. Li obtained a bachelor's degree in Chemical Engineering from Dalian University of Technology in July 1987, a master's degree in Management from Wuhan University of Technology in June 1999, a master's degree of Arts in International Economic Relations from the Flinders University of South Australia in October 2005, a PhD degree of Transportation Planning and Management from Wuhan University of Technology in June 2013, and an EMBA degree from China Europe International Business School. Mr. Li worked for North China Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange) as a deputy general manager of North China Pharmaceutical Huasheng Co., Ltd., general manager of Sweeteners Vitamins Department of North China Pharmaceutical Group Corporation, general manager of Sales Company of North China Pharmaceutical Group Corporation and deputy general manager of North China Pharmaceutical Co., Ltd. and head of its financial department, successively from July 1987 to December 2009, and served as executive president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., vice president and director of the Pharmaceutical Management Committee and senior vice president and director of the pharmaceutical management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange) and president of Shanghai Fosun Pharmaceutical Development Co., Ltd., successively from December 2009 to December 2012. Mr. Li served as a senior vice president, chairman of the medicine commercialization and consumer products management committee and vice chairman of the pharmaceutical manufacturing management committee of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. from January 2013 to February 2015 and served as a director of Nature's Sunshine Products Inc., a company listed on NASDAQ, USA (NASDAQ: NATR) from August 2014 to June 2016. Mr. Li currently is a senior vice president as well as chairman of pharmaceutical commerce committee of Shanghai Fosun Pharmaceutical Development Co., Ltd., a director of Sinopharm Industrial Investment Co., Ltd. and a director of China National Medicines Co.. Currently, he is also a vice president of China Nonprescription Medicines Association (CNMA), China Association of Pharmaceutical Commerce and Shanghai Association of Pharmaceutical Commerce, a commissioner for the UN Commission on Life-Saving Commodities for Women and Children and a member of council of the Cancer Foundation of China.

Mr. Lian Wanyong, aged 46, non-executive Director. Mr. Lian has been a non-executive Director since 29 January 2016 and served as a non-executive Director from December 2008 to January 2011. He has served as a Supervisor of the Company from January 2011 to December 2015. Mr. Lian has over 20 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-Sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002, respectively. Mr. Lian was previously the manager of the operation and audit department of China National Group Corp. of Traditional & Herbal Medicine from January 2004 to June 2005, and a deputy head of the financial assets management department of CNPGC from June 2005 to February 2008, respectively, and has been the head of the investment management department of CNPGC since February 2008. Mr. Lian was a director of Sinopharm Industrial Investment Co., Ltd. from December 2008 to March 2014.

Mr. Wu Yijian, aged 47, non-executive Director. Mr. Wu has served as a non-executive Director since 16 June 2016. Mr. Wu has around 23 years of working experience. Mr. Wu graduated from Medical School of Fudan University (former Shanghai Medical University) with a medical bachelor's degree in preventive medicine in July 1993, he obtained a master's degree in business administration from Tsinghua university in July 2003 and completed the courses for the general manager in the China Europe International Business School of Management in July 2007. He also obtained an EMPAcc master's degree from The Chinese University of Hong Kong and Shanghai National Accounting Institute in November 2014. Mr. Wu has been with San-jiu Group since July 1993 and successively served as sales director of San-jiu Pharmaceutical trade Co., Ltd, the chief operating officer of San-jiu Pharmaceutical Chain Co., Ltd. and the deputy general manager of Shanghai San-jiu Pharmaceutical Technology Development Co., Ltd.. Mr. Wu has been with Fosun Pharmaceutical Group since June 2004 and successively served as the general manager of Shanghai Fosun Pharmaceutical investment Co., Ltd., Shanghai Fosun Pharmaceutical Co., Ltd. and Shanghai ForMe Pharmacy Co., Ltd.. In 2014, Mr. Wu was appointed as the vice president of Shanghai Yuyuan Tourist Mart Co., Ltd.. He currently is the president assistant and the director of the commercial pharmaceutical management committee of Shanghai Fosun Pharmaceutical Group Co., Ltd..

Ms. Li Ling, aged 55, independent not-executive Director, joined the Group on 29 December 2012, and has been an independent not-executive Director since then. Ms. Li has around 34 years of working experience. She obtained a bachelor's degree in physics in August 1982 and a master's degree in economics in February 1987 from Wuhan University, and obtained a master's degree and a doctorate degree in economics from University of Pittsburgh in U.S.A in September 1990 and May 1994, respectively. Ms. Li worked at the Department of Economics of Towson University in Maryland, U.S.A as an associate professor with tenure from August 2000 to August 2003, and also taught at the Department of Economics of University of Pittsburgh in U.S.A and the Department of Management and Marketing of The Hong Kong Polytechnic University. Ms. Li has been an economics professor and Ph.D. supervisor at Research Institute of National Development, a director of Research Center of China Healthy Development of Peking University since June 2008, and is an expert who enjoys the special allowance of the State Council and is one of the "Top Ten Teachers" of Peking University. Ms. Li has served as an independent director of PICC Health Insurance Company Limited since 2009. Ms. Li currently also serves as the vice chairman of China Health Economics Association, a member of the State Council Health Reform Advisory Commission, a member of National Health and Family Planning Commission on public policy, an evaluation expert in the Pilot Project of Urban Resident Basic Medical Insurance implemented by the State Council, an advisor to the Beijing Municipal Government, an advisor to the pharmaceutical and healthcare reform of Guangdong Province and the vice chairman of Gerontological Society of China.

Mr. Yu Tze Shan Hailson, aged 60, independent non-executive Director, has served as a non-executive Director since 21 September 2014 and has more than 38 years of working experience. Mr. Yu graduated from the University of Calgary with a bachelor degree in Electrical Engineering in 1979, graduated from the University of Hong Kong with a master degree in Electrical Engineering in 1987, graduated from City University of Hong Kong with a master degree of law in Arbitration and Dispute Resolution in 1995 and completed the postgraduate diploma in Investment Management and post-graduate certificates in Hong Kong Laws and Traditional Chinese Medicine courses. Mr. Yu served as equipment maintenance and testing engineer, equipment maintenance and testing laboratory manager, computer engineering and system engineering manager of Ampex Ferrotec Limited (Hong Kong) successively from June 1979 to September 1987. Mr. Yu joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited and served as general manager of engineering research and development department and consultant of Petroleum Development and LPG Tank Terminal Port successively from October 1987 to January 1998. Mr. Yu has been serving as deputy managing director of Versitech Limited and deputy director of Technology Transfer Office of the University of Hong Kong since February 1998 till now. Mr Yu has been serving as an independent non-executive director of China Traditional Chinese Medical Co., Ltd. (formerly known as Winteam Pharmaceutical Group Limited, a company listed on the Hong Kong Stock Exchange) since November 2013 till now. Mr. Yu currently is a Charted Engineer, fellow of each of the Institute of Electrical Engineers, Hong Kong Institution of Engineers, the Chartered Institute of Arbitrators and Hong Kong Institute of Arbitrators.

Mr. Tan Wee Seng, aged 61, independent non-executive Director, has served as a non-executive Director since 21 September 2014 and has more than 39 years of working experience. Mr. Tan is a Chartered Global Management Accountant, Fellow member of the Chartered Institute of Management Accountants in United Kingdom, and the Hong Kong Institute of Directors. Mr. Tan has been with Reuters Group from April 1984 to June 2002. Mr. Tan served as executive director, chief finance officer and company secretary of Li Ning Company Limited (a company listed on the Hong Kong Stock Exchange), from January 2003 to November 2008. Mr Tan was an independent director and chairman of the audit committee of 7 Days Holdings Limited (whose shares were listed on the New York Stock Exchange between November 2009 to July 2013) until it was privatized. He was the Chairman of the Special Committee for Privatization of 7 Days Holdings Limited from October 2012 to July 2013. Mr. Tan currently also serves as independent non-executive director of each of Biostime International Holdings Limited (a company listed on the Hong Kong Stock Exchange), Sa Sa International Holdings Limited (a company listed on the Hong Kong Stock Exchange), CIFI Holdings (Group) Company Limited (a company listed on the Hong Kong Stock Exchange), Xtep International Holdings Limited (a company listed on the Hong Kong Stock Exchange), he is also an independent director of ReneSola Ltd (a company listed on the New York Stock Exchange) and a director and chairman of finance and operation committee of Beijing City International School.

Mr. Liu Zhengdong, aged 47, independent non-executive Director, has been an independent non-executive Director of the Company since 21 September 2014. He is a lawyer who has more than 23 years of working experience as a practicing lawyer. Mr. Liu graduated from East China University of Political Science and Law (formerly known as East China School of Political Science and Law) with a bachelor's degree in Law in 1991, and juris master's degree in 2002. He served as an assistant prosecutor in Railway Transportation branch of Shanghai People's Procuratorate from July 1991 to June 1994. From June 1994 to October 1998, Mr. Liu worked at Shanghai Hongqiao Law Firm with others as a partner and has been serving as a lawyer. From October 1998, Mr. Liu co-founded Shanghai Junyue Law Firm with others as a senior partner and has been serving as head of the firm and a lawyer. Mr. Liu served as president of the Eighth Session of Shanghai Bar Association and was also honored as the First Session of National Excellent Lawyer, the First Session of Shanghai Excellent Non-litigation Lawyer and Shanghai Leading Talent. Currently, Mr. Liu currently serves as deputy to the Shanghai 14th People's Congress, member of standing committee of Shanghai Changning District 15th People's Congress, standing director of the National Lawyers Association, vice chairman of Shanghai Youth Federation, vice president of Shanghai General Chamber of Commerce, standing member of Shanghai Association of Industry and Commerce, and vice chairman of Shanghai Changning District Association of Industry and Commerce, president of Changning District Social Comprehensive Management Association, etc. Mr. Liu also serves as arbitrators of China International Economic and Trade Arbitration Commission (CIETA), Shanghai International economic and Trade Arbitration Commission (SHIAC) and Shanghai Arbitration Commission (SAC), adjunct professor of East China University of Political Science and Law, part-time master tutor of the School of Law of Shanghai Jiao Tong University, visiting professor of each of Shanghai University of Political Science and Law and Lawyer School of Renmin University of China.

Mr. Zhuo Fumin, aged 65, independent non-executive Director, Mr. Zhuo has been an independent non-executive Director since March 2016. Mr. Zhuo has more than 41 years of experience in the field of enterprise management and capital markets. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997. Mr. Zhuo currently serves as chairman and managing partner of V Star Capital. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited. Mr. Zhuo has served as the chairman and the chief executive officer of Vertex China Investment Co., Ltd. (a wholly owned subsidiary of Vertex Management Group, a global venture capital management company), founder and chairman of Shanghai Kexing Investment Co., Ltd. and managing partner of GGV Capital, a venture capital fund since 2002. Mr. Zhuo has served as a director of Grandhope Biotech Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300238). Mr. Zhuo is also an independent director of China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675), Arcplus Group Plc (a company listed on the Shanghai Stock Exchange, stock code: 600629) and Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ) and Focus Media (a company listed on the Shenzhen Stock Exchange, stock code: 002027), a non-executive Director of Besunyen Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 926), and an independent non-executive director of Shenyin Wanguo (H.K.) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 218) and SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207).

Supervisors

Mr. Yao Fang, aged 47, the chief Supervisor, has served as the Supervisor of the Company since 7 January 2011. Mr. Yao obtained a bachelor's degree in economics from Fudan University in July 1989 and a master of business administration degree from The Chinese University of Hong Kong in December 1993. Between 1993 and 2009, Mr. Yao served as assistant general manager of the international business department of Shanghai Wanguo Securities Co., Ltd. (currently known as Shenyin & Wanguo Securities Co., Ltd.), general manager of Shanghai Shang Shi Assets Operation and Management Co., Ltd. and Shang Shi Management (Shanghai) Co., Ltd., managing director of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (delisted on 12 February 2010), the chairman of Shanghai Overseas Co., Ltd., non-executive director of Lianhua Supermarket Holdings Co., Ltd. (stock code 0980), and executive director of Shanghai Industrial Holding Limited (stock code: 0363) listed on the Hong Kong Stock Exchange. Mr. Yao has served as a non-executive director of Biosino Bio-Technology and Science Incorporation (stock code: 8247) listed on the Hong Kong Stock Exchange from 24 January 2011 to 13 March 2014. Mr. Yao served in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. since April 2010. He currently serves as the executive director and joint president. Mr. Yao has been the vice chairman of Shanghai Pharmaceutical Profession Association since June 2010.

Mr. Tao Wuping, aged 61, Supervisor, has been a Supervisor since June 2015, was an independent non-executive Director from 22 September 2008 to 20 September 2014, and. Mr. Tao is a lawyer and has over 33 years of working experience as practicing lawyer. Mr. Tao obtained a master's degree in law, majoring in international economic law, from Fudan University in June 1997. Mr. Tao has been the director of Guantao Zhongmao (Shanghai) Law Firm since August 2016. He was the director of Shanghai Shen Da Law Firm from August 1994 to August 2016. Mr. Tao has been a visiting law professor of Shanghai Institute of Foreign Trade, a part-time professor at the Law and Politics College of East China Normal University, and the honorary dean, a part-time professor at the Law and Politics College of Shanghai Normal University and a visiting professor of East China University of Political Science and Law since March 2002, June 2003, September 2003 and June 2012, respectively. Mr. Tao has been the independent director of Shangying Co., Ltd. since May 2013 and has been the independent director of Tianzhi Fund Management Co., Ltd. since August 2014. Mr. Tao was awarded the title of "National Outstanding Attorney at Law" by All China Lawyers Association and the first session of "Eastern Attorney at Law" by Shanghai Bar Association.

Mr. Yang Jun, aged 51, employee representative Supervisor, has been the secretary of disciplinary committee of the Company since April 2014 and the employee representative Supervisor since June 2015. Mr. Yang is a senior marketing specialist and an intermediate economist. Mr. Yang graduated from Beijing Normal University with a bachelor's degree in Education Management in June 1989, and graduated from the Party School of the Central Committee of C.P.C with a master's degree in Economic Administration in July 2001. Mr. Yang had served in the China National Pharmaceutical Industry Corporation from July 1989 to February 2006, successively as the secretary of the general manager's office, the deputy director of the department of supply and sales, the manager of coordination and planning department, the manager of reagent department and traditional Chinese medicine department, the deputy manager of the headquarter of the operation business, as well as the marketing director and the manager of hospital department. Mr. Yang had served in CNPGC from February 2006 to March 2014, successively as the deputy head of and head of operation management department, and the head of international cooperation department.

Ms. Li Xiaojuan, aged 41, Supervisor. Ms. Li has over 15 years of working experience. Ms. Li obtained a bachelor's degree in real estate operation and management from investment economics department of Dongbei University of Finance & Economics in July 1998 and a master's degree in national economics (investment economics) with specialty in securities investment from investment economics department of Dongbei University of Finance & Economics in April 2001. Ms. Li is a qualified economist, a non-practicing certified public accountant, and an asset valuer. Ms. Li served as the project manager of Beijing Tianhua Accounting Firm from April 2001 to April 2003 and the vice director of strategic cooperation department of TopSun Group from April 2003 to February 2005. Ms. Li served as the manager of finance department of China National Pharmaceutical Industry Corporation from February 2005 to April 2006 and the director of auditing and supervision office and the manager of auditing department of China National Pharmaceutical Industry Corporation from April 2006 to August 2010. Ms. Li also served as the vice director of investment management department of CNPGC from August 2010 to April 2014. Ms. Li currently is the vice director of auditing department of CNPGC.

Ms. Jin Yi, aged 42, employee representative Supervisor, joined the Group on 25 December 2007, successively served as the senior project manager and the vice director of the investment management department, and has been the investment project supervisor of the investment management department since January 2015, and has been the employee representative Supervisor since June 2015. Ms. Jin has approximately 18 years of working experience. Ms. Jin obtained a bachelor's degree in economics, majoring in investment economics, from Nanjing University in July 1997, and a master's degree in business administration from The Chinese University of Hong Kong in December 2005. Ms. Jin was qualified as an intermediate economist. Ms. Jin served as the floor trader of Zhengzhou Commodity Exchange in China from July 1997 to May 1998, the project manager of information consulting department of Shanghai Information Center from May 1999 to July 2003, and the senior analyst of ALC Advisors (Shanghai) Company Limited from April 2005 to November 2007.

Company Secretaries

Mr. Liu Yong, one of the joint company secretaries, is also the vice president of the Company and the secretary of the board of directors of the Company ("**the Board**"). Please refer to the section headed "senior management" for Mr. Liu's biography.

Dr. Liu Wei, is currently the managing partner of China Group and the managing partner of Beijing Office of DLA Piper. Dr. Liu has PRC lawyer qualification and is a solicitor qualified to practice law in Hong Kong, England and Wales. Dr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law, the University of Cambridge, with a bachelor in Chinese literature, a master degree in law, a PhD in Law in 1982, 1986 and 1996 respectively. He also completed his Postgraduate Certificate in Laws (PCLL) of the University of Hong Kong in 2000. Dr. Liu was the first student from the mainland of the PRC to obtain a PhD in law from the University of Cambridge after 1949. Dr. Liu worked for several local and state PRC governmental authorities. He is currently a member of the Shaanxi CPPCC. Dr. Liu is currently the managing partner of China Group of DLA Piper and the partner in charge of the PRC affairs and practice. In 1988, Dr. Liu, as one of the lawyers working in Hong Kong in the early stage, participated in related work of the Hong Kong Basic Law, and then he was retained by the Securities and Futures Commission of Hong Kong as a PRC affairs officer responsible for the policies and supervision of law of red chip shares, H-shares and B-shares, and was responsible for coordination with the China Securities Regulatory Commission, the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

Senior Management

Mr. Li Zhiming, is currently an executive director, chairman and the president and the Deputy Secretary of Party Committee of the Company. Please refer to the section headed "Directors" above for Mr. Li's biography.

Mr. Li Guangfu, aged 60, was a deputy general manager of the Company from January 2003 to July 2003 and has been a vice president of the Company since September 2010. He has over 42 years of working experience, over 32 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Li completed his undergraduate education in Chinese medicine at the College of Chinese Traditional Medicine of Guangzhou University of Chinese Medicine in January 1982 and obtained a master's degree in business administration from Jinan University in Guangzhou in June 2002. Mr. Li is a deputy chief pharmacist and a practicing pharmacist. He served as the staff, deputy manager of the pharmacy department, and the assistant to general manager in Guangzhou purchase and supply station of China National Pharmaceutical Corporation from January 1982 to August 1996, general manager and secretary of the Party Committee of CNPGC Guangzhou Branch from August 1996 to March 2003, general manager and secretary of the Party Committee of China National Group Corp. of Traditional & Herbal Medicine, as well as the managing vice chairman of China Association of Traditional Chinese Medicine, from July 2003 to September 2010. Mr. Li is currently an executive director of Sinopharm Logistics Co., Ltd. and chairman of Sinopharm Holding Heilongjiang Co., Ltd., Sinopharm Lerentang Pharmaceutical Co., Ltd., Sinopharm Holding Jilin Co., Ltd., Sinopharm Holding Shenyang Co., Ltd., Sinopharm Holding Shandong Co., Ltd. and Sinopharm Holding Dalian Hecheng Co., Ltd..

Mr. Lu Jun, aged 58, joined the Group in January 2003, and has been a vice president of the Company since 29 June 2004. He served as the assistant to the general manager of the Company, the general manager of medicine retail business department and the head of the investment department of the Company concurrently from April 2003 to June 2004. Mr. Lu has over 41 years of working experience, over 18 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Lu obtained an executive master's degree in business administration in Antai College of Economics and Management of Shanghai Jiao Tong University (上海交通大學) in December 2009. Mr. Lu was qualified as a senior economist. Mr. Lu taught at the Second Military Medical University from March 1980 to August 1998, and was previously the general manager of Sinopharm Group Shanghai Likang Medicine Co., Ltd. and Sinopharm Holding Guoda Drug Stores Co., Ltd. from August 1998 to June 2008. Mr. Lu is currently the director of Sinopharm Group Shanxi Co., Ltd., Sinopharm-CICC (Shanghai) Medical & Healthcare Investment Management Co., Ltd. and West China Dental Co., Ltd., and chairman of Sichuan Pharmaceutical Group Co., Ltd. of CNPGC, Sinopharm Holding Jiangsu Co., Ltd., Sinopharm Holding Wuxi Co., Ltd., Sinopharm Group Southwest Pharmaceutical Co., Ltd., Sinopharm Holding Anhui Co., Ltd., Sinopharm Holding Changzhou Co., Ltd., Sinopharm Holding Zhejiang Co., Ltd., Sinopharm Holding Wenzhou Co., Ltd. and Sinopharm Group Chemical Reagent Co., Ltd.

Mr. Liu Yong, aged 48, joined the Group in January 2003. He was the general manager and secretary of Party Committee of Sinopharm Holding Shenyang Co., Ltd. from January 2003 to November 2009, and is currently a vice president, secretary to the Board and the chief legal advisor of the Company. He has over 24 years of working experience, over 21 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992 and a master's degree in business administration from Fudan University in January 2000. Mr. Liu is a chief pharmacist and a practicing pharmacist. Mr. Liu was employed at Shanghai Pharmaceutical station from July 1992 to July 1999, and served as the deputy general manager at the marketing department of China National Pharmaceutical Group Shanghai Corporation and the deputy general manager of Shanghai Guoda Drug Chain Store Co., Ltd. from July 1999 to April 2003. Mr. Liu is currently the director of China National Accord Medicines Co., Ltd., and chairman of Sinopharm Holding Beijing Tianxingpuxin BioMed Co., Ltd., Sinopharm Holding Beijing Co., Ltd., Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd., Sinopharm Holding Guizhou Co., Ltd., Sinopharm Holding Yunnan Co., Ltd., Sinopharm Medicine Holding Beijing Huahong Co., Ltd., Sinopharm Online Co., Ltd. and China National Medicines Co., Ltd.

Mr. Cai Zhongxi, aged 52, has been a vice President since May 2010. He has over 33 years of working experience, over 25 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Cai graduated from the military medical discipline of the Second Military Medical University in July 1989 and received a bachelor degree. He obtained a master's degree in business administration from the School of Management of Maastricht University of the Netherlands in August 2000, a doctorate degree in business administration from the Southwestern Polytechnic University of the United States in September 2002, and a master's degree in business administration from the China Europe International Business School in October 2014. Mr. Cai is a deputy chief pharmacist. Mr. Cai was a doctor of 302 Military Hospital of China, the manager for eastern China at the distribution and trading department of Shenzhen Southern Pharmaceuticals (999), the operating director of Zhejiang Asia-Pacific Pharmaceutical Plant, and the marketing manager of APC Hong Kong from August 1989 to July 1995. He was also the marketing officer of the new and special drug department, assistant to manager of the new and special drug department, deputy manager of the new and special drug department and the marketing department, assistant to the general manager, manager of the new and special drug department and pharmaceuticals department, deputy general manager, managing deputy general manager and general manager at China National Pharmaceutical Group Shanghai Co., Ltd. from August 1995 to January 2005. He also served as general manager of the sales and marketing department (hospital) at the Company from February 2005 to December 2005, the chairman of Shanghai Yijia Medical Device Co., Ltd., and the chairman and general manager of Shanghai Shengtai Medical Technologies Co., Ltd. from January 2006 to November 2011. Mr. Cai is currently the executive director of Shanghai Merro Pharmaceutical Co., Ltd., Sinopharm Holding Distribution Co., Ltd. and Sinopharm Group Shanghai Likang Medicine Co., Ltd., and the chairman of Sinopharm Group Med-Tech Co., Ltd., Sinopharm Lingyun Biopharmaceutical (Shanghai) Co. Ltd., Sinopharm Holding Donghong Pharmaceutical (Shanghai) Co., Ltd., Sinopharm Holding Lingshang Hospital Management Services (Shanghai) Co., Ltd. and Sinopharm Hutchison Whampoa Healthcare Medicine Co., Ltd. Mr. Cai currently also served as the vice president of Shanghai Pharmaceutical Association.

Mr. Jiang Xiuchang, aged 53, joined the Company in May 2010 as the chief financial officer, and has been the vice president of the Company since July 2013. He has over 30 years of working experience, over 19 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Jiang obtained a bachelor's degree in financial accounting from Zhongnan University of Economics and Law in July 1986, and graduated from the class for advanced studies of postgraduate courses in corporate management from the School of International Business Management of University of International Business and Economics in January 2005. Mr. Jiang was qualified as a senior economist and senior accountant. Mr. Jiang served at China National Pharmaceutical (Group) Corporation from July 1986 to March 2002, and was the deputy head of the department of information, reform office, finance department and deputy manager of the department of pharmacy. He was deputy head, head and chief financial officer of the finance department of China National Medicines Co., Ltd. from March 2002 to May 2010. Mr. Jiang is currently the chairman of Sinopharm Holding Jiangxi Co., Ltd., Sinopharm Holding Shanxi Co., Ltd., Sinopharm Holding Inner Mongolia Co., Ltd., Sinopharm Holding Tianjin Co., Ltd. and Sinopharm Group Shanxi Co., Ltd., and the director of China National Medicines Co., Ltd., China National Accord Medicines Co., Ltd., Sinopharm Group Finance Co., Ltd., and the director and general manager of Sinopharm Holding Hong Kong Co., Ltd.

Mr. Ma Wanjun, aged 47, joined the Company in May 2003, and has been the vice president of the Company since September 2010. He was the secretary to the Board and one of the joint company secretaries from March 2012 to October 2016. He was the chief legal advisor of the Company from May 2011 to October 2012. Mr. Ma has over 25 years of working experience, over 18 years of which is management experience in the pharmaceutical and healthcare products industry. He obtained a bachelor degree of science majoring in chemistry from Nankai University in July 1991 and an executive master's degree in business administration from China Europe International Business School in September 2006. He is a chief pharmacist. Mr. Ma was a staff, manager, deputy general manager and standing deputy general manager of China National Pharmaceutical (Group) Tianjin Corporation from July 1991 to May 2003. He was the deputy general manager of pharmaceutical business department of the Company, the general manager of Sinopharm Holding Tianjin Co., Ltd., the general manager of Shanghai Sinopharm Waigaoqiao Pharmaceutical Co., Ltd. and the deputy general manager of the operation centre of the Company from May 2003 to September 2010. Mr. Ma is currently the director of China National Medicines Co., Ltd. He is also the chairman of China National Accord Medicines Co., Ltd., Sinopharm Holding Henan Co., Ltd., Sinopharm Xingsha Pharmaceutical (Xiamen) Co., Ltd., Sinopharm Holding Fujian Co., Ltd., Sinopharm Holding Fuzhou Co., Ltd., Sinopharm Bio-pharmaceutical Co., Ltd., Sinopharm Holding Hainan Co., Ltd., Sinopharm Holding Guoda Drug Stores Co., Ltd. and Sinopharm Holding Medical Investment Management Co., Ltd.

Mr. Xu Shuangjun, aged 48, has been the non-executive vice president of the Company since March 2011. He has over 31 years of working experience, over 23 years of which is management experience in the pharmaceutical and healthcare products industry. He graduated from the School of Pharmacy of the Second Military Medical University in Shanghai and obtained a bachelor's degree in medicine in 2001. He further obtained a master's degree in business administration from the Macau University of Science and Technology in 2006 and has the qualifications of practicing pharmacist and chief pharmacist. Mr. Xu was employed at Shijiazhuang Lerentang from October 1987 to March 1999. He was manager of the operating branch and the deputy general manager of Shijiazhuang City Medicines and Herbs Co., Ltd. from March 1999 to August 2004, and was the chairman and general man-ager of Hebei Zhongrui Medicines Co., Ltd., the general manager and secretary of the Party Committee of Shijiazhuang Lerentang Pharmaceutical Co., Ltd., and the chairman and general manager of and secretary of the Party Committee of Lerentang Pharmaceutical Group Co., Ltd. from August 2004 to May 2011. Mr. Xu was the vice chairman and general manager, secretary of the Party Committee, and chairman of Sinopharm Lerentang Pharmaceutical Co., Ltd. from May 2011 to December 2015, and has been its vice chairman since December 2015.

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal Business and Business Review

The Group is mainly engaged in retail pharmacy, pharmaceutical distribution business, and other businesses such as distribution of medical equipment. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the Management Discussion and Analysis set out on pages 13 to 23 of this report. This discussion forms part of this Directors' Report.

Our Group is the largest distributor of pharmaceutical and healthcare products, and a leading supply chain services provider in the PRC, and also operates the largest national pharmaceutical distribution network in the PRC according to the information of China Association of Pharmaceutical Commerce. The Group has been able to rapidly increase its market share and profits in a highly fragmented industry by taking advantage of its economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for its customers and suppliers.

The Group has integrated operations in the following business segments, namely:

- **Pharmaceutical distribution segment:** pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for domestic and international pharmaceutical and healthcare products manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its strengths of geographic coverage, the breadth of its product portfolio and the comprehensive supply chain services provided to its customers and suppliers, etc.

- **Retail pharmacy segment:** the Group has established a network of retail drug stores in major cities of China via direct operations and franchises.

- **Other business segment:** the Group is also engaged in the distribution of medical devices, financial leasing, production and sale of pharmaceutical products, chemical reagents and laboratory supplies.

Results

The operating results of the Group during the Reporting Period are set out in the consolidated statement of profit or loss on page 110 of this annual report.

Dividends

Relevant resolution was passed at a meeting of the Board held on 24 March 2017 to propose to distribute a final dividend of RMB0.5 per share (tax inclusive) for the year ended 31 December 2016 (the "**Final Dividend**"), totalling approximately RMB1,383,548 thousand. If the proposal of profit distribution is approved by shareholders at the 2016 annual general meeting to be held on Friday, 30 June 2017 (the "**AGM**"), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Tuesday, 11 July 2017 no later than by the end of August 2017.

Pursuant to the Corporate Income Tax Law of the PRC and its implementing regulations (hereinafter collectively referred to as the "**CIT Law**"), the tax rate of the corporate income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the CIT Law. The Company will distribute the Final Dividend to non-resident enterprise shareholders subject to a deduction of 10% corporate income tax withheld and paid by the Company on their behalf.

Any resident enterprise as defined under the CIT Law which has been legally incorporated in the PRC or which has established effective administrative entities in the PRC pursuant to the laws of foreign countries (regions) and whose name appears on the register of the members of H shares of the Company should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, if they do not wish to have the 10% corporate income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of GuoShui Fa [1993] No. 045 Document (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld from the Final Dividend payable to any individual H-share shareholders whose names appear on the register of members of the Company on Tuesday, 11 July 2017, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission, for dividends derived by Mainland individual investors from investing in H-share listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Board is not aware of any shareholders who have waived or agreed to waive any dividends.

Purchase, Sale and Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the listed securities of the Company.

Principal Subsidiaries

Details of the names, principal places of business, places of incorporation and issued share capital of the Company's principal subsidiaries are set out in Note 43 to the Consolidated Financial Statements.

Reserves

Details of movements in reserves of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on page 114 of this annual report and Note 30 to the Consolidated Financial Statements.

Distributable Reserves

In accordance with the Company Law of the PRC, the Company may only distribute dividends out of its distributable annual profits (i.e. the Company's profit after tax after offsetting (i) the accumulated losses brought forward from the previous years; and (ii) the allocations to the statutory surplus reserve and, if any, the discretionary common reserve (in such order of priorities)).

According to the Articles of Association, for the purpose of determining profit distribution, the profit distribution of the Company is the lesser of its profit after tax determined in accordance with: (i) the PRC accounting standard and regulations; and (ii) the HKFRSs.

In 2016, the distributable reserves of the Company, calculated based on the above principles, amounted to approximately RMB13,437.54 million, which is prepared in accordance with the HKFRSs.

Property, Plant, Equipment and Investment Properties

Details of changes in investment properties and property, plant and equipment of the Group during the Reporting Period are set out in Notes 15 and 16 to the Consolidated Financial Statements.

Borrowings

Details of borrowings of the Group are set out in Note 31 to the Consolidated Financial Statements.

Debenture

In order to facilitate the adjustment of debt structure and the replenishment of the working capital of the Group, the Company issued super short-term financing bonds with amount of RMB11 billion and corporate bonds of RMB4 billion during the Reporting Period.

Details of bonds in issue of the Company during the Reporting Period are set out in Note 31 to the Consolidated Financial Statements.

Major Customers and Suppliers

During the Reporting Period, purchases of goods and services from its 5 largest suppliers were less than 30% of the Group's total purchases and the goods and services sold to its 5 largest customers were less than 30% of the Group's total sales.

For the year ended 31 December 2016, none of the Directors, Supervisors, their respective associates and any shareholder of the Company (who to the knowledge of the Board owns more than 5% of the share capital of the Company) had any interest in the 5 largest customers or the 5 largest suppliers of the Group.

Permitted Indemnity Provisions

The Company maintained Directors' liability insurance to protect them from all costs, charges, losses, expenses and liabilities incurred in the execution and discharge of their duties or in relation thereto pursuant to the applicable laws and within the scope of Director's liability insurance. Such provisions were in force during the course of the financial year ended 31 December 2016 and remained in force as of the date of this report.

Connected Transactions

Pursuant to the requirements of the Listing Rules, the transactions between the Company and the connected person (as defined under the Listing Rules) of the Company constitute connected transactions of the Company. The Company regulates and manages such transactions in compliance with the Listing Rules. The following are the non-exempt connected transactions conducted by the Group during the Reporting Period.

Non-Exempt Continuing Connected Transactions

For the year of 2016, the annual caps for and the actual transaction amounts of the non-exempt continuing connected transactions by the Group are set out below:

Continuing Connected Transactions between the Group and the CNPGC Group under the Master Procurement and Master Sales Agreement	Annual caps for the year 2016 (RMB million)	Actual transaction amounts for the year ended 31 December 2016 (RMB million)
Amount payable by the Group to the CNPGC Group under the Master Procurement Agreement	8,000	3,008
Amount payable by the CNPGC Group to the Group under the Master Sales Agreement	2,200	625

Continuing Connected Transactions between the Group and Sinopharm Group Finance Co., Ltd. under the Financial Services Framework Agreement	Annual caps for 2016 (RMB million)	Actual transaction amounts for the year ended 31 December 2016 (RMB million)
Maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group	3,500	3,457
Interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Co., Ltd.	200	54

Continuing Connected Transaction between the Group and the CNPGC Group under the EPC Service Framework Agreement	Annual caps for 2016 (RMB million)	Actual transaction amount for the year ended 31 December 2016 (RMB million)
Amount payable by the Group to the CNPGC Group under the EPC Service Framework Agreement	400	21

The continuing connected transactions between the Group and the CNPGC Group under the Master Procurement Agreement

In order to regulate the continuing connected transactions in respect of the procurement of pharmaceutical products between the Group and CNPGC and its subsidiaries and associates (the "**CNPGC Group**"), the Company and the CNPGC renewed the Master Procurement Agreement of Pharmaceutical Products, Personal-care Supplies and Medical Equipment (the "**Master Procurement Agreement**") on 7 November 2014, and set up the annual caps for the three years ending 31 December 2017 of the continuing connected transactions under the Master Procurement Agreement. The annual caps for the continuing connected transactions contemplated under the Master Procurement Agreement for the three years ending 31 December 2017 will amount to RMB6,000 million, RMB8,000 million and RMB10,000 million, respectively.

Pursuant to the Listing Rules, the annual caps of three years ending 31 December 2017 of the continuing connected transactions under the Master Procurement Agreement were approved by the Group's independent shareholders.

Pursuant to the Master Procurement Agreement, the Group has agreed to purchase pharmaceutical products, personal-care supplies and medical equipment as well as the related services from the CNPGC Group. The related services to be provided by the CNPGC Group under the Master Procurement Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, as well as other related and ancillary services.

Under the Master Procurement Agreement, the price shall be determined in accordance with the following pricing principles: (i) the price of pharmaceutical products, personal-care supplies and medical equipment procured by the Group from the CNPGC Group under the renewed Master Procurement Agreement will be offered by members of the CNPGC Group based on the bidding price of the relevant products, which is won by relevant member of the CNPGC Group through it's participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit of distributors at each level; (ii) where Relevant members of the GNPGC Group will on a regular basis, provide the Company and its subsidiaries with the procurement price list of all types of the above-mentioned products for distributors at each level. The company and/or its subsidiaries, after considering comprehensively a lot of factors relating to the specific product, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry and going through all necessary internal review and approval procedures covering the president and various departments including procurement department, finance department, operation department and quality department of the company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the CNPGC Group. If the company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the CNPGC Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to procure such products from the CNPGC Group.

The Master Procurement Agreement is for a term of three years with effect from 1 January 2015 and ending on 31 December 2017. Upon expiry, the Master Procurement Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. Details for the transactions were set out in an announcement dated 7 November 2014, and a circular dated 12 November 2014 published on the websites of Hong Kong Stock Exchange and the Company.

CNPGC is the ultimate controlling shareholder of the Company and connected person of the Company under the Listing Rules. The transactions under the Master Procurement Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

During the Reporting Period, the proposed annual cap for and the actual transaction amount under the Master Procurement Agreement payable to CNPGC Group by the Group were RMB8,000 million and RMB3,008 million, respectively.

The continuing connected transactions between the Group and the CNPGC Group under the Master Sales Agreement

In order to regulate the continuing connected transactions in respect of the sales of pharmaceutical products between the Group and the CNPGC Group, the Company and the CNPGC renewed the Master Sales Agreement of Pharmaceutical Products, Personal-care Supplies, Medical Equipment, Chemical Reagents and Laboratory Supplies (the "**Master Sales Agreement**") on 7 November 2014, and set up the annual caps for the three years ending 31 December 2017 of the continuing connected transactions under the Master Sales Agreement. The annual caps for the continuing connected transactions contemplated under the renewed Master Sales Agreement for the three years ending 31 December 2017 will amount to RMB1,650 million, RMB2,200 million and RMB2,800 million, respectively.

Pursuant to Master Sales Agreement, the Group has agreed to sell pharmaceutical products, personal-care supplies, medical equipment, chemical reagents and laboratory supplies as well as the related services to the CNPGC Group. The related services to be provided by the Group under the Master Sales Agreement mainly include the transportation services, storage services, equipment maintenance and repair services, as well as other related and ancillary services.

Under the Master Sales Agreement, the price shall be determined in accordance with the following pricing principles: (i) the price of pharmaceutical products, personal-care supplies, medical equipment, chemical reagent, chemical reagents or laboratory supplies sold by the Group to the CNPGC Group under the renewed Master Sales Agreement will be offered by members of the Group based on the bidding price of the relevant products, which is won by relevant member of the Group through it's participation in the public bidding process of such products conducted by the tender office of Chinese government or hospitals, deducting the gross profit margin of distributors at each level; (ii) The finance department of the Company will be responsible for collecting data of the continuing connected transactions conducted by itself or any of its subsidiaries on a regular basis and examining and comparing specific agreements for such continuing connected transactions with those entered into with independent third parties, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

The Master Sales Agreement is for a term of three years with effect from 1 January 2015 and ending on 31 December 2017. Upon expiry, the Master Sales Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. Details for the transactions were set out in an announcement dated 7 November 2014 published on the websites of Hong Kong Stock Exchange and the Company.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. The transactions under the Master Sales Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

During the Reporting Period, the proposed annual cap for and the actual transaction amount under the Master Sales Agreement payable to the Group by the CNPGC Group were RMB2,200 million and RMB625 million, respectively.

The continuing connected transactions between the Group and Sinopharm Group Finance Co., Ltd. under the Financial Services Framework Agreement

In order to regulate the continuing connected transactions in respect of the utilization of financial services between the Group and Sinopharm Group Finance Co., Ltd., the Company and Sinopharm Group Finance Co., Ltd. entered into the Financial Services Framework Agreement on 7 November 2014, and set up the annual caps for the continuing connected transactions thereunder for the three years ending 31 December 2017. The maximum daily balance of the deposits under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2017 will amount to RMB2,000 million, and the annual caps for the interests/service fees paid for the provision of other financial services under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2017 will amount to RMB200 million.

Taking into the account the historical transaction figures, and based on the anticipated demand of the Group, the Board expects the existing 2016 and 2017 annual caps for the continuing connected transactions under the Financial Services Framework Agreement in respect of the maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group will be insufficient for the Group's requirements and resolved the same to be revised on 9 November 2016. The revised annual caps for the continuing connected transactions under the Financial Services Framework Agreement in respect of the maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group for each of the two years ending 31 December 2017 is RMB3,500 million.

Pursuant to the Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Co., Ltd. as is deemed necessary: (i) deposit services; (ii) loan and entrustment loan services; (iii) other financial services including bill discounting and acceptance services, finance lease services, settlement services and entrustment loan agency services; and (iv) other services as approved by China Banking Regulatory Commission.

Fees and charges payable by the Company and/or its subsidiaries to Sinopharm Group Finance Co., Ltd. under the Financial Services Framework Agreement are determined on the following basis: (1) Deposit services: interest rates shall not be lower than each of (i) the interest rates floor promulgated by the People's Bank of China from time to time for the same category of deposits; (ii) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Co., Ltd. for the same category of deposits; and (iii) the interest rates offered to the Company and/or its subsidiaries by commercial banks for the same category of deposits. (2) Loan services: interest rates shall not be higher than each of (i) the interest rates cap promulgated by the People's Bank of China from time to time for the same category of loans; (ii) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Co., Ltd. for the same category of loans; and (iii) the interest rates offered to the Company and/or its subsidiaries by commercial banks for the same category of loans. (3) Other financial services: the interests or service fees charged for other financial services shall (i) comply with the standard rates as promulgated by the People's Bank of China or China Banking Regulatory Commission from time to time (if applicable); (ii) be not higher than the interests or service fees charged by commercial banks for comparable services; and (iii) be not higher than the interests or service fees charged by Sinopharm Group Finance Co., Ltd. for comparable services to other members of the CNPGC Group. Sinopharm Group Finance Co., Ltd. may provide other services to the Company and/or its subsidiaries as may be approved by China Banking Regulatory Commission in the future. The fees and charges for such services to be provided shall: (i) comply with the standard rates as promulgated by the People's Bank of China or China Banking Regulatory Commission from time to time (if applicable) for such kind of services; (ii) be not higher than the fees charged by commercial banks for comparable services; and (iii) be not higher than the fees charged by Sinopharm Group Finance Co., Ltd. for comparable services to other members of the CNPGC Group.

The Financial Services Framework Agreement is effective from 1 January 2015 to 31 December 2017. Details for the transactions were set out in an announcement dated 7 November 2014 and 9 November 2016 published on the websites of Hong Kong Stock Exchange and the Company.

Sinopharm Group Finance Co., Ltd. is a subsidiary of the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Financial Services Framework Agreement between the Company and Sinopharm Group Finance Co., Ltd. constitute continuing connected transactions of the Company.

During the Reporting Period, under the Financial Services Framework Agreement, the maximum daily balance of the deposits placed with Sinopharm Group Finance Co., Ltd. by the Group was RMB3,500 million, while the actual amounts was RMB3,457 million; the annual cap for the interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Co., Ltd. was RMB200 million, while the actual amount was RMB54 million.

The continuing connected transactions between the Group and the CNPGC Group under the EPC Service Framework Agreement

In order to regulate the continuing connected transactions in respect of the EPC general contracting service between the Group and the CNPGC Group, the Company and the CNPGC entered into the EPC General Contracting Service Framework Agreement (the "**EPC Service Framework Agreement**") on 15 October 2015, and set up the annual caps for the three years ending 31 December 2017 of the continuing connected transactions under the EPC Service Framework Agreement. The annual caps for the continuing connected transactions contemplated under the EPC Service Framework Agreement for the three years ending 31 December 2017 will amount to RMB300 million, RMB400 million and RMB500 million, respectively. Pursuant to the Listing Rules, the EPC Service Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2017 have been approved by the Board of the Company.

Pursuant to the EPC Service Agreement, the CNPGC Group will provide EPC (Engineering, Procurement, and Construction) general contracting services to the Group according to the engineering project general contracting agreements obtained by CNPGC Group through bidding process.

Under the EPC Service Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) under the EPC Service Framework Agreement, the service provider and the price of EPC general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The CNPGC Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC and the specific requirements in bidding invitation documents made by the Group; (ii) The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project's technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and etc..

The Group's tender committee is responsible for (i) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC; (ii) reviewing, evaluating and monitoring documents from outsourcing service providers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the CNPGC Group is no less favorable than those available from independent third parties; and (iii) grading the service providers and writing recommendation advice. The Group's tender committee is responsible for deciding which service provider will be awarded the EPC Service Framework Agreement.

The EPC Service Framework Agreement is for a term of three years with effect from 1 January 2015 and ending on 31 December 2017. Upon expiry, the EPC Service Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. Details for the transactions were set out in an announcement dated 15 October 2015 published on the websites of Hong Kong Stock Exchange and the Company.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. The transactions under the EPC Service Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

During the Reporting Period, the proposed annual caps for, the actual contract amounts and the actual implementation amounts under the EPC Service Framework Agreement payable by the Group to the CNPGC Group were RMB400 million, RMB21 million and RMB55,750,969, respectively.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2016 have followed the pricing principles of such continuing connected transactions.

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that these transactions had been entered into:

i. in the ordinary and usual course of business of the Company;

ii. on normal commercial terms or better to the Company; and

iii. in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions and the auditor has reported the factual findings on these procedures to the Board committee.

The auditors of the Company had informed the Board and confirmed that the above-mentioned continuing connected transactions:

i. were approved by the Board;

ii. were in accordance with pricing policy of the Company;

iii. were entered into in accordance with relevant agreements governing the transactions; and

iv. did not exceed the annual caps disclosed in the relevant announcements of the Company.

Non-Exempt Connected Transaction

The Restructuring Arrangement between the Group and the CNPGC Group

On 9 March 2016, the Board resolved to pass the resolutions in relation to the asset restructuring between the Group and certain subsidiaries of CNPGC and resolved to adjust the related transaction arrangement on 30 May 2016. Accordingly: (i) the Company has agreed to dispose its 26% equity interest in Sinopharm Holding A-Think Pharmaceutical Co., Ltd. and 51% equity interest in China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. to Modern Pharmaceutical at a consideration of approximately RMB486.2098 million, which will be satisfied by the issuance of approximately 16.7312 million consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to the Company; (ii) Sinopharm Accord has agreed to dispose its 51% equity interest in Sinopharm Zhijun (Shenzhen) Pharmaceutical Co., Ltd., 51% equity interest in Shenzhen Zhijun Pharmaceutical Trade Co., Ltd., 51% equity interest in Sinopharm Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. and Pingshan Base at a consideration of approximately RMB2,511.3225 million, which will be satisfied by the issuance of approximately 86.4185 million consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to Sinopharm Accord; and (iii) Sinopharm Accord has agreed to acquire 51% equity interest in Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. owned by Foreign Trade Corporation at an aggregate consideration of approximately RMB284.7828 million. The consideration will be satisfied by the issuance of approximately 5.3230 million consideration shares in total at the issue price of RMB53.50 per consideration share by Sinopharm Accord to Foreign Trade Corporation.

Both Modern Pharmaceutical and Foreign Trade Corporation are subsidiaries and associates of CNPGC, the ultimate controlling shareholder of the Company, therefore Modern Pharmaceutical, Foreign Trade Corporation, and CNPGC are connected persons of the Group, and the each of the aforesaid transaction constitute a disclosable transaction and connected transaction exempt from the independent shareholders' approval requirement under Chapter 14 and under Chapter 14A of the Listing Rules, respectively. For details, please refer to announcements on the websites of the Company and the Hong Kong Stock Exchange dated 9 March 2016 and 30 May 2016.

Sinopharm Fund's Subscription of Subscription Shares issued by SINOPHARM (CNCM LTD)

On 20 July 2016, SINOPHARM (CNCM LTD) resolved to issue no more than 45.0199 million subscription shares (the total amount of subscription shares in issue is determined as 41.0359 million by SINOPHARM (CNCM LTD) in January 2017) by way of non-public offer to no more than ten qualified designated investors at the issue price of RMB25.10 per subscription share. On the same day, Shanghai Sinopharm Private Equity Fund (Limited Partnership) ("**Sinopharm Fund**"), as one of the qualified designated investors in the non-public issuance, entered into the share subscription agreement with SINOPHARM (CNCM LTD), pursuant to which, Sinopharm Fund has agreed to subscribe for 3,984,063 Subscription Shares at the subscription price of RMB25.10 per subscription share, of which the aggregate consideration is RMB99,999,981.30.

As CNPGC, the ultimate controlling shareholder of the Company, holds over 30% equity interest in the general partner of Sinopharm Fund, therefore Sinopharm Fund (as an associate of CNPGC) is a connected person of the Company. Upon completion of the share subscription, the Company's equity interest in SINOPHARM (CNCM LTD) will be diluted, and such deemed disposal constitutes a connected transaction of the Company (exempt from the independent shareholders' approval requirement) under Chapter 14A of the Listing Rules. For details, please refer to announcement on the websites of the Company and the Hong Kong Stock Exchange dated 20 July 2016.

Save as disclosed above, for the year ended 31 December 2016, there is no other related party transaction or continuing related party transaction set out in Note 42 to the Consolidated Financial Statements which constitutes discloseable connected transaction or continuing connected transaction under the Listing Rules. In respect of the connected transactions and the continuing connected transactions, the Company has complied with the disclosure requirements of the Listing Rules (as amended from time to time).

Directors' and Supervisors' Service Contracts

Each of the Directors and Supervisors has entered into a service contract with the Company. None of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Biographies of Directors, Supervisors and Senior Management

Biographies of the Directors, Supervisors and senior management are set out from page 43 to 54 of this annual report.

Remunerations of Directors, Supervisors, Senior Management and Five Highest Paid Individuals

The remuneration committee determines and makes recommendation to the Board (as appropriate) on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors based on their qualifications, experience and contributions, to attract and retain its Directors as well as to control costs.

Details of the remuneration of the Directors and Supervisors in 2016 are set out in Note 47 to the Consolidated Financial Statements.

Details of the five highest paid individuals of the Group in 2016 are set out in Note 10 to the Consolidated Financial Statements on page 158 of this annual report.

Details of the remuneration of the current senior management of the Company by band for the year ended 31 December 2016 are set out as follows:

Range	Number of individuals
RMB nil to RMB2,000,000	1
RMB2,000,001 to RMB3,000,000	1
RMB3,000,000 and above	8

Interests of Directors and Supervisors in Transaction, Arrangement or Contract

Save as the non-exempt continuing connected transactions and the non-exempt connected transactions disclosed in this annual report, for the year ended 31 December 2016, there was no transaction, arrangement and contract of significance to which the Company, its holding company, its subsidiary or a subsidiary of its holding company was a party and in which a Director, Supervisor or their relevant party has or had at any time during that period, in any way, whether directly or indirectly, a material interest.

Interests of Directors in Competing Business

As at 31 December 2016, three non-executive Directors, namely Mr. Chen Qiyu, Mr. Wang Qunbin and Mr. Li Dongjiu had interest in businesses which compete or are likely to compete, either directly or indirectly, with the business of the Group. Mr. Wang Qunbin is a non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. ("**Fosun Pharma**"). Mr. Chen Qiyu is an executive director and the chairman of the board of Fosun Pharma and a director of some of the Fosun Production Companies. Mr. Li Dongjiu is a senior vice president of Fosun Pharma and a director of certain distribution, manufacture and retail companies of Fosun.

For the year ended 31 December 2016, the Group's total revenue from sales of pharmaceutical products to Fosun Pharma and its subsidiaries was approximately RMB102 million and total costs from purchase of pharmaceutical products from Fosun Pharma and its subsidiaries was approximately RMB1,113 million, accounting for 0.04% and 0.46%, respectively, of the Group's audited total revenue and total costs for the same period.

Certain Fosun Production Companies are wholly-owned or controlled by Fosun Pharma. A summary of the facts and circumstances regarding the Fosun Production Companies are set out below:

Description of business

The Fosun Production Companies principally engage in the production of pharmaceutical products in the PRC. The core business of the Group is the distribution of pharmaceutical products in the PRC, not production of medicines. For the year ended 31 December 2016, the Group's revenue from the production of pharmaceutical products only accounted for approximately 0.93% of the Group's total audited revenue. Furthermore, because there is a clear delineation between the medicines produced by the Group and those produced by the Fosun Production Companies, the Directors believe that there is no competition between the Fosun Production Companies and the Group.

Independence

The Company is financially independent from the Fosun Production Companies. Given the insignificant proportion of sales of pharmaceutical products to/purchase of pharmaceutical products from certain Fosun Production Companies to the Group's total audited revenue/costs, therefore, the Group is also operationally independent from the Fosun Production Companies.

As mentioned above, Mr. Chen Qiyu and Mr. Li Dongjiu, who are non-executive Directors, are directors of certain Fosun Production Companies. Apart from the above two non-executive Directors, who are not involved in the day-to-day operations and management of the Company, none of the other Directors and members of senior management of the Company concurrently hold any director and/or senior management positions in any of the Fosun Production Companies. In light of the above, the Directors are of the view that the Directors and senior management of the Company are independent from those of the Fosun Production Companies.

Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2016, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements in the Model Code, were as follows:

Names	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position/ shares available for lending
Li Zhiming	H shares	Beneficial owner	260,000	0.01	0.02	Long position
Jin Yi	H shares	Beneficial owner	1,200	0.00	0.00	Long position

Save as disclosed above, none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

Rights to Purchase Shares or Debentures of Directors, Supervisors and Chief Executive

No arrangements to which the Company, any of its subsidiaries, its holding company or any subsidiary of its holding company is or was a party enabling the Directors, Supervisors and the chief executive of the Company to acquire benefits by means of acquisitions of shares or debentures of the Company or any other body corporate subsisted during the Reporting Period.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2016, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Names	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position/ shares available for lending
CNPGC	Domestic shares	Beneficial owner	2,728,396 (Note 2)	0.10	0.17	–
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 2)	56.79	99.83	–
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Note 1 and 2)	56.79	99.83	–
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 3)	56.79	99.83	–
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 4)	56.79	99.83	–
Fosun Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 5)	56.79	99.83	–
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 6)	56.79	99.83	–
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 7)	56.79	99.83	–
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Note 1 and 8)	56.79	99.83	–
Capital Research and Management Company	H shares	Investment manager	42,110,000	1.52	3.53	Long position
BlackRock, Inc.	H shares	Interest of controlled corporation (Note 9)	94,804,354	3.43	7.95	Long position
			104,800	0.00	0.01	Short position

Names	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position/ shares available for lending
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	40,648,000	1.47	3.41	Long position
JPMorgan Chase & Co.	H shares	Beneficial owner, Investment manager, Custodian/ approved lending agent (Note 10)	205,332,875	7.42	17.21	Long position
			617,200	0.02	0.05	Short position
			168,035,149	6.07	14.08	Shares available for lending
Oppenheimer Developing Markets Fund	H shares	Beneficial owner	82,945,600	3.00	6.95	Long position
OppenheimerFunds, Inc.	H shares	Investment manager	106,812,400	3.86	8.95	Long position

Notes:

The information was disclosed based on the data available on the HKExnews website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(1) Such 1,571,555,953 domestic shares belong to the same batch of shares.

(2) CNPGC is interested in 2,728,396 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Industrial Investment Co., Ltd. ("**Sinopharm Investment**"). As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.

(3) Fosun Pharma is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore it is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(4) Fosun High Technology (Group) Co., Ltd. ("**Fosun High Technology**") is the beneficial owner of 39.91% equity interest in Fosun Pharma and, therefore it is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(5) Fosun International Ltd. ("**Fosun Company**") is the beneficial owner of 100% equity interest in Fosun High Technology and, therefore it is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(6) Fosun Holdings Ltd. ("**Fosun Holdings**") is the beneficial owner of 71.48% equity interest in Fosun Company and, therefore it is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(7) Fosun International Holdings Ltd. ("**Fosun International Holdings**") is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore it is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(8) Mr. Guo Guangchang is the beneficial owner of 64.45% equity interest in Fosun International Holdings and 0.005% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(9) BlackRock, Inc. is interested in long positions of 94,804,354 and short positions of 104,800 H shares of the Company indirectly through a series of controlled corporations.

(10) JPMorgan Chase & Co. is interested, directly and indirectly through a series of controlled corporations, in an aggregate of long positions of 205,332,875 H shares (of which 168,035,149 are H shares available for lending) and short positions of 617,200 H shares of the Company.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2016, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association and the laws of the PRC which oblige the Company to offer pre-emptive rights of new shares to existing shareholders on their shareholding proportion.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of all Directors, there was sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules in the financial year of 2016 and prior to the issue of this annual report.

Management Contract

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Reporting Period.

Pension Scheme

During the Reporting Period, details of the pension scheme of the Group are set out in Note 10 to the Consolidated Financial Statements.

Donation

During the Reporting Period, details of the donation are set out in Note 8 to the Consolidated Financial Statements.

Entrusted Deposit and Matured Time Deposit

As at 31 December 2016, the Company had not held any deposits under trust or any time deposit in any financial institution in the PRC which could not be withdrawn upon maturity.

Tax Relief and Exemption

Save as disclosed in this annual report, the Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

Confirmation of Independency by Independent Non-Executive Directors

The Company had received annual confirmation of independence from each independent non-executive Director. Based on the confirmation, the Company considered that all independent non-executive Directors were independent according to the Listing Rules.

Auditor

The financial statements set out in this annual report have been audited by Ernst & Young. The term of office of PricewaterhouseCoopers as the international auditor of the Company, and PricewaterhouseCoopers Zhong Tian LLP as the domestic auditor of the Company has expired at the date of the 2015 annual general meeting of the Company. As considered and approved by the 2015 annual general meeting of the Company held on 16 June 2016, Ernst &Young and Ernst & Young Hua Ming LLP were appointed as the international and domestic auditors of the Company, respectively. Their term of office took effect from the date of approval by the 2015 annual general meeting of the Company until the conclusion of the next annual general meeting. For detailed information, please refer to the announcements on the websites of the Company and the Hong Kong Stock Exchange dated 24 May 2016 and 16 June 2016.

Restricted Share Incentive Scheme

During the Reporting Period, upon the approval of the shareholders' general meeting on 28 October 2016, the Company adopted the restricted share incentive scheme (the "**Incentive Scheme**"). The scope of Scheme Participants for the Scheme shall include Directors, senior management and mid-level management of the Company and other key employees who, in the opinion of the Company, shall be awarded. Upon the approval by the Board on 16 November 2016, the Company completed the initial grant under the Incentive Scheme. The Company believes that the Incentive Scheme will closely align the interests and benefits of and risks sharing among the shareholders, the Company and the employees in order to maximize the proactiveness of the senior management and key employees. The Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Hong Kong Listing Rules and is a discretionary scheme of the Company. For detailed information, please refer to announcements on the websites of the Company and the Hong Kong Stock Exchange dated 18 August 2016, 19 August 2016, 16 November 2016 and the circular dated 1 September 2016.

By Order of the Board
Sinopharm Group Co. Ltd.
Li Zhiming
Chairman

Shanghai, China
24 March 2017

Report of the Supervisory Committee

During the Reporting Period, all members of the Supervisory Committee of the Company (the "**Supervisory Committee**") have complied with the principle of integrity and earnestly performed their supervisory duties in accordance with the relevant regulations set out in the PRC Company Law, the Articles of Association and Rules of Procedures for the Supervisory Committee of the Company to protect the interests of the shareholders and the Company.

I. Works of the Supervisory Committee During the Reporting Period

For year 2016, the Supervisory Committee held four meetings and the details are as follows:

On 8 January 2016, the first extraordinary meeting of the third session of the Supervisory Committee was convened to approve the "Resolution to Appoint Ms. Li Xiaojuan as Supervisor of the Third Session of the Supervisory Committee".

On 25 March 2016, the sixth meeting of the third session of the Supervisory Committee was convened to consider and approve the "Report of the Supervisory Committee of 2015" and "Resolution on Determination of 2016 Remuneration of Independent Supervisors of the Third Session of the Supervisory Committee".

On 19 August 2016, the seventh meeting of the third session of the Supervisory Committee was convened to consider and approve the "Sinopharm H-share Share Incentive Scheme", "Amendment of the Regulations on Relevant Expenses and Treatment Standards due to Work Needs for Sinopharm's Directors and Supervisors" and "Sinopharm's 2016 Interim Results".

On 16 November 2016, the second extraordinary meeting of the third session of the Supervisory Committee was convened to approve the "Initial Grant Scheme and Grant Details of Sinopharm H-share Restricted Share Incentive Scheme".

Ii. Comments of the Supervisory Committee on Certain Matters of the Company in 2016

During the Reporting Period, the members of the Supervisory Committee adhered to the principles of fidelity and accountability to all shareholders and duly performed their duties and works according to the relevant laws and regulations. The Supervisory Committee supervised the regulatory compliance and operation, financial condition, use of proceeds and internal control, etc. of the Company through attending shareholders' general meetings and board meetings as non-voting delegates and on-site inspections. The Supervisory Committee has arrived at the following opinions:

1. Regulatory compliance of the operation of the Company. During the Reporting Period, the Board earnestly exercised the rights and performed the obligations conferred by the PRC Company Law and the Articles of Association to make decisions in time on material matters including production and operation plans and development goals, and implemented all resolutions adopted by the shareholders' general meetings and board meetings. Senior management managed and operated the Company in compliance with laws and regulations. The Directors and senior management have fulfilled obligation of integrity without violating any laws or Articles of Association or committing any action which may be against the interests of shareholders.

2. Evaluation of financial condition of the Company. During the Reporting Period, the Supervisory Committee has supervised and reviewed the financial structure and position of the Company. The Supervisory Committee is of the opinion that the financial structure of the Company was healthy and standardized and the Company was in a good financial position. The 2016 Audit Report of the Company has truly, accurately and completely reflected the financial condition, results of operation and cash flows of the Company.

3. The use of funds raised by the Company. The Supervisory Committee is of the opinion that the use of proceeds complied with the provisions of relevant laws and regulations and the Articles of Association without violating the interests of the Company and its shareholders. The Supervisory Committee will continue to supervise and monitor the use of proceeds.

4. Acquisition and disposal of assets of the Company. The acquisitions and disposals of the assets of the Company during the Reporting Period were based on fair and reasonable prices. No insider dealing or any action that may injure shareholders' interests or cause any loss of assets of the Company has been found.

5. Connected transactions of the Company. During the Reporting Period, the connected transactions between the Company and all connected persons conformed to applicable regulations of the Hong Kong Stock Exchange. The connected transactions were based on fair and reasonable prices and were carried out in accordance with the principles of reasonableness, fairness and justice. No harm to the interests of the Company and unrelated shareholders has been found.

6. Preparation and review of annual report of the Company. The preparation and review procedures of the 2016 annual report of the Company conformed to all the relevant regulations of the China Securities Regulatory Commission and the Hong Kong Stock Exchange. No breach of confidentiality provisions by any person involved in the preparation or review of annual report has been found.

In the coming year, the Supervisory Committee will continue to arduously perform its supervisory and monitoring duties with an aim to strengthen the overall competitiveness and sustainable profitability of the Company and to protect the interests of shareholders and the Company.

Yao Fang
Chief Supervisor

24 March 2017

Environmental, Social and Governance Report

To comply with the requirements set out in the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange of Hong Kong Limited in December 2015, Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm Group**", together with its subsidiaries referred to as the "**Group**") hereby submits its Annual Environmental, Social and Governance ("**ESG**") Report (the "**ESG Report**") from 1 January 2016 to 31 December 2016.

The Company's Board of Directors is responsible for its ESG strategies and reporting, including the assessment and identification of ESG risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. We have appointed our business functional departments to review the Group's operation and have internal discussions to identify relevant ESG matters and assess the importance of such matters to our business and stakeholders. The management has confirmed the effectiveness of ESG risk management and internal control systems to the Board of Directors. The identified major ESG matters have been included in this ESG Report according to the general disclosure requirements of the ESG Reporting Guide, in order to disclose the ESG performance of the Group's operation on a balanced basis.

1. Communication with Stakeholders

The Company has a wide range of stakeholders, including shareholders/investors, government/regulators, employees, customers, suppliers/partners, environment and communities/the public. By collecting opinions and fully understanding shareholders' expectations, it carries out social responsibility practices and balances the interests between the Group and shareholders.

Communication with and Participation of Stakeholders

Stakeholders	Method of Communication	Expectations and Demands
Shareholders/investors	• General meetings • News release and announcement • Company report • Website publishing • Meetings of the investors and road show	• Ensuring shareholders' rights and interests • Information disclosure • Compliance operation and management • Anti-corruption
Government/regulators	• Conferences • Compliance report • On-site inspections • Participation in meetings/seminars • Special inquiry/inspection • Proper submission of documents	• Legal and compliance regulation • Quality management system • Drug quality safety • Employee health • Safety management
Employees	• Labour contract • Labour union • Employee forum and assembly • Employee party • Manger's mailbox • Voluntary activities • Daily communication	• Equal employment • Employee benefits • Development of labour union • Employee health • Safety management • Employee training • Assessment and promotion

Stakeholders	Method of Communication	Expectations and Demands
Customers	• Daily operation/interaction • Customer satisfaction survey • Regular visits • Industry exhibitions and forums • Customers service center/hotline	• Logistics quality management • Drug quality and safety • Product recovery • Customer satisfaction and compliant handling • Consumer privacy protection
Suppliers/partners	• High-level meetings • Seminars and meetings • Marketing summits • Supplier evaluation • Field visit • Daily communication	• Supplier code of conduct • Supplier management
Environment	• Environmental inspection • Environmental disclosure report • Implementation of green operation and management	• Environmental protection system • Publicity of environmental protection • Energy saving and emission reduction • Green office
Communities/public	• Voluntary activities • Charity activities • Sponsorship of public service activities	• Charitable health care • Concerned about disaster areas • Poverty alleviation

2. Product Liability

As China's largest distributor of pharmaceutical and healthcare products and a leading provider of supply chain service, the Company takes the lead in pursuing product quality, upgrading industry standards, purifying of industry market and developing a health industry.

Quality Management System

The Company has established a sound ISO9001&GSP integrated quality management system since 2006 and prepared the Quality Management Manual as the code of conduct in the quality management system, which increase the transparency and systematic of the process and lay a solid foundation for the Company's rapid development. The Company has signed the Responsibility Letter for Quality Management with every general manager of its sub-secondary subsidiaries who is responsible for their company's operation of the quality management system and for reporting the matters concerning the operation of the quality management system to the quality management representatives and the President of the Company.

Qualification Certificates of the Company

GSP

Implementation of the GSP system is a scientific and advanced management tool to ensure the drug quality and generally adapted to the international trend for drug quality management at the same time. As China's largest distributor of pharmaceutical and healthcare products, as well as a leading provider of supply chain service, the quality management department of the Company's headquarters provides high-quality drugs for the market by GSP management and promotes the quality management of China's pharmaceutical business to become modern and international.

ISO9001

On 1 April 2007, the Company obtained the ISO 9001 Quality Management System Certification from DEKRA company in German which ranks the third in the world in the field of certification, safety and quality inspection. In recent years, the Company's sub-secondary subsidiaries were successively involved into ISO 9001:2008 integrated certification system for integrated quality management. In April 2016, the Company passed DEKRA's certification for ISO9001 certificate renewal.

SA8000

SA8000

At present, companies have to pass SA8000 certification or the social responsibility audit conducted according to SA8000 to join the global industrial chain of multinational companies. The Company has passed the certification of an external third-party certification authority at the end of 2009.

ISO27001

The Company has established the Information Security Management System (ISMS) according to ISO27000:2005 standard system. After more than one year of continuous and steady operation, Sinopharm Logistics Co., Ltd., the subsidiary of the Company passed the formal audit of the international certification authority in 2011, and obtained certificates issued by UKAS (United Kingdom Accreditation Service) and CNAS (China National Accreditation Service for Conformity Assessment), becoming the first pharmaceutical enterprise in China passing ISO27001 international information security certification.

The Company has set the overall quality goal at the beginning of each year and issued to its subsidiaries, which are required to prepare specific rules for the implementation according to the "decomposition index and implementation plan of policy targets", conduct regular self-examination and assessment of the implementation plan and timely correct problems once found to ensure the effective operation of the quality management system of subsidiaries and the comprehensive implementation of the quality goal of the Company's headquarters. In strict accordance with the audit plan proposed at the beginning of the year and in combination with China's key management and control points, the quality management department of the Company's headquarters has completed the audit of sub-secondary subsidiaries with 100% audit reports issued and required subsidiaries to submit rectification reports against defects, in which rectification measures and estimated time of completion shall be clarified.

In September 2016, the Company organized quality meetings and trainings for more than 300 enterprises (including third-level subsidiaries); in November, it organized a three-day ISO and GSP internal audit training and examination for more than 100 quality personnel and issued certificates to those passing the examination, as the Company's first batch of internal inspectors to carry out cross internal audit.

Logistics Quality Management

As a leading enterprise in the medical logistics industry, the Company regards logistics quality as its top priority. For management of various facilities, equipment, vehicles and information system related to logistics, the Company has developed the Regulations on Management of Facilities and Equipment, Regulations on Safety Management of Transport Vehicles, Regulations on Management of Information System, and Regulations on Management of Evaluation and Control of Third-party Logistics to clearly define the purchase of goods shelves, temperature control system, cooling system, water and electricity supply, fire control system and vehicle, quality supervision on third-party logistics and daily management.

The Company ensures that personnel related to storage and distribution management are qualified and experienced to make sure that goods can be properly handled and stored, and has developed the Regulations on Management of Drug Receiving, Regulations on Management of Drug Storage, Regulations on Management of Drug Maintenance, Regulations on Management of Drug Ex-warehouse Recheck, Regulations on Management of Drug Shipment and Handover and Regulations on Management of Drug Transportation and Delivery for major business processes including goods receiving, acceptance and inspection, storage, delivery, distribution and outsourcing.

Traceability of drugs is an important management issue in the medical industry. To trace the quality status in case of a quality problem or customer feedback and achieve the purpose of source management, the Company has developed the Regulations on Management of Identification and Traceability, in which it is required to distinguish consignors, batch numbers, specifications and dosage forms of drugs by identification and to identify, maintain and recheck the qualification status of drugs at all stages by using various warehouses, regions and color labels.

In 2016, in order to evaluate whether the quality system of subordinate logistics companies meets new GSP requirements for medical appliances, the Company conducted a quality audit in such companies according to the Notice of the China Food and Drug Administration ("**CFDA**") on the Implementation of the Rules for Quality Control in Business Activities Involving Medical Equipment (No. 58, 2014), Regulations on the Supervision and Administration of Medical Equipment (Decree of the State Council of the PRC, No. 650), Guidelines for the Rules for Quality Control in Business Activities Involving Medical Equipment, Notice of the Shanghai Municipal Food and Drug Administration on the Implementation Rules of Shanghai City on the Rules for Quality Control in Business Activities Involving Medical Equipment (HSYJYXL [2015] No. 785) and other relevant regulations to check their quality operation and provide the basis for the Company's continuous improvement. No significant nonconformity was found in this audit.

Drug Quality Safety

With strict control of the first-purchasing and quality of drugs, the Company has prepared relevant system documents, such as the Regulations on Management of Introduction, Selection and Assessment of New Drugs, Regulations on Management of First-purchasing Drugs, Regulations on Management of Narcotic Drugs and Psychotropic Drugs of Category I, Regulations on Management of Psychotropic Drugs of Category II and Regulations on Management of Toxic Drug for stringent approval and control the introduction of newly added drugs.

The Company keeps focusing on the industry dynamics, maintains consistent with Chinese laws and regulations, and timely releases notices or announcements, to ensure its operation meets the latest Chinese laws and regulations.

The Company actively cooperate with all inspections conducted by the drug authorities at all levels, timely provided technical support for its subsidiaries, and collected the information reported by each subsidiary in order to meet the requirements of the self-inspection which were stipulated in No.94 Documents (Drugs) and Document No.112 (Devices) issued by CFDA.

Cases

- In 2016, the Company's headquarters successively passed the special examination on the narcotic and psychotropic drugs and the causal investigation on the vaccine by the Shanghai Municipal Food and Drug Administration for 15 times with 100% pass rate of the special examination;

- In 2016, the Company's headquarters passed a special examination on creotoxin conducted by CFDA and two unannounced inspections respectively conducted by the Shanghai Municipal Food and Drug Administration and CFDA (Devices), without any significant nonconformity found;

- In 2016, the Company's sub-secondary subsidiaries were examined by outside inspectors for totally 329 times (298 times on operation and 31 times on production), and they all met the requirements.

- In 2016, the Company's third-level and fourth-level subsidiaries excluding Sinopharm Group Sanming Co., LTD also met local GMP/GSP requirements during the examinations.

Customer Satisfaction and Complaint Handling

With the philosophy of "Customer is the foundation of the enterprise", the Company has committed itself to providing customers with efficient and high-quality services to meet their needs and gain their satisfaction and loyalty to create a competitive brand. The Company has developed the Regulations on Management of Customer Satisfaction. It has gained the customer perception through home visits, written questionnaires and other ways, and indirectly confirmed the customer satisfaction by comparison with other competitors in the industry. In addition, it has periodically prepared the Analysis Report of Customer Satisfaction, and involved the customer satisfaction and customer satisfaction trends into the performance management as important assessment indicators of relevant departments.

The Company developed a series of management systems related to customer inquiry and complaint, such as Regulations on Management of Quality Inquiry and Regulations on Management of Customer Complaint Handling. When customers have questions or needs in the operation of pharmaceutical products, medical equipment of the Company, they can submit such query to the subordinate companies by visits, writing, fax, telephone, e-mail and other forms. The subordinates shall detailed record the basic information, such as the customer's basic information and the queried variety as soon as they receive a query, and shall timely conduct an investigation and provide feedbacks. When the product quality and quality of service during the operation do not meet the standards and cause the customer's dissatisfaction, the quality management department shall timely take containment measures such as product recall after verification through investigation to prevent further loss to the customer. Relevant departments shall determine jointly the cause of the complaint and make correct measures to better satisfy customers.

Product Recovery

The Company has made active response to the reasonable return request from customers to improve both customer satisfaction and corporate reputation, and formulated the Regulations on Management of Sales Return which puts clear specification on return requirement, return way, acceptance inspection of returned material, system operation process approval authority etc. For products recalled actively by suppliers, the Company has prepared the Regulations on Management of Recall. After receiving notices from the purchasing department, the quality management department will issue recall notices (except for those drugs which cannot be recalled as stipulated by Chinese laws and regulations) to recall relevant varieties. For those recalled by Chinese drug authorities or those unqualified results of spot check, the purchasing department will inform relevant suppliers in a timely manner, and such suppliers shall communicate with manufacturers as soon as possible and actively cooperate to handle those drugs which have quality issues.

Intellectual Property Rights Protection

In order to strengthen the trademark management, standardize the exclusive right to use trademark and give full play to the efficiency of trademark assets, the Company has prepared the Measures on the Management of Trademark to clearly define the issues on trademark application, renewal, authorization management and rights protection and other works. The Office General Manager of the Company is responsible for establishing and perfecting trademark files and database, and implementing dynamic management of trademark. In addition, it takes charge of organizing publicity and learning of legal knowledge related to the trademark, collecting actively evidences against the infringement of trademark rights and timely for handling to the administration authorities for industry and commerce or bringing a lawsuit to the people's court.

China National Accord Medicines Corporation Ltd. – Brand White Paper

From multi-brand to compound brand management, from the two-level control to endorsed brand, China National Accord Medicines Corporation Ltd. subordinated to the Company has been exploring the best practice way in brand management. The Company has promulgated the Brand White Paper of China National Accord Medicines Corporation Ltd., clarified the direction and principle of enterprise brand operation, and stipulated the brand management organization, brand identification, communication and evaluation and brand asset management, while formulating the annual brand work plan and holding quarterly brand meeting.

Consumer Privacy Protection

In order to further strengthen the Company's confidentiality management, standardize the development of the Company's confidentiality system, and better safeguard the security interests of enterprises and consumers, the Company has prepared the Interim Provisions of Sinopharm Group Co., Ltd on the Confidentiality Work. Each departments and each subsidiary at all levels of the Company are responsible for implementing the comprehensive management requirements of the Company's confidentiality work, refining and establishing measures of confidentiality work management of related functions, and clarifying confidentiality requirements according to the actual as well as conducting the assessment, inspection, verification and improvement of the implementation process within the scope of duties. Besides, the labour contract signed by subsidiaries and employees includes confidentiality provisions.

GuoDa Drug Store which is the subordinated to the Company, has prepared the Administrational Measures for Membership which stipulates specifically that to protect the security of membership data, subsidiaries shall conduct authorization management and approval process management of data export for membership information and subordinate stores shall not modify membership information. At the same time, subsidiaries are required to conduct membership data sorting and analysis at least once a month. In case of abnormal situations happening on the number of transactions, amount and discount information, the track management will be performed in order to better protect the privacy and interests of members.

3. Environmental Protection

Following the enterprise philosophy of "Caring for Life and Attending to Health", the Company has always involved the environmental protection and sustainable development into the corporate development strategy, guaranteed the compliance with environmental protection laws and rules, energy conservation, emission reduction, consumption reduction and efficiency enhancement in the production and operation process, strived to reduce the impact of the production activities on the environment and human health and safety, realized the coordinated development between production management and environmental protection, and achieved the harmony between the enterprise and the nature.

Environmental Protection System

Since its establishment, the Company has established the environmental protection management system according to the Chinese laws, regulations, technical specifications, technical standards and systems relating to the environmental protection. The Company provides guidance, assistance, supervision, management and assessment of the environmental protection work of the subordinate enterprises and its subsidiaries of the annual budget goal and the work plan. Each subsidiary of the Company has included the environmental protection, energy conservation and emission reduction into their medium and long-term development planning and annual plan, established and improved the management system and various rules and regulations in relation to the environmental protection, energy conservation and emission reduction, abided by relevant local and national laws, regulations of PRC and emission standards, and fulfilled the measures and responsibilities for the environmental protection, energy conservation and emission reduction. The industrial subordinate enterprises to the Company have established and implemented the ISO 14001 Environmental Management System Certification.

The Company has formulated a series of management systems including the Administrative Measures for Environmental Protection, the Administrative Measures for Clean Production, the Administrative Measures for Hazardous Waste, and the Emergency Plan for Environmental Accidents, specifying responsibilities of employees at various levels in terms of the environmental protection, energy conservation and emission reduction, and strengthening the environmental protection consciousness of all the companies. The superintendent of the subsidiary shall be primarily responsible for the environmental protection of all the subsidiaries, and the performance shall be involved into the annual appraisal index of the superintendent of the subsidiaries, in order to enhance the environmental protection responsibility and consciousness of the leaders of all the (subsidiaries. The target-oriented responsibility system shall be adopted in the management that the superintendent of the subsidiary would be primarily responsible for the environmental protection. At the beginning of 2016, the Company entered into the Target Responsibility Statement for Quality Management, Safe Production, Energy Conservation and Environmental Protection with all its subsidiaries.

Publicity of Environmental Protection

In order to enhance the environmental protection awareness and capability of the Company and its employees, the Company includes the environmental protection training into its overall training system, actively organizes employees to participate in the training related to environmental protection organized by the external environmental protection organizations, issues the Brief News on Environmental Protection on a regular basis, and conducts the themed activities such as "Energy Conservation Taking a Lead in Green Development", etc.

Environmental protection publicity and education

In March 2016, participated in the **Special Training for the Revised Law on the Prevention and Control of Atmospheric Pollution** held by the Ministry of Environmental Protection in Xiamen, and obtained the certificate

In July 2016, took part in the **Special Seminar on the Application of the Demonstration and Comprehensive Utilization Project of Special Funds for Energy Conservation and Emission Reduction and Cyclic Economy, and Industrial Transformation, Upgrading and Development** held by National Development and Reform Commission in Guiyang, and obtained the certificate

In August 2016, participated in the **Energy-saving Project Exchange Meeting and Training on Energy-saving and Emission Reduction Technology** held by China National Pharmaceutical Group in Shenzhen

Brief News on Environmental Protection is issued on a regular basis, publicizing the latest Chinese policies and regulations relating to environmental protection, introducing positive and negative cases of environmental protection in key enterprises, and popularizing the basic knowledge and concept of the environmental protection, energy conservation and emission reduction

The **"Energy Conservation Taking a Lead in Green Development"** was conducted in 2016 to publicize the energy conservation and emission reduction knowledge, the sustainable life style and consumption mode, appeal to all the employees to actively participate in the energy-saving activities, and realize low-carbon life with practical action

Energy Conservation and Emission Reduction

With the aim of strengthening the environmental protection, energy conservation and emission reduction, effectively controlling the key pollutant discharge, promoting the sustainable and efficient development, and preventing the adverse impact of the planning and construction projects upon implementation on the environment, the Company has formulated the Detailed Rules for the Implementation of the Environmental Protection, Energy Conservation and Emission Reduction of Sinopharm Holding in accordance with relevant laws, regulations, emission standards and industrial policies such as the revised Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Conserving Energy, and the Interim Measures for the Administration of Overseas State-owned Property Rights of Central Enterprises issued by State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**").

All the industrial subordinate enterprises to the Company have signed the monitoring contract with the local environmental monitoring authority, entrusting the local environmental monitoring station conducting the regular monitoring of the waste gas, waste water and noise on a regular basis. In order to further standardize the environmental protection management and strengthen the pollution prevention and control, in addition to accepting the supervision by external organizations such as the local environmental protection authority, all the industrial subordinate enterprises have established and improved the statistical monitoring system for the environmental protection, energy conservation and emission reduction, strengthened the statistical monitoring of the energy consumption and pollutant emission in the production and operation, eliminated the possible environmental risks and hidden hazards in the production and operation, and improved the evaluating system as well as reward and punishment measures in accordance with the Administrative Measures for the Supervision and Appraisal of the Environmental Protection, Energy Conservation and Emission Reduction by Sinopharm Holding. In 2016, all the major emissions from the industrial subordinate enterprises including COD and SO_2 were disposed of, and all the sewage and waste gas were discharged in consistency with relevant standards.

The industrial subordinate enterprises have also formulated the Analysis System for Energy Utilization Situations, stipulating that the technical and economic analysis shall be conducted on the main energy-consuming equipment, process system and energy utilization conditions on a regular basis. Necessary tests and statistical analysis of energy consumption are combined to determine the level of energy consumption, explore the potential of energy conservation, define the direction of energy conversation, and provide the scientific basis for the improvement of energy management, transformation of energy-saving technology and enhancement of energy utilization ratio.

The Company encourages its subsidiaries to apply new technology, new material, new process and new equipment in the energy conservation and emission reduction, and obvious energy-saving effect has been achieved through the energy-saving modification works such as boiler retrofitting, energy conservation of motor system, optimization of energy system and utilization of residual heat and pressure.

Case I Sinopharm Group Guorui Medicine Co., Ltd.-Zero Sewage Discharge

Sinopharm Group Guorui Medicine Co., Ltd. has established and perfected the Energy Consumption Management System of the Company, the Metering Management System, and the Environmental Protection Management System of the Company, in order to prevent the environmental pollution in the production, conduct clean production and build a garden-like factory. It has also formulated the Hazardous Waste Management System to prevent the hazardous waste from polluting environment, and guarantee the human health. Currently, the production and domestic wastewater are recycled after the treatment by the sewage treatment station without being discharged outside except the hazardous waste disposed of by qualified outsourced unit. The Company has adopted the offline water quality detection mode and applied for the closure of the external discharge outlet.

Case II China National Pharmaceutical Group Chemical Reagent Co., Ltd.-Replacement of Tetrachloromethane with Tetrachloroethylene

China National Pharmaceutical Group Chemical Reagent Co., Ltd. participated in the environmental protection project in which the tetrachloromethane was replaced with tetrachloroethylene in 2016. Currently, the tetrachloromethane is adopted as the extraction agent for oil determination in the Water Quality-Determination of Petroleum Oils and Animal and Vegetable Oils, but the tetrachloromethane shall be replaced with the tetrachloroethylene due to its great damage to the human body, atmosphere and environment. There was no large amount of stable tetrachloroethylene conforming to the high infrared requirements, so the Company has initiated the development of tetrachloroethylene conforming to the requirements in 2016. At present, the developed tetrachloroethylene has passed the small-scale detection, and the pilot production is under progress.

Green Office

The green office can not only promote energy conservation but also mitigate environmental pollution. It can protect the environmental and also bring low cost to the Company. The Company takes several measures to realize the green office with saved energy and reduced emission as follows: strengthening the management of power conservation in lighting, reducing the power consumption of lighting equipment by making full use of natural lighting, turning off lights before leaving the office to prevent the lighting in the daytime and always-on lighting, and reducing the lighting in the public area in the night; strengthening the daily maintenance and management of the water-consuming equipment, and preventing the running, spillage, dripping and leakage of water to save water; making the general notification and data transmission via the Internet to reduce the data printing (copying) in paper, and making repeated use of the low-value consumables such as document envelopes and clips.

Case I Sinopharm Holding A-Think Pharmaceutical Co., Ltd.-Light Retrofitting

Sinopharm Holding A-Think Pharmaceutical Co., Ltd. actively retrofits the light, popularizes the LED lighting technology, improves the control unit, promotes the smart control system such as voice-dependent control and light-dependent control, in order to reduce the power consumption. In 2016, the Company retrofitted the lights in the laboratory and the corridors of four workshops so that the lights were alternatively on, which not only saved electricity and brought forth economic benefits, but also improved the environment.

4. Protection of Rights and Interests

Regarding employees as the core resources and most precious treasure, following the principle of respecting, cultivating and serving employees, the Company conducts the people-oriented management and strives to provide a safe and healthy working environment and a harmonious cultural environment for all the employees, in order to promote the Company's development and social progress.

The Company has formulated a set of human resources ("**HR**") management systems such as the Administrative Measures for the Employee Remuneration of the Functional Departments of Sinopharm Holding and the Administrative Measures for the Annual Income of the Operators of the Secondary Subsidiaries of Sinopharm Holding in strict accordance with relevant policies, laws and regulations such as the Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China, and established a fair, reasonable and competitive remuneration system that can attract and retain core employees of the Company based on the principle of fairness and incentive.

Honors in 2016

"China HR Pioneer Employer Award"	—	TopHR
"2016 Top 100 Employers in China"	—	Zhaopin.com
"2016 Employer with Outstanding Reform"	—	Liepin.com

Equal Employment

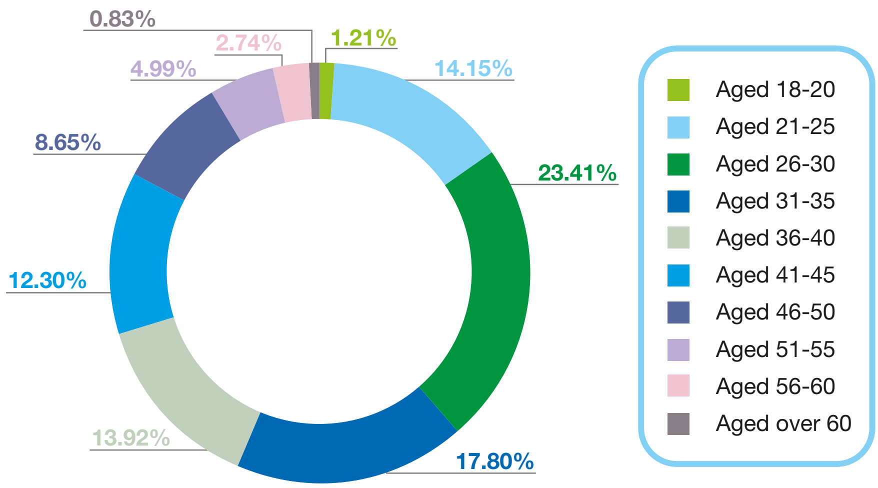
The Company recruits employees on an equal and selective basis and following the principle of openness and fairness, opposes the employment discrimination of various forms, enters into labour contracts with employees, and protects employees from any discrimination due to the race, religion, physical disability, gender, sexual orientation, association member, marital status, etc. Meanwhile, the Company prohibits the employment of child laborers, compulsory work and arrangement of the underage employees with the prohibited work. All the employees comply with the statutory working age.

The Company has established the information management platform based on the HR information system, covering 363 subsidiaries at all levels. As an effective HR management tool, the HR information system has realized the basic HR management in the electronic form, strengthened the supervision on the organization setting, staffing management, employee recruitment and dismissal, and exported five statements of organization and personnel module and analysis of 25 HR indexes on a monthly basis, which prevents any employment in violation of the Labour Law of the People's Republic of China such as employment of child laborers.

The Company explicitly stipulates that employees may rescind the labour contract at any time when the Company forces the work by means of violence, threat or illegal restriction of personal freedom, fails to pay the labour remuneration in full amount or provide working conditions, or has other circumstances that violate the provisions of the Labour Contract Law of the People's Republic of China.

Meanwhile, the Company chooses outstanding talents suitable to the Company's development through multi-channel social recruitment and internal selection, and notifies the newly recruited employees of the recruitment conditions and working situations such as the working contents, qualification, working environment, workplace, occupational hazard, safe production conditions and labour remuneration in the forms of recruitment advertisements, job description and interview before the recruitment procedures. Employees may directly inquire the HR Department in case of any questions.

As of 31 December 2016, the Group had 55,241 employees in total, among whom female employees accounted for 56.51%, while male employees accounted for 43.49%. The proportion of employees in terms of ages is as follows:



Employee Benefits

The Company strictly standardizes the setting and payment standards for the employee benefits, and establishes the secure and competitive benefit system. The benefit system of the Company includes three parts, namely, statutory benefits, caring benefits and incentive benefits.

Statutory benefits

The Company offers various social security benefits for all the employees such as the social insurances and housing provident funds in strict accordance with Chinese policies relating to social security to achieve 100% social security paying rate, and guarantees all the legal holidays for employees.

Caring benefits

The Company provides caring benefits in response to the necessary care of employees, including lunch allowance, high-temperature /environmental allowance, physical examination, festival allowance, labor protection expenses, cash for employees' birthday/marriage/birth as gifts, and consolation money for employees' funeral and hospitalization.

Incentive benefits

The Company offers incentive benefits in order to stimulate employees to fulfill the work tasks and achieve outstanding performance, including the vehicle and travel allowance, communication allowance, supplementary housing benefits, commercial insurances, enterprise annuity and local benefits, etc.

In order to provide a healthy and comfortable working and living environment, the Company conducts various activities for employees to balance their work and life. It organizes the badminton activities on a regular basis, holds basketball, table tennis and swimming contests from time to time, and carries out sports activities such as long running and healthy walking, in order to improve the health of employees, relieve their working pressure, enhance the sense of belonging, and build a happy, open, healthy, friendly and harmonious working and living atmosphere for employees.

Dragon boat regatta on the Dragon Boat Festival on June 5 2016

"Lekang" Cup Swimming Contest

Autumn Disney Energetic and healthy walking

Development of Labour Union

Under the leadership of the Party Committee of the Company, the labour union strengthens the standardized development of the grassroots labour union, promotes the establishment of the labour union organization according to the law, gradually improves the quality of leaders in the grassroots labour unions, and strives to improve the labour union of all-level enterprises to a new level.

Case I The labour Union of the Company Held the Fifth Training Class for Leaders of Grassroots labour Unions in Shanghai in 2016

In August 2016, the labour union of the Company held the Fifth Training Class for Leaders of Grassroots labour Unions in Shanghai, which was attended by 65 labour union leaders from 22 grassroots units in Shanghai. The training provided guidance for the grassroots labour union leaders to enhance their professional skills, make proper use of expenditures, protect the legitimate rights and interests of employees, and provide cohesive force and creativity for the enterprise development.

5. Health and Safety

Employees' Health

The Company strives to build a comfortable and healthy working and living environment for employees. It has continuously improved the health management in strict accordance with the Labour Law of the People's Republic of China, the Law on the Prevention and Control of Occupational Diseases and local regulations related to prevention and control of occupational diseases. Since 2009, the Company has gradually established and implemented the international SA8000 Social Accountability System, and set up the social accountability leading team led by the Party Committee Secretary and President of the Company according to requirements in the Guidelines to Chinese State-owned Enterprises on Fulfilling Corporate Social Responsibilities issued by SASAC, in order to protect the legitimate rights and interests of the employees through the continuous and effective operation and improvement of the system. The Company comprehensively classifies the existing rules, regulations and management archives according to the requirements of the SA8000 Social Accountability System, identifies the health and safety hazards, gives top priority to the physical and mental health of the employees, and establishes the occupation health and safety management system.

In 2016, all the sub-secondary subsidiaries subordinated to the Company finished the occupational health infrastructure and achieved the expected goals according to the requirements in the Occupational Health Infrastructure Inspection Appraisal Form of China National Pharmaceutical Group with the self-evaluation score of over 70 points. No employees were found suffering from occupational diseases in the Company or its subsidiaries in 2016.

Occupational health management

- ✓ Detect the occupational hazards at the workplace on a regular basis, erect signboards at the detection station, and record the detection result into the employees' occupational health archives.
- ✓ Install alarming devices at the poisonous and hazardous workplace susceptible to acute occupational hazards, and formulate emergency plans.
- ✓ Special persons shall be designated for the custody, regular inspection and maintenance of all the safety protection devices.
- ✓ On-site first-aid articles, equipment and protective articles shall be inspected and maintained on a regular basis to guarantee they are in normal conditions.

Notification and warning of occupational hazards

✓ Notify the workers of the possible occupational hazards, consequences and protective measures in work, and specify them in the labour contract.

✓ Publicize the occupational hazards, preventive and emergency measures among workers and related parties.

✓ Erect warning signboards and instructions for the posts with occupational hazards.

Report of occupational hazards

✓ The Company and its subsidiaries shall report the existing occupational hazards in the production promptly and faithfully to the local competent authority according to relevant Chinese regulations, and accept the supervision according to the law.

Management of protective articles for occupational hazards

✓ Provide protective articles for occupational hazards of employees in accordance with the Rules for Selection of Labour Protective Articles, Chinese standards for allocation of labour protective articles and relevant regulations.

✓ Conduct proper management of the purchase, inspection, custody, distribution, usage, replacement and scrapping of labour protective articles according to relevant Chinese regulations.

✓ Educate, urge and guide employees to wear and use the labour protective articles in a correct manner according to the usage instructions.

"Three Synchronizations" in the development of occupational health

✓ Entrust the qualified technical service organization for occupational health to conduct the pre-assessment of the new engineering construction projects with possible occupational hazards in the phase of feasibility demonstration.

✓ The construction unit shall entrust the qualified technical service organization for occupational health to conduct the assessment of the occupational hazard control effect before the completion inspection of the construction project according to relevant regulations.

✓ The protective facilities for occupational hazards shall be put into production and operation after they pass the inspection and obtain the approval document when completing inspection of the construction project.

Safety Management

The Company has formulated the Safety Management Standard Manual of Sinopharm Holding, specifying the contents, requirements, specifications, processes and measures of the production safety management of the Company and its subsidiaries in accordance with relevant laws and regulations such as the Production Safety Law of the People's Republic of China and the Interim Measures for the Supervision and Management of Production Safety of Central Enterprises, with the purpose of further strengthening the supervision and management of the production safety of the Company, fulfilling the safe production responsibilities of the enterprise, establishing the long-term mechanism for production safety, preventing and reducing safety accidents in the production, and guaranteeing the personal health and safety of employees and the masses. In response to the needs of production safety, the Company establishes the Production Safety Committee with a subordinate office as the daily agency.

The Company and its subsidiaries have established the production safety emergency management system, emergency management organization and team, formulated and continuously imporved the emergency plans, made on-site emergency proposals or measures for key posts and major hazard sources, set up the production safety emergency plan system, and carried out training and drilling on the emergency plans on a regular basis based on their actual situations according to the requirements in the Production Safety Law of the People's Republic of China, in order to strengthen the emergency management of the production safety.

In 2016, except the new companies and newly established logistics, 231 subsidiaries of the Company passed the safety standardization certification, and fully met the requirements on the implementation of the safety standardization of the Company. The Security Department of the Company's headquarters conducted the internal audit of the safety standardization in over 20 subsidiaries including Sinopharm Holding Gansu Co., Ltd., Sinopharm Holding Fujian Co., Ltd., Sinopharm Holding Shanxi Co., Ltd., and Sinopharm Group Southwest Medicine Co., Ltd., in order to guarantee the implementation of the safety standardization in the subsidiaries at all levels.

Case I The first 300 stores passed the safety standardization

At the beginning of 2016, Sinopharm Holding Guoda Drugstores Co., Ltd. required that the standardized safety management shall be outspread in the stores, and formulated the Basic Standards for the Safety Standardization of Guoda Drugstores (Trial Enterprise Standard). In early April, the Company officially issued the Standards and promoted the safety standardization in 300 stores of 25 subsidiaries, and all the subsidiaries organized employees to rectify hidden hazards as per relevant standards on the basis of further study of standards. Since the beginning of July, all the subsidiaries successively submitted the self-appraisal reports, confirming the first stores had passed the safety standardization.

Case II Formulation of the Guidance on Lab Safety Management

The Company attaches great importance to the safety management of the laboratory of the subsidiaries. It has established and improved the safety responsibility system of the laboratory with primary superintendents of the lab as the safety superintendents at all levels, and strengthened the safety management in strict accordance with the requirements of four preventions (prevention of fire, burglary, damage and public security disastrous accidents). In 2016, China National Pharmaceutical Group Chemical Reagent Co., Ltd. established a project team for the formulation of the Guidance for the Laboratory Safety Management, and initially determined the guidance for the safety culture, laws and regulations, safety of lab facilities, safe operation, safety knowledge of chemicals and lab safety assessment, in order to better guarantee the personal safety of the employees in the lab and strengthen the environmental protection.

Meanwhile, the Company also has strengthened the safety publicity and education, enhanced the safety consciousness of all the employees and improved the safety management level of the Company, in order to prevent the occurrence of accidents.

Case III Safety Publicity and Education

- Release the Brief News on Safety
  The Company has continuously promoted the development of safety culture. The Security Department issues the Brief News on Safety on a quarterly basis, which publishes the focus of safety work of the Group, safety activities of subsidiaries with outstanding achievements, safety protection technology, new laws, regulations and standards related to safety, and promptly acquaints employees with safety management requirements and safety information.

- Carry out "Safe Production Month Campaign"
  During China National Safe Production Month in June 2016, the Company organized all the subsidiaries to conduct the "six-one" activity with the theme of "strengthening the safe development consciousness and enhancing the safety quality", namely, one lecture with the theme of safe development, one delivery of safety warning education, one safety knowledge contest, one emergency drilling, one activity with the theme of "occupational health comes first in healthy China" and one activity with the theme of "taking photos of surrounding hidden hazards", which completely eliminated all the hidden hazards.

- Open the WeChat Official Account of "Sinopharm Holding Safety Man"
  In November 2016, the Company opened the WeChat official account of "Sinopharm Holding Safety Man", in order to facilitate and promote the sharing and dissemination of safety knowledge and continuously enhance the safety culture.

- "119" Fire Control Publicity Activity
  With the advent of the "119" publicity day, the Company conducted "119" fire control activities so as to further implement the fire safety policy of "prevention first and integration of prevention and control", strengthen the fire control publicity in all the subsidiaries, enhance the fire safety consciousness of all the employees, publicize the fire safety knowledge, and eliminate hidden fire safety hazards.

6. Development and Training

Employee Training

The Company always regards human resources as the core resources, and gives top priority to the cultivation and development of employees. Relevant training is offered in response to actual demands of different employees and various positions, following the strategy of the Company. It has formulated the Administrative Measures for Employee Training of Sinopharm Holding Co., Ltd., the Administrative Measures for the Credit System of Employee Training of Sinopharm Holding Co., Ltd., etc., and initially established a set of standardized training management system.

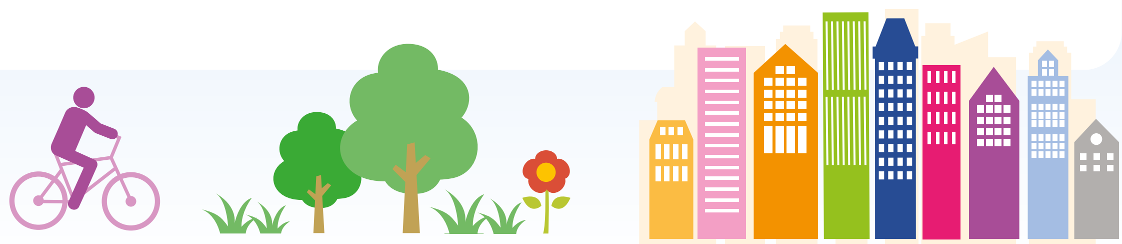
The Company provides training for employees in diversified forms such as on-site teaching, case sharing, on-line study and real-time interaction, and conducts multi-level training activities for the development of general ability, professional ability and management ability. Each year it organizes over 100 training programs for employees, which broadens the insight, enriches the knowledge, and fully enhances the competitiveness of the enterprise.

Case I Practical Training and Appraisal Base for Professional Skill Appraisal of Special Chemical Work

Sinopharm Group Chemical Reagent Co., Ltd. has established a detection center with a total value of nearly RMB10 million equipped with the Practical Training Center for Intermediate and Senior Analysts and Technicians, in response to the needs of construction of the chemical base. In 2016, the Detection Center was approved by the Practical Training Base for Professional Skill Appraisal of Special Chemical Work Shanghai Branch as the Practical Training and Appraisal Base for Professional Skill Appraisal of Special Chemical Work. The establishment of the Practical Training and Appraisal Base for Professional Skill Appraisal of Special Chemical Work will make greater contributions to the cultivation of talents with professional chemical technology and skills of Shanghai, the promotion of the overall quality of technical talents in the petroleum and chemical industry, and the enhancement of the local economic development.

Case II

Under the great support of the Company's leaders, the Company founded Sinopharm University in 2011, in order to provide large-scale standard and systematic training for employees, and cultivate pharmaceutical elites with international insight. The university has cultivated internal part-time lecturers by making full use of the wisdom and strength of the team, develops a series of Sinopharm-featured courses through the study of employee competency model, and created systematic training service products. After several years of exploration and practice, the Company has cultivated a professional and powerful internal and external faculty, continuously and efficiently providing training service for employees in the companies at all levels. Up till now, the university has provided training of all levels, categories and specialties for 313,650 trainees. It has also cooperated with key Chinese universities to jointly cultivate pharmaceutical students of the bachelor program.



Sinopharm University

University for Sinopharm People

- Sinopharm University Spark Program—Overall planning based on overall situation

  Since the Company has secondary and tertiary subsidiaries across the country, the university has established a nationwide training service network through the "Spark Program", and provided the training service including courses and overall training solutions following the service principle of "offering courses for subsidiaries".

- Sinopharm University Golden Sunflower Program—Cradle of Lecturers

  Since 2013, Sinopharm University Golden Sunflower Program has cultivated over 60 national lecturers and more than 200 provincial lecturers. The national lecturer team of Sinopharm University is an excellent lecturer team. In order to cultivate these future national lecturers, they shall undergo the promotion training camp lasting for three days a year which is called the "Tough Training Camp" in private.

- Sinopharm University Flying Eagle Purchase Training Camp—Purchase Talent Training Camp

  Flying Eagle Purchase Training Camp is a key training program jointly held by the Purchase Planning Department of the Company and Sinopharm University for the purchase directors and senior purchase managers of the Company in 2016, aiming to acquaint the purchase businessmen of subsidiaries with the purchase system knowledge, efficient management tool, the latest policy and information, and realize the efficient management of the daily purchase business.

On 12 November 2016, the first intermediate reserve talents seminar of Sinopharm Holding Yangzhou Co., Ltd. was formally opened, and Sinopharm University Spark Program was launched in the company. The Teacher Yang Xiongfei from Sinopharm University provided the training of Structural Thinking for the trainees, helping employees of Sinopharm Holding Yangzhou to have clearer thinking and more powerful expression in the operation and management.

The annual national lecturer training camp for the promotion of provincial lecturers was held as scheduled. 22 provincial lecturers from all over the country were receiving the three-day centralized training and assessment for day and night in the classroom with the light on.

More than 30 purchase directors and senior managers from the secondary and tertiary subsidiaries subordinate to Sinopharm Holding hurried to Shanghai from all over the country shortly after the Lantern Festival to attend the Phase I training course of the Flying Eagle Purchase Training Camp in Sinopharm University.

Evaluation and Promotion

The Company has adopted the performance evaluation system for all the employees ranging from grassroots employees to superintendents of departments of the Company and its subsidiaries. It has strived to establish a perfect performance evaluation mechanism with the annual operation and management goal decomposed level by level from top to bottom and realized the full coverage of the appraisal by enhancing the width and depth of the performance evaluation. It has formulated and improved performance evaluation methods, as well as scientifically and reasonably determined relevant indexes for employees at different positions with different responsibilities according to the type of business and characteristics of different development phases, following the overall operation goal and development strategy of the Company. Employees' opinions have been solicited for the evaluation of senior managers of subsidiaries at all levels, and the evaluation method, process and result will be made public within a certain scope for the supervision by employees.

In order to improve the leader promotion process, the Company has issued the Notification Concerning the Improvement of the Leader Selection and Appointment Process to its subsidiaries, explicitly specifying the leader selection and appointment method, selection procedures, approval and appointment formalities. In 2016, it revised the Market-oriented Labour System Scheme and established the market-oriented employment mechanism centered on the labour contract and based on the post management, with the aim to realize the strategic development goals of the Company in the 13th Five-year Plan period, expedite the development of professional managers, further optimize the HR management system and integrated development, and provide powerful human resource security for the sustainable and stable development of the Company.

7. Supply Chain Management

Adhering to the win-win cooperation concept, the Company makes concerted efforts with suppliers to build a collaborative development mechanism for mutual growth, mutual trust and mutual benefits, and create a safe and reliable green supply chain. It commits itself to establishing strategic partnership with suppliers to realize mutual progress and development, and powerful competitive advantages in the industry.

Code of Conduct of Suppliers

The Company not only abides by the laws and regulations, and bears relevant social responsibilities, but also plays an active role in promoting its partners to establish the social accountability management system and enhance the social accountability consciousness. It has entered into the Quality Assurance Agreement respectively with suppliers for medicines, other goods and services, stipulating that suppliers shall promise to fulfill the social responsibilities within the scope of contract, which promotes the fulfillment of social responsibilities by suppliers, and gives play to the leading role of the Company in the industry.

Supplier Management

The Company has implemented the strict and fair supplier admission procedures and assessment mechanism, and formulated the Management Regulations of New Enterprises, in order to review the legal compliance of manufacturers or operators those firstly engaged in pharmaceutical products and medical equipment, as well as the completeness, authenticity and validity of relevant data. ERP system has been adopted to maintain the information of suppliers, and strictly review any changes in the aforesaid information.

In order to improve the purchase business process, guarantee the purchased pharmaceutical products or medical equipment are produced or operated by legitimate enterprises, provide better service for suppliers, and build a good reputation, the Company has formulated the Purchase Management Regulations, explicitly stipulating the purchase plan, purchase order, purchase contract, supplier performance monitoring, confirmation of goods delivery, import commodity inspection, import custom clearance, etc.

The Company has formulated the supplier assessment standard the Management Regulations on the Re-appraisal of Qualified Suppliers, and conducted supplier assessment on a regular or irregular basis, in order to supervise suppliers to comply with quality, environmental protection and technology requirements, and continuously enhance the supply chain management level. All the subsidiaries of the Company conduct annual review of suppliers according to their actual situations on an annual basis, and list the suppliers that pass the review as qualified suppliers upon completion of review.

8. Anti-corruption

Perfect Anti-corruption Mechanism

The Company has established a perfect anti-corruption mechanism against corruption and advocacy of integrity in order to build an incorrupt, efficient and harmonious business environment, and prevent the possible bad practice in various operation and management activities.

Sign the Responsibility Statement of Improvement of Party Conduct and Government Integrity with Superintendents of Subsidiaries

Sinopharm Holding has formulated the Detailed Rules for Implementation of Incorruption of Enterprise Leaders, in order to enhance the incorruption of leaders at all levels, prevent the corruptive behavior and protect the interest of contributors. It has also signs the Responsibility Statement of Improvement of Party Conduct and Government Integrity with superintendents of subsidiaries.

Sign the Letter of Commitment of Operation Compliance with Subsidiaries

Sinopharm Holding has entered into the Letter of Commitment of Operation Compliance with its subsidiaries, and established the compliance management working team, in order to inspect the corruption and operation compliance of the subsidiaries, include the compliance inspection in the audit work, further lift the minimum requirements on compliance, and promote the establishment of long-term mechanism of operation compliance.

Formulate the Punishment Regulations on Employees' Violation of Discipline

In order to rigorously enforce economic discipline, standardize the employees' behavior, and guarantee the implementation of various systems of the Company, Sinopharm Holding has formulated the Punishment Regulations on Employees' Violation of Discipline, clearly stipulating the behavior violating the financial system, human resource system, quality management system, safety and environmental protection management, and the punishment procedures and modes for such behaviors.

Transparent Reporting Platform

The Company has established and improved the supervision and restriction mechanism in accordance with the Several Regulations on the Incorruption of Leaders of State-owned Enterprises of SASAC of the State Council and the Implementation Outline for the Establishment and Perfection of Corruption Punishment and Prevention System of CPC Central Commission for Discipline Inspection, and the departments such as Discipline Inspection Office, Audit Department, have fully cracked down upon the corruption through the acceptance of complaint letters, visits and reports, internal audit, supervision and inspection. The Company and its subsidiaries also have actively dealt with the feedback from its employees, social citizens, legal person and other organizations received via the reporting hotline and email.

"Eight Regulations" of Incorruption

The Party Committee of the Company has formulated the Detailed Rules of Sinopharm Holding for the Implementation of Eight Regulations of the Central Committee Concerning the Improvement of Working Style for Closer Ties with the Masses according to actual situation of the Company, in order to further improve and implement the requirements of the "Eight Regulations" of the Political Bureau of the Central Committee on the improvement of the working style for closer ties with the masses, improve the working style, keep close ties with the masses, serve the employees, establish a good team image, and promote the development of the Company.

Improve research work	Simplify the meeting	Simplify the document and bulletin
• Understand actual situations among the grassroots • Sufficient preparations and full implementation • Simplify the reception • Reduce the accompanying persons	• Control the number of meetings • Establish the meeting approval system • Control the meeting scale and duration • Control the meeting expenditure	• Reduce various documents and bulletins • Improve the quality of high-grade bulletins • Enhance the timeliness

Improve news propaganda	Be diligent and thrifty	Supervise and urge the implementation
• Standardize and improve the news propaganda • Strengthen the communication with the public • Make public the information	• Strictly implement benefit standards • Strengthen the management of business trips abroad • Strictly control entertainment expenses	• Take the lead in the implementation • Make rigid restraints with regulations • Strengthen the inspection

Incorruption and Self-discipline Publicity and Education

Incorruption and self-discipline publicity and education conducted by the Company in 2016

Open the official account of "Collection of Legal Information"	According to the industrial characteristics and cultural quality, the Company has opened the official account of "Collection of Legal Information" to push the legal information in the form of news, comment and comic, and promote the development of legal culture, which wins the extensive recognition and becomes the benchmark in the development of the culture of rule by law and the corporate culture of the Company.
Launch the legal micro-course	The Legal Compliance Department of the Company has launched 10 legal micro-courses, disseminating practical knowledge of laws with short videos and vividly revealing the necessity of the enterprise governance by law.
Special report on "Incorruption, Self-discipline and Prevention of Power Trap"	In April 2016, the Party Committee of the Company held the national special video seminar on incorruption and self-discipline in Shanghai, during which Professor Liu Honglin from Shanghai Municipal Party Committee Party School was specially invited to give a special report entitled "Incorruption, Self-discipline and Prevention of Power Trap". The Party leaders further recognized the severe situation of the power dissimilation, corruption combat and advocacy of integrity, and realized that an "incorrupt Sinopharm" can only be built by continuously enhancing the consciousness of incorruption and self-discipline, and effectively preventing the direct and indirect power traps.
Hold the special video seminar on the interpretations of the spirits of "July 1st"speech made by the General Secretary Xi Jinping	In October 2016, the Party Committee of the Company held the special video seminar on the interpretations of the spirits of "July 1st"speech made by the General Secretary Xi Jinping in Shanghai, during which Dr. Li Peng from the Institute for Studies of Socialism with Chinese Characteristics of China Executive Leadership Academy Pudong explained the important statement of "Stay True to The Missions and Keep Moving" made by the General Secretary Xi Jinping with simple language, and the deep understanding of the eternal struggle and natural kindness of Party members.

9. Giving Back to the Society

The Company attaches great importance to public welfare activities, giving back to the society, while focusing on the production, operation and economic benefits. It has released and continuously improved relevant policies in support for the public welfare activities conducted by all the subsidiaries such as the donation to the disaster area, voluntary diagnosis and treatment, education support, and poverty relief, and actively supervised and urged internal departments and subsidiaries of the Company to fulfill the due social responsibilities.

Voluntary Medical Treatment

The Company not only engages in the donation to public welfare undertakings, but also carries out voluntary diagnosis, donation of medical supplies and blood donation without payment by making use of its own advantages, in order to make contributions to the improvement of medical treatment and health conditions of the masses. In March 2016, Sinopharm Holding Guoda Drugstores Co., Ltd. participated in the publicity and consulting activity of 2016 “3.15 International Consumer Rights Day”, providing complimentary services for citizens such as measurement of blood pressure, blood glucose, body composition, bone mineral density, micro-circulation and blood oxygen saturation, recycling of expired medicines and consultancy by professional pharmacist. In April 2016, Sinopharm Holding Shenyang Co., Ltd. cooperated with Shenyang He’s Ophthalmic Hospital to hold the voluntary diagnosis and examination of “Sinopharm Holding Shenyang Provides Medical Service for the Residential Area” in Shenyang Station Residential Area on Taiyuan Street. In October 2016, Sinopharm Holding Distribution Co., Ltd. dispatched 35 employees to hold large-scale voluntary diagnosis for skin diseases at the Central Hospital of Lankao County, Henan Province, providing diagnosis for 350 patients and giving 271 prescriptions.

On 15 April, the Party Committee of Sinopharm Holding Shenyang Co., Ltd. cooperated with Shenyang He’s Ophthalmic Hospital to hold the voluntary diagnosis and examination of “Sinopharm Holding Shenyang Provides Medical Service for the Residential Area” in Shenyang Station Residential Area on Taiyuan Street. One of the residents coming for examination suffered from severe cataract but didn’t receive the surgical treatment due to poverty, so the Company applied to He’s Ophthalmic Hospital for free Cataract surgery.

Large-scale voluntary diagnosis for skin diseases.

On the morning of 7 October 2016, Kong Xuedong, the Executive Deputy General Manager of Sinopharm Holding Distribution Co., Ltd., led 35 employees to hold large-scale voluntary diagnosis for skin diseases at the Central Hospital of Lankao County, Henan Province, providing diagnosis for 350 patients and giving 271 prescriptions.

Concern for the Disaster Areas

Following the cultural tent of "caring for life and attending to health", the Company actively fulfills the social responsibilities as a central enterprise. Over years it gives back to the society and brings benefits to the people in various forms. Especially when severe natural disasters occur, the Company initiated all the employees to actively participate in the first aid and make contributions to the people in the disaster areas.

Sinopharm Holdings Shenyang provides medical service for the residential area.

Case I

In June 2016, great tornado and hail burst out in some areas in Funing County and Sheyang County, Yancheng City, Jiangsu Province. Afterwards, Sinopharm Holding Yancheng Co., Ltd. rapidly transported emergency aid medicines and materials to the disaster area, and its employees also made spontaneous donations, and actively participated in the emergency aid.

Case II

In July 2016, Hebei Province suffered from heavy storms, requiring urgent flood prevention and disaster relief. In active response to the requirements in the Emergency Notification Concerning the Support of Emergency Health Supplies for Flood Prevention and Disaster Relief issued by the Health and Family Planning Commission of Hubei Province, Sinopharm Holding Hubei Co., Ltd. rapidly established the flood prevention emergency response team composed of the Manager Office, Public Affairs Department, Purchase Department, Instrument Department, Logistics Department, Retail Center and all the subsidiaries, and built "green channel" inside the Company to rapidly purchase emergency materials worth RMB3,000,000 of 42 varieties and 25 categories as the reserve. Meanwhile, the Logistics Center of Sinopharm Holding Hubei Co., Ltd. negotiated with the carrier about the emergency response plan to actively overcome the extremely adverse climate and distribute materials. 14 subsidiaries from 17 cities in the province made rapid response to transport materials to the disaster area, in order to guarantee the emergency health materials for flood prevention and disaster relief can arrive at the disaster area promptly.

Poverty Relief

The Company not only strives to realize further development, but also actively gives back to the society. It actively participates in the construction of local residential areas, fulfills its social responsibilities, cares about the hardship of employees in difficulty, and eliminates the difficulty and trouble for them by making use of its own fund, manpower and technology. Over the past decade, the Party Committee of the Company has integrated the assistance in pairs in Fujun Village with the in-depth development of Party grassroots organization and the enhancement of the fulfillment of social responsibilities by enterprises, spared no effort in implementing the contents of assistance, given full play to the role of the Party organizations in the Company and all the subsidiaries in Shanghai, fully mobilized the Party members and leaders to actively participate in the assistance in pairs according to the unified deployment of the Municipal Commission of Social Workers in active response to the appeal of the Municipal Party Committee, which has realized outstanding achievements, and won the unanimous recognition and praise from the villagers. The Company also encourages its subsidiaries to actively fulfill social responsibilities. In January 2016, Sinopharm Holding Beijing Tianxingpuxin BioMed Co., Ltd. carried out the “philanthropic donation to help the needy employees in Beijing City”, in active response to the appeal of the Labour Union in Fengtai District of Beijing.

Meanwhile, in order to help more poor students excellent in both character and learning finish their study, and step closer to their dreams, the Company has always been providing financial aids for students for years. The Company has initiated a “philanthropic assistance for students” charity program of Sinopharm Holding jointly with Shanghai Charity Foundation Jing’an District Branch, in order to sponsor students excellent in both character and learning from poor families with low income and minimum living standard in Jing’an District. By the end of 2016, the program had sponsored more than 70 students.

Independent Auditor's Report

To the shareholders of Sinopharm Group Co. Ltd.
(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 110 to 244, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
The carrying value of goodwill amounted to RMB3,835 million as at 31 December 2016 and was allocated to the Group's cash-generating units ("CGUs") of pharmaceutical distribution, retail pharmacy and other business segments. Under HKFRSs, the Group is required to annually perform the impairment test for goodwill. The impairment test is based on the recoverable amount of the respective CGUs to which the goodwill is allocated. Management performed the impairment test using the value in use calculation based on the discounted cash flow method. Assumptions such as the discount rate and the growth rate are set up applying estimates and significant judgements by management. The Group's disclosures about impairment of goodwill are included in note 17 "Intangible assets" to the financial statements, which specifically explains the key assumptions that management used for value-in-use calculations.	Our audit procedures included, involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and the long term growth rate. We assessed the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We also read and assessed the Group's disclosures of goodwill.
De facto control over China National Medicines Co., Ltd. ("National Medicines")	
The Company's directors and the Group's management are of the view that the Group had rights to variable returns from its involvement with National Medicines and had the ability to affect those returns through its power over National Medicines although the Group held less than 50% of its equity interests. Accordingly, the Group had control over National Medicines and National Medicines was consolidated in the consolidated financial statements of the Group. National Medicines takes material portion to the consolidated financial statements. The assessment of control is complex and involves significant judgement of management. The Group's disclosures about de facto control over National Medicines are included in note 4 "Critical accounting estimates and judgements" to the financial statements, which specifically explains the key judgement that management used for the assessment.	We evaluated the analysis prepared by management for the assessment of the Group's de facto control over National Medicines, and reviewed whether all the elements of control defined in HKFRS10 had been considered. We examined the associated legal documents and other records supporting this judgement. We also read and assessed the relevant disclosures made in the financial statements, including disclosures of the basis for this judgement.

Key audit matters (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Impairment of trade receivables	
At as 31 December 2016, the Group had trade receivables of RMB70,045 million, for which impairment of RMB799 million was recorded. The assessment of impairment involves management's judgement and estimates. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either individually or collectively. We focused on this area because it requires significant management's judgement and estimates. The Group's disclosures about impairment of trade receivables are included in note 26 "Trade receivables" to the financial statements.	Our audit procedures included, evaluating the analysis prepared by management for the impairment assessment. In assessing the overall provision for impairment, we assessed management's policy for recognising provisions. We selected samples of individually significant trade receivable balances where a provision for impairment of trade receivables was recognised and obtained an understanding of the rationale behind management's judgement. We reviewed the overdue analysis, the customer's historical payment patterns and subsequent payments. We assessed the ageing reports of trade receivables, by tracing to the invoice dates on a sample basis. We also read and assessed the relevant disclosures made in the financial statements, including disclosures of the basis for this estimation.

Other information included in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong

24 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Revenue	5,6	**258,387,689**	228,672,929
Cost of sales	9	**(237,717,016)**	(209,952,616)
Gross profit		**20,670,673**	18,720,313
Other income	7	**272,285**	243,730
Selling and distribution expenses	9	**(6,618,858)**	(6,024,832)
Administrative expenses	9	**(4,110,380)**	(3,711,888)
Operating profit		**10,213,720**	9,227,323
Other gains – net	8	**410,732**	64,596
Finance income		**291,010**	243,258
Finance costs		**(2,222,830)**	(2,231,064)
Finance costs – net	11	**(1,931,820)**	(1,987,806)
Share of profits and losses of:			
Associates	19	**232,190**	165,060
Profit before tax		**8,924,822**	7,469,173
Income tax expense	12	**(2,033,227)**	(1,728,264)
Profit for the year		**6,891,595**	5,740,909
Attributable to:			
Owners of the parent		**4,647,344**	3,772,222
Non-controlling interests		**2,244,251**	1,968,687
		6,891,595	5,740,909
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	13	**1.68**	1.36
– Diluted	13	**1.68**	1.36

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Profit for the year		**6,891,595**	5,740,909
Other comprehensive income:			
Other comprehensive income not be reclassified to profit or loss in subsequent periods			
Remeasurements of post-employment benefit obligations	12	**10,110**	(33,788)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Available-for-sale investments:			
Changes in fair value, net of tax	12	**(7,613)**	29,905
Exchange differences	12	**(17,839)**	4,660
Share of other comprehensive income of associates	12	**(1,507)**	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(26,959)**	34,565
Other comprehensive income for the year, net of tax		**(16,849)**	777
Total comprehensive income for the year		**6,874,746**	5,741,686
Attributable to:			
Owners of the parent		**4,630,998**	3,767,444
Non-controlling interests		**2,243,748**	1,974,242
		6,874,746	5,741,686

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
ASSETS			
Non-current assets			
Prepaid land lease payments	14	**1,328,555**	1,489,897
Investment properties	15	**407,552**	393,872
Property, plant and equipment	16	**6,752,464**	7,642,496
Intangible assets	17	**6,282,772**	6,722,725
Investment in a joint venture		**2,940**	–
Investments in associates	19	**3,327,990**	1,133,444
Available-for-sale investments	21	**461,980**	322,247
Finance lease receivables	22	**3,788,098**	1,550,131
Deferred tax assets	23	**791,208**	646,627
Other non-current assets	24	**1,808,312**	1,628,387
Total non-current assets		**24,951,871**	21,529,826
Current assets			
Inventories	25	**25,759,525**	22,553,244
Trade receivables	26	**69,245,421**	65,032,756
Prepayments and other receivables	27	**5,677,916**	5,393,743
Available-for-sale investments	21	**5,468**	2,069
Finance lease receivables	22	**1,480,990**	349,720
Pledged deposits and restricted cash	28	**5,017,640**	4,602,286
Cash and cash equivalents	28	**25,572,759**	19,966,052
Total current assets		**132,759,719**	117,899,870
Total assets		**157,711,590**	139,429,696
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**2,767,095**	2,767,095
Reserves	30	**29,043,833**	27,343,215
		31,810,928	30,110,310
Non-controlling interests		**12,721,508**	10,768,367
Total equity		**44,532,436**	40,878,677

The accompanying notes are an integral part of these financial statements.

	Note	2016 RMB'000	2015 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings	31	**11,135,299**	608,195
Deferred tax liabilities	23	**601,328**	692,619
Post-employment benefit obligations	32	**518,353**	553,912
Other non-current liabilities	33	**1,186,815**	1,074,527
Total non-current liabilities		**13,441,795**	2,929,253
Current liabilities			
Trade payables	34	**66,745,815**	59,563,296
Accruals and other payables	35	**9,679,585**	7,022,722
Dividends payable		**93,770**	93,022
Tax payable		**855,611**	587,443
Interest-bearing bank and other borrowings	31	**22,362,578**	28,355,283
Total current liabilities		**99,737,359**	95,621,766
Total liabilities		**113,179,154**	98,551,019
Total equity and liabilities		**157,711,590**	139,429,696

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 24 March 2017 and were signed on its behalf by

Li Zhiming
Director

Tan Wee Seng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Attributable to owners of the parent				
	Note	Share capital RMB'000 (Note 29)	Reserves RMB'000 (Note 30)	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
As at 1 January 2015						
As previously reported		2,767,095	24,614,772	27,381,867	8,907,762	36,289,629
Business combinations under common control	41(c)	–	54,914	54,914	153,565	208,479
As at 1 January 2015 (Restated)		2,767,095	24,669,686	27,436,781	9,061,327	36,498,108
Total comprehensive income		–	3,767,444	3,767,444	1,974,242	5,741,686
Effects of transactions with non-controlling interests		–	(241,318)	(241,318)	18,413	(222,905)
Capital injection from non-controlling shareholders of subsidiaries		–	–	–	120,997	120,997
Acquisition of subsidiaries		–	–	–	143,169	143,169
Dividends paid to non-controlling interests		–	–	–	(545,206)	(545,206)
Dividend declared		–	(857,799)	(857,799)	–	(857,799)
Others		–	5,202	5,202	(4,575)	627
As at 31 December 2015 (Restated)	41(c)	2,767,095	27,343,215	30,110,310	10,768,367	40,878,677
Total comprehensive income		**–**	**4,630,998**	**4,630,998**	**2,243,748**	**6,874,746**
Effects of transactions with non-controlling interests	40	**–**	**(1,176,180)**	**(1,176,180)**	**(390,162)**	**(1,566,342)**
Capital injection from non-controlling shareholders of subsidiaries		**–**	**–**	**–**	**344,875**	**344,875**
Acquisition of subsidiaries		**–**	**–**	**–**	**4,304**	**4,304**
Disposal of subsidiaries		**–**	**–**	**–**	**(172,860)**	**(172,860)**
Equity-settled share incentive scheme		**–**	**3,359**	**3,359**	**514**	**3,873**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**(480,291)**	**(480,291)**
Dividend declared		**–**	**(1,134,509)**	**(1,134,509)**	**–**	**(1,134,509)**
Assets restructuring	39	**–**	**(596,589)**	**(596,589)**	**411,901**	**(184,688)**
Others		**–**	**(26,461)**	**(26,461)**	**(8,888)**	**(35,349)**
As at 31 December 2016		**2,767,095**	**29,043,833**	**31,810,928**	**12,721,508**	**44,532,436**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations	37	**11,303,860**	15,205,206
Income tax paid		**(2,045,896)**	(1,792,873)
Net cash generated from operating activities		**9,257,964**	13,412,333
Cash flows from investing activities:			
Proceeds from disposal of prepaid land lease payments		**28,418**	–
Proceeds from disposal of property, plant and equipment		**324,064**	67,719
Proceeds from disposal of available-for-sale investments		**1,370**	116,533
Proceeds from disposal of investment properties		**3,309**	4,327
Interest received from long-term deposits		**66,829**	71,318
Disposal of subsidiaries, net of cash disposed of	41	**165,245**	(1,134)
Dividends received from associates		**104,921**	91,907
Dividends received from available-for-sale investments		**16,712**	13,030
Prepayment for acquisition		**–**	(5,880)
Payment for investment in an associate		**(75,259)**	–
Payments of prepaid land lease payments		**(16,967)**	(63,707)
Purchase of property, plant and equipment		**(1,211,734)**	(1,020,819)
Purchase of intangible assets		**(135,135)**	(212,963)
Purchase of investment properties		**(359)**	–
Repayments/(payments) of long-term deposits		**55,675**	(1,616)
Acquisition of available-for-sale investments		**(9,163)**	(8,425)
Acquisition of subsidiaries, net of cash acquired	41	**(19,154)**	(202,421)
Consideration paid for prior year acquisition of subsidiaries		**(210,882)**	(41,834)
Acquisition of associates		**(276,050)**	(109,003)
Acquisition of a joint venture		**(2,940)**	–
Increase in restricted cash	28	**(415,354)**	(340,354)
Net cash used in investing activities		**(1,606,454)**	(1,643,322)

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Cash flows from financing activities:			
Proceeds from borrowings from banks		**26,884,853**	33,599,283
Proceeds from borrowings from a related party		**20,000**	128,600
Proceeds from borrowings from other financial institutions		**699,000**	645,000
Repayments of borrowings from banks		**(25,527,678)**	(40,456,142)
Repayments of borrowings from a related party		**(52,000)**	–
Repayments of borrowings from other financial institutions		**(672,665)**	(600,000)
Repayments of bonds		**(14,000,000)**	(6,000,000)
Proceeds from issue of bonds		**14,973,982**	8,989,375
Capital injections from non-controlling shareholders of subsidiaries		**613,019**	120,997
Assets restructuring		**(416,463)**	–
Dividends paid to owners of the parent of the Company		**(1,134,509)**	(857,799)
Dividends paid to non-controlling shareholders of subsidiaries		**(478,626)**	(534,998)
Acquisition of non-controlling interests		**(941,801)**	(222,905)
Interest paid		**(1,994,076)**	(1,971,162)
Net cash used in financing activities		**(2,026,964)**	(7,159,751)
Increase in cash and cash equivalents		**5,624,546**	4,609,260
Cash and cash equivalents at beginning of year	28	**19,966,052**	15,305,984
Effect of foreign exchange rate changes, net		**(17,839)**	50,808
Cash and cash equivalents at end of year	28	**25,572,759**	19,966,052

The accompanying notes are an integral part of these financial statements.

1. General information

Sinopharm Group Co. Ltd. (the "Company") was incorporated in the People's Republic of China (the "PRC") on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares ("H Shares"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 23 September 2009.

The address of the Company's registered office is 221 Fuzhou Road, Huangpu District, Shanghai, the PRC.

The Company and its subsidiaries (together, the "Group") are mainly engaged in: (1) the distribution of medicines, medical device and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics, (2) the operation of pharmaceutical chain stores, and (3) the distribution of laboratory supplies, manufacture and distribution of chemical reagents.

The ultimate holding company of the Company is China National Pharmaceutical Group Corporation ("CNPGC"), which was incorporated in the PRC.

These financial statements are presented in Renminbi ("RMB") thousand, unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 24 March 2017.

2. Summary of significant accounting policies

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

(1) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of available-for-sale investments which have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- the materiality requirements in HKAS 1;
- that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements; and
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) New and revised HKFRSs adopted by the Group (continued)

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

(ii) Issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

(2) Subsidiaries

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

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

(i) Business combinations not under common control

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

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

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

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

(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

(ii) Merger accounting for common control combinations (continued)

The consolidated statement of profit or loss include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter year, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous financial year end or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

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

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

(iv) Disposal of subsidiaries

Other than the assets restructuring mentioned in note 39, if the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(v) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

(v) Goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

(vi) Separate financial statements

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

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

(3) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

2. Summary of significant accounting policies (continued)

(3) Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(4) Segment reporting

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

(5) Foreign currency translation

(i) Functional and presentation currency

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

2. Summary of significant accounting policies (continued)

(5) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within finance income or costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within other gains – net.

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

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

(iii) Group companies

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

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of financial year end;

(b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from translation of net investments in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

2. Summary of significant accounting policies (continued)

(6) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statement of profit or loss during the year in which they are incurred.

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

Buildings	20-40 years
Plant and machinery	8-15 years
Motor vehicles	4-8 years
Furniture, fittings and equipment	3-8 years

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains – net, in the consolidated statement of profit or loss.

(7) Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

The land component of leasehold investment property is accounted for as a prepaid land lease payment.

The building component of investment properties is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 25 to 50 years.

2. Summary of significant accounting policies (continued)

(7) Investment property (continued)

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each financial year end. The effects of any revision are included in the statement of profit or loss when the changes arise.

(8) Prepaid land lease payments

Prepaid land lease payments are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost represents the consideration paid for the rights to use the land for years ranging from 40 to 50 years. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the year of the rights.

(9) Intangible assets other than goodwill

(i) Sales network

Sales network represents customer relationship and distribution channels acquired in business combinations, which are recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 9 to 20 years.

(ii) Trademarks and patent rights

Separately acquired trademarks are shown at historical cost. Trademarks acquired in business combinations are recognised at fair value at the acquisition date. Trademarks with a finite useful life are amortised using the straight-line method over their estimated useful lives of 5 to 20 years. Trademarks with an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Patent rights are initially recorded at cost and are amortised using the straight-line method over the estimated useful lives of 5 to 15 years.

(iii) Exclusive distribution rights

Exclusive distribution rights are measured initially at cost and amortised using the straight-line method over their useful life of 10 years according to the contracts.

(iv) Favourable leasing rights

Favourable leasing rights acquired in business combinations are recognised at fair value at the acquisition date and are amortised using the straight-line method over 17 to 20 years.

(v) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 10 years.

2. Summary of significant accounting policies (continued)

(9) Intangible assets other than goodwill (continued)

(vi) Internally generated product development cost

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset upon the completion of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the product development phase is recognised as intangible asset only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- there is an ability to use or sell the product development result;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as intangible asset in the statement of financial position.

Internally generated product development costs recognised as assets are amortised over their estimated useful lives of 3 to 5 years.

The assets' useful lives are reviewed, and adjusted if appropriate, at each financial year end.

(10) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee, other than legal title, are accounted for as finance leases. When the Group is a lessor under a finance lease, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as finance lease receivable. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present values is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

2. Summary of significant accounting policies (continued)

(10) Leases (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

(11) Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. Summary of significant accounting policies (continued)

(12) Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(13) Financial assets

Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the financial year end. These are classified as non-current assets. The Group's loans and receivables comprise finance lease receivables, trade and other receivables, pledged bank deposits and cash and cash equivalents in the statement of financial position.

(ii) Available-for-sale investments

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

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated statement of profit or loss as other gains.

2. Summary of significant accounting policies (continued)

(13) Financial assets (continued)

Recognition and measurement (continued)

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

Derecognition of financial assets

A financial asset is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(14) Impairment of financial assets

(i) Assets carried at amortised cost

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

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

2. Summary of significant accounting policies (continued)

(14) Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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

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

(ii) Assets classified as available for sale

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

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

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

(15) Inventories

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

2. Summary of significant accounting policies (continued)

(16) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets; otherwise, they are presented as non-current assets.

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

(17) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and seperate statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(18) Share capital

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

(19) Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(20) Trade payables

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

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

(21) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

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

2. Summary of significant accounting policies (continued)

(22) Borrowing costs

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

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

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

(23) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

(24) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(25) Current and deferred income tax

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

(i) Current income tax

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

2. Summary of significant accounting policies (continued)

(25) Current and deferred income tax (continued)

(ii) Deferred income tax

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

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

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

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

(iii) Offsetting

Deferred 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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(26) Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

2. Summary of significant accounting policies (continued)

(26) Employee benefits (continued)

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of the RMB denominated (the currency in which the benefits will be paid) PRC government bonds, and that have terms to maturity approximating to the terms of the related pension obligation.

The current service cost of the defined benefit plan, recognised in the statement of profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(a) Other post-employment obligations

Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

2. Summary of significant accounting policies (continued)

(26) Employee benefits (continued)

(b) Termination benefits

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

(c) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(27) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

2. Summary of significant accounting policies (continued)

(28) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods – pharmaceutical distribution

The Group sells a range of medicine, pharmaceutical and other products in the wholesale market. Sales of goods are recognised when a group entity has delivered products to the wholesaler (including hospital and distributor), the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Medicine products are often sold with volume discounts. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts at the time of sale. Accumulated experience is used to estimate and provide for the discounts. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with credit terms of 30 to 180 days, which is consistent with the market practice.

(ii) Sales of goods – retail pharmacy

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

(iii) Sales of services

The Group provides import agency service, consulting service and other miscellaneous services. Revenue from fixed-price contracts for delivering services is recognised in the year when the services are provided.

(iv) Operating lease income

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

2. Summary of significant accounting policies (continued)

(28) Revenue recognition (continued)

(v) Finance lease income

Finance lease income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

(vi) Franchise income

Franchise income is recognised as revenue when all material services relating to the contract have been substantially performed.

(vii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the investment, and continues unwinding the discount as interest income.

(viii) Dividend income

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

(29) Government grants

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

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the year necessary to match them with the costs that they are intended to compensate.

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

(30) Dividend distribution

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

(31) Share-based payments

The Company operates a share incentive scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Asian Options model, further details of which are given in note 46 to the financial statements.

2. Summary of significant accounting policies (continued)

(31) Share-based payments (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2. Summary of significant accounting policies (continued)

(32) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. Financial risk management

(1) Financial risk factors

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

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(i) Foreign currency risk

The Group mainly operates in the PRC with most of the Group's transactions denominated and settled in RMB. However, the Group has certain cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, mainly United States dollars ("USD"), Hong Kong dollars ("HKD") and Euro ("EUR"), which are exposed to foreign currency translation risk. The Group has not hedged its foreign currency risk.

As at 31 December 2016, if RMB had strengthened/weakened by 10% against USD, HKD and EUR with all other variables held constant, post-tax profit for the year ended 31 December 2016 would have been approximately RMB32,708 thousand (2015: RMB37,058 thousand) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD, HKD and EUR-denominated cash and cash equivalents, borrowings from banks and other financial institutions and trade payables.

(ii) Fair value and cash flow interest rate risk

Except for deposits in banks or other financial institutions and finance lease receivables which earn interest at floating rates (Note 28), the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

As at 31 December 2016, if interest rates on deposits in banks or other financial institution and finance lease receivables had been 15% higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2016 would have been RMB32,739 thousand (2015: RMB27,367 thousand) higher/lower, mainly as a result of higher/lower interest income on cash at banks or other financial institutions and finance lease income.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2016, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2016 would have been RMB73,167 thousand (2015: RMB59,882 thousand) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

(iii) Credit risk

The carrying amounts of finance lease receivables, pledged bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Credit terms are approved after credit evaluations/reviews. The majority of trade receivables are with customers having an appropriate credit history.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

The Group has policies to place its cash and cash equivalents only with major financial institutions and other financial institutions controlled by CNPGC. As at 31 December 2016, most of the restricted bank deposits and cash and cash equivalents were deposited with major financial institutions in Mainland China and Hong Kong except the deposit placed in a related party as disclosed in Note 42.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, discounting of bank acceptance notes to banks or other financial institutions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

At the reporting date, the Group held cash and cash equivalents of RMB25,572,759 thousand (2015: RMB19,966,052 thousand) (Note 28) and trade receivables of RMB69,245,421 thousand (2015: RMB65,032,756 thousand) (Note 26) that are expected to readily generate cash inflows for managing liquidity risk. The Group also has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks or other financial institutions with effective interest rates ranging from 2.74% to 4.06% per annum.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iv) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2016					
Interest-bearing bank and other borrowings	**23,221,521**	**5,476,312**	**6,026,970**	**–**	**34,724,803**
Trade and other payables	**74,359,360**	**–**	**–**	**–**	**74,359,360**
Dividends payable	**93,770**	**–**	**–**	**–**	**93,770**
Other non-current liabilities	**–**	**313,672**	**19,617**	**–**	**333,289**
	97,674,651	**5,789,984**	**6,046,587**	**–**	**109,511,222**
As at 31 December 2015					
Interest-bearing bank and other borrowings	28,736,142	270,750	336,173	43,367	29,386,432
Trade and other payables	64,678,563	–	–	–	64,678,563
Dividends payable	93,022	–	–	–	93,022
Other non-current liabilities	–	567	13,572	135,878	150,017
	93,507,727	271,317	349,745	179,245	94,308,034

Note: The calculation of expected interest to be paid is based on borrowings as at 31 December 2016 and 2015 and the interest rate as at 31 December 2016 and 2015.

(2) Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the total liabilities divided by the total assets.

3. Financial risk management (continued)

(2) Capital risk management (continued)

The gearing ratios are as follows:

	2016 RMB'000	2015 RMB'000
Total liabilities	**113,179,154**	98,551,019
Total assets	**157,711,590**	139,429,696
Gearing ratio	**71.76%**	70.68%

(3) Fair value estimation

The table below analyses financial instruments carried at fair value, by the 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 table below presents the Group's assets and liabilities that are measured at fair value at 31 December 2016 and 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2016				
Available-for-sale investments	**74,000**	**4,570**	**148,821**	**227,391**
At 31 December 2015				
Available-for-sale investments	80,751	4,570	–	85,321

3. Financial risk management (continued)

(3) Fair value estimation (continued)

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market is determined 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 inputs that are significant to fair value measurement are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

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

During the year, there were no transfers of financial assets between level 1 and level 2.

(iii) Financial instruments in level 3

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

The available-for-sale investments in level 3 represented asset-backed securities. As at 31 December 2016, the Group invested in asset-backed securities which were issued by special purpose trusts. The Group entered into securitisation transactions in the normal course of business by transferring lease and accounts receivable to special purpose trusts which in turn issued asset-backed securities to investors. The Group acquired some subordinated tranches of securities and accordingly parts of the risks and rewards of the transferred credit assets.

As at 31 December 2016, the Group continued to involve in the asset-back securities transactions to some extent. The Group continued to recognise the relevant assets amounting to RMB263,834 thousand (Note 24). The associated liabilities were RMB263,834 thousand (Note 33) which represented the maximum cash flows exposure due to the subordinated tranches of securities held by the Group, and its secondary earnings appropriation.

4. Critical accounting estimates and judgements

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

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

(1) De facto control over National Medicines

The Company's directors and the Group's management are of the view that the Group has rights to variable returns from its involvement with National Medicines and has the ability to affect those returns through its power over National Medicines although the Group held less than 50% of its equity interests since August 2006, after considering that (1) the Company has been the single largest shareholder of National Medicines; (2) the shareholding in National Medicines was dispersed and the other top ten shareholders held less than 3% equity interests individually or less than 16% in aggregate; (3) the participation of the other shareholders at the shareholders' meetings has been relatively low and passive; and (4) the majority of the executive directors of National Medicines were representatives of the Company.

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

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future years.

(3) Useful lives of sales network, trademarks and patent rights

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

4. Critical accounting estimates and judgements (continued)

(4) Impairment of property, plant and equipment and prepaid land lease payments

Property, plant and equipment and prepaid land lease payments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

(5) Impairment of receivables

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

(6) Net realisable value of inventories

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

(7) Income taxes and deferred income tax

The Group is subject to income taxes in Mainland China and Hong Kong jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the year in which such estimates are changed.

4. Critical accounting estimates and judgements (continued)

(8) Post-employment benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of PRC government bonds that are denominated in RMB (the currency in which the benefits will be paid), and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are partially based on current market conditions. Additional information is disclosed in Note 32.

(9) Impairment of goodwill and trademarks with an indefinite useful life

The Group tests annually whether goodwill and trademarks with an indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

5. Segment information

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the CEO and the executives at the CEO office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

(i) Pharmaceutical distribution – distribution of medicine, medical instruments and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics;

(ii) Retail pharmacy – operation of medicine chain stores; and

(iii) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products, and finance lease.

Although the retail pharmacy segment does not meet the quantitative thresholds required by HKFRS8 *Operating segments*, management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of prepaid land lease payments, investment properties, property, plant and equipment, intangible assets, investments in associates and a joint venture, inventories, receivables and operating cash.

5. Segment information (continued)

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings, deferred tax liabilities and other liabilities that are incurred for financing rather than operating purposes.

Unallocated assets mainly represent deferred tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred tax liabilities.

Capital expenditure comprises mainly additions to prepaid land lease payments, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Inter-segment revenues are conducted at prices and on terms mutually agreed upon amongst those business segments. The revenue from external parties reported to the operating committee is measured in a manner consistent with that in the consolidated statement of profit or loss.

The segment information provided to the operating committee is as follows:

5. Segment information (continued)

(1) Years ended 31 December 2016 and 2015

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
Year ended 31 December 2016					
Segment results					
External segment revenue	243,883,443	10,201,689	4,302,557	–	258,387,689
Inter-segment revenue	2,575,373	36,821	138,319	(2,750,513)	–
Revenue	246,458,816	10,238,510	4,440,876	(2,750,513)	258,387,689
Operating profit	9,372,677	298,098	601,990	(59,045)	10,213,720
Other gains – net	35,510	8,671	366,551	–	410,732
Share of profits and losses of associates	13,807	2,500	215,883	–	232,190
	9,421,994	309,269	1,184,424	(59,045)	10,856,642
Finance costs – net					(1,931,820)
Profit before tax					8,924,822
Income tax expense					(2,033,227)
Profit for the year					6,891,595
Other segment items included in the statement of profit or loss					
Provision/(reversal of provision) for impairment of trade and other receivables	57,284	22	(1,142)		56,164
Provision/(reversal of provision) for impairment of inventories	946	(149)	7,789		8,586
Provision for impairment of intangible assets	25,850	–	–		25,850
Provision for impairment of finance lease receivables	–	–	33,746		33,746
Amortisation of prepaid land lease payments	40,577	51	6,175		46,803
Depreciation of property, plant and equipment	564,844	75,984	114,895		755,723
Depreciation of investment properties	11,497	2,454	2,660		16,611
Amortisation of intangible assets	214,651	14,537	19,436		248,624
Capital expenditures	1,190,886	175,441	98,167		1,464,494

5. Segment information (continued)

(1) Years ended 31 December 2016 and 2015 (continued)

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
Year ended 31 December 2015					
Segment results					
External segment revenue	215,597,160	8,714,841	4,360,928	–	228,672,929
Inter-segment revenue	1,860,763	14,529	373,814	(2,249,106)	–
Revenue	217,457,923	8,729,370	4,734,742	(2,249,106)	228,672,929
Operating profit	8,413,312	215,880	617,594	(19,463)	9,227,323
Other gains – net	49,069	(1,769)	17,296	–	64,596
Share of profits and losses of associates	7,355	2,425	155,280	–	165,060
	8,469,736	216,536	790,170	(19,463)	9,456,979
Finance costs – net					(1,987,806)
Profit before tax					7,469,173
Income tax expense					(1,728,264)
Profit for the year					5,740,909
Other segment items included in the statement of profit or loss					
Provision/(reversal of provision) for impairment of trade and other receivables, net	10,259	(293)	1,199		11,165
Provision/(reversal of provision) for impairment of inventories	50,011	(207)	3,135		52,939
Provision for impairment of property, plant and equipment	–	–	1,541		1,541
Provision for impairment of intangible assets	8,191	25,000	6,893		40,084
Provision for impairment of finance lease receivables	–	–	19,214		19,214
Amortisation of prepaid land lease payments	32,268	51	7,933		40,252
Depreciation of property, plant and equipment	479,555	85,854	151,237		716,646
Depreciation of investment properties	–	–	18,068		18,068
Amortisation of intangible assets	211,305	13,130	6,462		230,897
Capital expenditures	1,398,942	501,423	235,055		2,135,420

5. Segment information (continued)

(2) As at 31 December 2016 and 2015

	Pharmaceutical distribution RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
As at 31 December 2016					
Segment assets and liabilities					
Segment assets	**140,062,386**	**5,726,403**	**13,296,519**	**(2,164,926)**	**156,920,382**
Segment assets include:					
Investments in associates and a joint venture	**162,214**	**17,846**	**3,150,870**	**–**	**3,330,930**
Unallocated assets – Deferred tax assets					**791,208**
Total assets					**157,711,590**
Segment liabilities	**73,847,155**	**3,960,703**	**3,288,010**	**(2,015,919)**	**79,079,949**
Unallocated liabilities – Deferred tax liabilities and borrowings					**34,099,205**
Total liabilities					**113,179,154**
As at 31 December 2015					
Segment assets and liabilities					
Segment assets	127,514,786	4,657,063	9,544,934	(2,933,714)	138,783,069
Segment assets include:					
Investments in associates	98,595	16,309	1,018,540	–	1,133,444
Unallocated assets – Deferred tax assets					646,627
Total assets					139,429,696
Segment liabilities	66,149,561	2,911,001	2,789,059	(2,954,699)	68,894,922
Unallocated liabilities – Deferred tax liabilities and borrowings					29,656,097
Total liabilities					98,551,019

All of the Group's assets are located in the PRC.

6. Revenue

Revenue mainly represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

	2016 RMB'000	2015 RMB'000
Sales of goods	**257,171,400**	228,045,092
Consulting income	**417,412**	215,673
Franchise fee and other service fee from medicine chain stores	**133,436**	133,686
Operating lease income (Note 15)	**164,591**	121,000
Revenue from logistics service	**160,466**	49,398
Interest income from finance leases	**270,464**	40,349
Import agency income	**22,949**	27,954
Others	**46,971**	39,777
	258,387,689	228,672,929

7. Other income

	2016 RMB'000	2015 RMB'000
Government grants (i)	**272,285**	243,730

Note:

(i) Government grants mainly represented subsidy income received from various government authorities as incentives to certain members of the Group.

8. Other gains – net

	2016 RMB'000	2015 RMB'000
Write-back of certain liabilities	**12,596**	33,766
Gain on fair value re-measurement of existing equity in a subsidiary disposed of	**35,080**	2,603
Gain on disposal of subsidiaries	**110,377**	6,816
Gain on disposal of prepaid land lease payments, property, plant and equipment and intangible assets	**255,934**	5,805
Foreign exchange loss – net	**(5,036)**	(23,947)
Gain on disposal of available-for-sale investments	**470**	42,791
Donation	**(17,339)**	(20,073)
Dividend from available-for-sale investments	**13,727**	13,030
Others – net	**4,923**	3,805
	410,732	64,596

9. Expenses by nature

	2016 RMB'000	2015 RMB'000
Raw materials and trading merchandise consumed	**236,797,833**	209,414,520
Changes in inventories of finished goods and work in progress	**29,325**	23,799
Employee benefit expenses (Note 10)	**5,855,887**	5,144,630
Provision/(reversal) for impairment of trade receivables	**29,718**	(4,675)
Provision for impairment of other receivables	**26,446**	15,840
Provision for impairment of inventories (Note 25)	**8,586**	52,939
Provision for impairment of intangible assets (Note 17)	**25,850**	40,084
Provision for impairment of property, plant and equipment (Note 16)	**–**	1,541
Provision for impairment of finance lease receivables (Note 22)	**33,746**	19,214
Operating lease rental in respect of land and buildings	**897,185**	680,702
Depreciation of property, plant and equipment (Note 16)	**755,723**	716,646
Depreciation of investment properties (Note 15)	**16,611**	18,068
Amortisation of intangible assets (Note 17)	**248,624**	230,897
Amortisation of prepaid land lease payments (Note 14)	**46,803**	40,252
Auditors' remuneration		
– statutory audit service	**20,575**	22,015
– non-statutory audit service	**1,761**	270
– non-audit service	**5,625**	416
Advisory and consulting fees	**141,523**	86,790
Transportation expenses	**972,332**	849,014
Travel expenses	**288,193**	235,820
Market development and business promotion expenses	**921,930**	829,777
Utilities	**174,656**	127,962
Others	**1,147,322**	1,142,815
Total cost of sales, selling and distribution expenses, and administrative expenses	**248,446,254**	219,689,336

10. Employee benefit expenses

	2016 RMB'000	2015 RMB'000
Salaries, wages, allowances and bonuses	**4,591,081**	3,996,366
Contributions to pension plans (i)	**463,149**	412,813
Post-employment benefits	**25,493**	30,163
Housing benefits (ii)	**189,578**	163,631
Share incentive expenses (Note 46)	**3,833**	–
Other benefits (iii)	**582,753**	541,657
	5,855,887	5,144,630

10. Employee benefit expenses (continued)

Notes:

(i) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 7% to 10% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 20% to 28% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Contributions totalling RMB5,781 thousand (2015: RMB10,856 thousand) were payable to the fund at the year end of 2016.

(ii) Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

(iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

(iv) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the group for the year include two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 47. The emoluments payable to the remaining three (2015: three) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,718**	3,016
Bonuses	**4,705**	4,837
Contributions to pension schemes	**334**	313
Incentive bonuses	**6,329**	–
Share incentive expenses	**219**	–
	15,305	8,166

	2016 Number	2015 Number
Emolument bands		
HK$3,000,001 — HK$3,500,000 (RMB2,683,531 — RMB3,130,785)	**–**	3
HK$5,500,001 — HK$6,000,000 (RMB4,919,805 — RMB5,367,060)	**2**	–
HK$6,000,001 — HK$6,500,000 (RMB5,367,060 — RMB5,814,315)	**1**	–

(v) For the years ended 31 December 2015 and 2016, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

11. Finance income and costs

	2016 RMB'000	2015 RMB'000
Interest expense:		
– Borrowings	**1,240,172**	1,396,672
– Discount of notes receivable	**319,003**	369,459
– Factoring of accounts receivable	**489,476**	327,551
– Net interest on net defined benefit liability	**14,982**	18,001
Gross interest expense	**2,063,633**	2,111,683
Bank charges	**179,338**	142,125
Less: capitalised interest expense (Note 16)	**(20,141)**	(22,744)
Finance costs	**2,222,830**	2,231,064
Finance income:		
– Interest income on deposits in banks or other financial institutions	**(224,181)**	(171,940)
– Interest income on long-term deposits	**(66,829)**	(71,318)
Net finance costs	**1,931,820**	1,987,806

12. Taxation

	2016 RMB'000	2015 RMB'000
Current income tax	**2,314,064**	1,811,471
Deferred income tax (Note 23)	**(280,837)**	(83,207)
	2,033,227	1,728,264

12. Taxation (continued)

A reconciliation of the tax charge applicable to profit before tax using the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	**8,924,822**	7,469,173
Less: Share of profits and losses of associates	**(232,190)**	(165,060)
	8,692,632	7,304,113
Tax calculated at the applicable tax rate	**2,173,158**	1,826,028
Expenses not deductible for tax purposes	**69,553**	56,666
Income not subject to tax	**(1,768)**	(5,821)
Tax losses not recognised	**25,817**	18,740
Tax losses utilised from previous periods	**(32,915)**	(3,131)
Impact of change in the applicable income tax rate on deferred tax	**4,834**	(16,222)
Impact of lower tax rates enacted by local authority	**(132,360)**	(114,373)
Income tax refund	**(73,092)**	(33,623)
Income tax expense	**2,033,227**	1,728,264

Notes:

(i) During 2016, enterprises incorporated in the PRC are normally subject to enterprise income tax ("EIT") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operations in designated areas with preferential EIT policies.

Two of the Group's subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% on the estimated assessable profits arising in or derived from Hong Kong.

12. Taxation (continued)

The tax credit/(charge) relating to the components of other comprehensive income is as follows:

	2016			2015		
	Before tax RMB'000	Tax (charge)/ credit RMB'000	After tax RMB'000	Before tax RMB'000	Tax (charge)/ credit RMB'000	After tax RMB'000
Available-for-sale investments:						
Changes in fair value	**(10,151)**	**2,538**	**(7,613)**	39,873	(9,968)	29,905
Remeasurement of post-employment benefit obligations	**12,495**	**(2,385)**	**10,110**	(44,521)	10,733	(33,788)
Share of other comprehensive income of associates	**(1,507)**	**–**	**(1,507)**	–	–	–
Exchange differences	**(17,839)**	**–**	**(17,839)**	4,660	–	4,660
Other comprehensive income	**(17,002)**	**153**	**(16,849)**	12	765	777

13. Earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent excluding the profit attributable to the shareholders of restricted shares expected to be unlocked in the future as at the end of the reporting period and the weighted average number of ordinary shares of 2,767,095 thousand (2015: 2,767,095 thousand) in issue during the year excluding restricted shares at the end of the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and included the number of restricted shares expected to be unlocked in the future.

The calculations of basic and diluted earnings per share are based on:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**4,647,344**	3,772,222
Less: profit attributable to the shareholders of restricted shares expected to be unlocked in the future	**(12,143)**	–
Profit attributable to equity holders of the parent used in basic earnings per share calculation	**4,635,201**	3,772,222

13. Earnings per share (continued)

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation ('000)	**2,759,865**	2,767,095
Effect of dilution – Restricted shares ('000)	**7,230**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation ('000)	**2,767,095**	2,767,095
Basic earnings per share (RMB per share)	**1.68**	1.36
Diluted earnings per share (RMB per share)	**1.68**	1.36

14. Prepaid land lease payments

	2016 RMB'000	2015 RMB'000
Cost	**1,574,481**	1,735,308
Accumulated amortisation	**(245,926)**	(245,411)
Net carrying amount	**1,328,555**	1,489,897
Opening carrying amount	**1,489,897**	1,445,698
Additions	**18,957**	86,202
Disposal of subsidiaries (Note 41)	**(16,455)**	–
Disposal in connection with assets restructuring	**(94,721)**	–
Disposal	**(22,320)**	(1,751)
Amortisation (Note 9)	**(46,803)**	(40,252)
Closing carrying amount	**1,328,555**	1,489,897

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the considerations paid for such right are recorded as prepaid land lease payments, which are amortised over the lease terms of 40 to 50 years using the straight-line method.

14. Prepaid land lease payments (continued)

Amortisation expense charged to the consolidated statement of profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	**2,272**	2,379
Administrative expenses	**44,531**	37,873
	46,803	40,252

As at 31 December 2016, the prepaid land lease payments with a net carrying amount of approximately RMB43,143 thousand (2015: RMB47,185 thousand) were pledged as collaterals for the Group's bank borrowings (Note 31).

15. Investment properties

	2016 RMB'000	2015 RMB'000
Cost	**609,147**	600,556
Accumulated depreciation	**(201,595)**	(206,684)
Net carrying amount	**407,552**	393,872
Opening carrying amount	**393,872**	361,354
Acquisition of subsidiaries	**–**	49
Additions	**359**	72,886
Transfer from property, plant and equipment (Note 16)	**36,785**	16,709
Transfer to property, plant and equipment (Note 16)	**(6,247)**	(24,610)
Disposal	**(606)**	(14,448)
Depreciation (Note 9)	**(16,611)**	(18,068)
Closing carrying amount	**407,552**	393,872

Investment properties are located in Mainland China on land with the land use periods of 25 to 50 years (2015: 25 to 50 years).

As at 31 December 2016, investment properties with a carrying amount of approximately RMB19,060 thousand (2015: RMB20,010 thousand) were pledged as collateral of the Group's bank borrowings (Note 31).

15. Investment properties (continued)

As at 31 December 2016, the fair value of the investment properties was estimated to be approximately RMB3,280,825 thousand (2015: RMB3,246,922 thousand). The valuation was determined using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre.

Rental income from investment properties has been included in the consolidated statement of profit or loss as follows:

	2016	2015
	RMB'000	RMB'000
Revenue (Note 6)	**164,591**	121,000

16. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015						
Cost	5,351,023	1,817,722	1,080,802	611,648	846,089	9,707,284
Accumulated depreciation and impairment	(1,022,940)	(663,055)	(597,759)	(319,574)	–	(2,603,328)
Net carrying amount	4,328,083	1,154,667	483,043	292,074	846,089	7,103,956
At 1 January 2015, net of accumulated depreciation and impairment	4,328,083	1,154,667	483,043	292,074	846,089	7,103,956
Acquisition of subsidiaries	50,201	860	11,360	5,136	677	68,234
Additions	175,861	165,798	157,772	61,470	657,001	1,217,902
Transfers	480,561	250,776	38,558	903	(770,798)	–
Transfer from investment properties (Note 15)	24,610	–	–	–	–	24,610
Transfer to investment properties (Note 15)	(16,709)	–	–	–	–	(16,709)
Impairment charge (Note 9)	(82)	(994)	(465)	–	–	(1,541)
Disposals	(3,355)	(5,873)	(6,260)	(6,417)	–	(21,905)
Disposal of subsidiaries	(14,610)	–	(715)	(80)	–	(15,405)
Depreciation (Note 9)	(261,861)	(226,705)	(157,133)	(70,947)	–	(716,646)
At 31 December 2015, net of accumulated depreciation and impairment	4,762,699	1,338,529	526,160	282,139	732,969	7,642,496
At 31 December 2015						
Cost	6,054,034	2,191,050	1,259,004	648,599	732,969	10,885,656
Accumulated depreciation and impairment	(1,291,335)	(852,521)	(732,844)	(366,460)	–	(3,243,160)
Net carrying amount	4,762,699	1,338,529	526,160	282,139	732,969	7,642,496

16. Property, plant and equipment (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016						
Cost	6,054,034	2,191,050	1,259,004	648,599	732,969	10,885,656
Accumulated depreciation and impairment	(1,291,335)	(852,521)	(732,844)	(366,460)	–	(3,243,160)
Net carrying amount	4,762,699	1,338,529	526,160	282,139	732,969	7,642,496
At 1 January 2016, net of accumulated depreciation and impairment	4,762,699	1,338,529	526,160	282,139	732,969	7,642,496
Acquisition of subsidiaries (Note 41)	–	161	1,488	698	–	2,347
Additions	156,299	181,925	164,061	67,343	780,491	1,350,119
Transfers	676,070	307,164	25,180	–	(1,008,414)	–
Transfer from investment properties (Note 15)	6,247	–	–	–	–	6,247
Transfer to investment properties (Note 15)	(36,785)	–	–	–	–	(36,785)
Disposals	(16,238)	(2,219)	(13,242)	(10,121)	(15,876)	(57,696)
Disposal in connection with assets restructuring	(734,214)	(340,031)	(20,096)	(3,417)	(103,285)	(1,201,043)
Disposal of subsidiaries (Note 41)	(99,078)	(37,963)	(57,340)	(1,216)	(1,901)	(197,498)
Depreciation (Note 9)	(286,402)	(246,448)	(156,413)	(66,460)	–	(755,723)
At 31 December 2016, net of accumulated depreciation and impairment	4,428,598	1,201,118	469,798	268,966	383,984	6,752,464
At 31 December 2016						
Cost	5,677,864	1,977,692	1,194,649	648,773	383,984	9,882,962
Accumulated depreciation and impairment	(1,249,266)	(776,574)	(724,851)	(379,807)	–	(3,130,498)
Net carrying amount	4,428,598	1,201,118	469,798	268,966	383,984	6,752,464

16. Property, plant and equipment (continued)

Depreciation expense was charged to the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	**137,036**	123,973
Selling and distribution expenses	**249,408**	245,036
Administrative expenses	**369,279**	347,637
	755,723	716,646

As at 31 December 2016, property, plant and equipment with a net carrying amount of approximately RMB76,690 thousand (2015: RMB62,785 thousand) were pledged as collateral of the Group's bank borrowings (Note 31).

Details of the borrowing costs capitalised into cost of property, plant and equipment are as follows:

	2016	2015
Borrowing costs capitalised (Note 11)	**20,141**	22,744
Weighted average rate of borrowing costs	**4.21%**	4.10%

17. Intangible assets

	Goodwill RMB'000	Sales network RMB'000	Trademarks and patent rights RMB'000	Exclusive distribution rights RMB'000	Software RMB'000	Product development costs RMB'000	Favourable leasing rights RMB'000	Total RMB'000
At 1 January 2015								
Cost	3,795,694	2,566,333	195,711	280,802	346,038	76,861	–	7,261,439
Accumulated amortisation and impairment	(69,050)	(554,725)	(154,597)	(21,060)	(111,241)	–	–	(910,673)
Net carrying amount	3,726,644	2,011,608	41,114	259,742	234,797	76,861	–	6,350,766
At 1 January 2015, net of amortisation and impairment	3,726,644	2,011,608	41,114	259,742	234,797	76,861	–	6,350,766
Additions	–	–	12,378	–	78,550	21,401	–	112,329
Acquisition of subsidiaries	313,297	96,434	65,781	–	2,764	–	93,242	571,518
Transfers	–	–	863	–	–	(863)	–	–
Disposal of subsidiaries	–	–	–	–	(210)	–	–	(210)
Disposal	–	–	–	–	(826)	(39,871)	–	(40,697)
Amortisation (Note 9)	–	(129,306)	(18,665)	(28,080)	(49,900)	–	(4,946)	(230,897)
Impairment charge (Note 9)	(40,084)	–	–	–	–	–	–	(40,084)
At 31 December 2015, net of amortisation and impairment	3,999,857	1,978,736	101,471	231,662	265,175	57,528	88,296	6,722,725
At 31 December 2015								
Cost	4,108,991	2,662,767	274,733	280,802	425,041	57,528	93,242	7,903,104
Accumulated amortisation and impairment	(109,134)	(684,031)	(173,262)	(49,140)	(159,866)	–	(4,946)	(1,180,379)
Net carrying amount	3,999,857	1,978,736	101,471	231,662	265,175	57,528	88,296	6,722,725

17. Intangible assets (continued)

	Goodwill RMB'000	Sales network RMB'000	Trademarks and patent rights RMB'000	Exclusive distribution rights RMB'000	Software RMB'000	Product development costs RMB'000	Favourable leasing rights RMB'000	Total RMB'000
At 1 January 2016								
Cost	4,108,991	2,662,767	274,733	280,802	425,041	57,528	93,242	7,903,104
Accumulated amortisation and impairment	(109,134)	(684,031)	(173,262)	(49,140)	(159,866)	-	(4,946)	(1,180,379)
Net carrying amount	3,999,857	1,978,736	101,471	231,662	265,175	57,528	88,296	6,722,725
At 1 January 2016, net of amortisation and impairment	3,999,857	1,978,736	101,471	231,662	265,175	57,528	88,296	6,722,725
Additions	-	-	552	-	46,663	16,974	-	64,189
Acquisition of subsidiaries (Note 41)	27,017	-	-	-	4,820	-	-	31,837
Transfers	-	-	3,600	-	1,401	(5,001)	-	-
Disposal of subsidiaries (Note 41)	(28,210)	-	(171)	-	(4,453)	(15,844)	-	(48,678)
Disposal in connection with assets restructuring	(137,943)	(28,563)	(19,157)	-	(2,839)	(21,548)	-	(210,050)
Disposal	-	-	-	-	(2,777)	-	-	(2,777)
Amortisation (Note 9)	-	(147,632)	(11,338)	(28,081)	(56,628)	-	(4,945)	(248,624)
Impairment charge (Note 9)	(25,850)	-	-	-	-	-	-	(25,850)
At 31 December 2016, net of amortisation and impairment	3,834,871	1,802,541	74,957	203,581	251,362	32,109	83,351	6,282,772
At 31 December 2016								
Cost	3,957,111	2,569,287	156,172	280,802	456,879	32,109	93,242	7,545,602
Accumulated amortisation and impairment	(122,240)	(766,746)	(81,215)	(77,221)	(205,517)	-	(9,891)	(1,262,830)
Net carrying Amount	3,834,871	1,802,541	74,957	203,581	251,362	32,109	83,351	6,282,772

Amortisation expense charged to the consolidated statement of profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Selling and distribution expenses	**180,323**	167,466
Administrative expenses	**68,301**	63,431
	248,624	230,897

17. Intangible assets (continued)

Impairment tests for goodwill:

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified by the operating segment, as follows:

2016	**Opening RMB'000**	**Additions RMB'000**	**Impairment RMB'000**	**Disposal of subsidiaries RMB'000**	**Closing RMB'000**
Pharmaceutical distribution	**3,134,060**	**–**	**(25,850)**	**–**	**3,108,210**
Retail pharmacy	**654,547**	**27,017**	**–**	**(191)**	**681,373**
Other	**211,250**	**–**	**–**	**(165,962)**	**45,288**
Total	**3,999,857**	**27,017**	**(25,850)**	**(166,153)**	**3,834,871**

2015	Opening RMB'000	Additions RMB'000	Impairment RMB'000	Disposal of subsidiaries RMB'000	Closing RMB'000
Pharmaceutical distribution	2,960,882	181,369	(8,191)	–	3,134,060
Retail pharmacy	547,619	131,928	(25,000)	–	654,547
Other	218,143	–	(6,893)	–	211,250
Total	3,726,644	313,297	(40,084)	–	3,999,857

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the businesses in which the CGUs operate.

17. Intangible assets (continued)

The key assumptions, long-term growth rate and discount rates used for value-in-use calculations of significant CGUs in 2016 are as follows:

	CGU1	CGU2	CGU3	CGU4	CGU5
Segment			**Pharmaceutical distribution**		
Goodwill (RMB'000)	1,081,882	191,420	184,055	143,835	124,231
Revenue growth rate in the budget period	5.00%-14.80%	10.00%-13.00%	5.00%-9.00%	3.00%-15.54%	10.00%-12.00%
Gross margin	6.06%-6.80%	5.80%-6.00%	4.70%-4.80%	7.30%-7.60%	5.00%-5.20%
Growth rate to extrapolate cash flows beyond the budget period	3.00%	3.00%	3.00%	3.00%	3.00%
Discount rate	16.00%	17.37%	16.55%	18.54%	19.87%

Management determined the budgeted gross margin and growth rates based on past performance of the CGUs and expectations for market development. The discount rates used are before tax after reflecting specific risks of the relevant businesses.

In 2016, by comparing the carrying value of the CGU containing the goodwill with the recoverable amount, the Group provided goodwill impairment to RMB25,850 thousand for one CGU in the pharmaceutical distribution segment.

18. Subsidiaries

The principal subsidiaries of the Company's are set out in Note 43.

Material non-controlling interests

The total non-controlling interests as at 31 December 2016 amounted to RMB12,721,508 thousand (31 December 2015: RMB10,768,367 thousand), of which RMB1,906,565 (2015: RMB1,863,809) was attributed to National Medicines and RMB4,176,829 (2015: RMB3,266,635) was attributed to China National Accord Medicines Co., Ltd. ("Sinopharm Accord"). The non-controlling interest in respect of each other subsidiaries is not material.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information of each subsidiary that has non-controlling interests that are material to the Group.

18. Subsidiaries (continued)

Material non-controlling interests (continued)

Summarised statement of financial position

	National Medicines		Sinopharm Accord	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Assets	**6,098,895**	5,306,276	**17,684,978**	16,751,706
Liabilities	**(3,237,858)**	(2,886,740)	**(12,135,715)**	(12,021,969)
Total current net assets	**2,861,037**	2,419,536	**5,549,263**	4,729,737
Non-current				
Assets	**1,302,569**	1,254,625	**3,627,777**	3,561,630
Liabilities	**(146,798)**	(182,548)	**(263,056)**	(419,655)
Total non-current net assets	**1,155,771**	1,072,077	**3,364,721**	3,141,975
Net assets	**4,016,808**	3,491,613	**8,913,984**	7,871,712

Summarised statement of profit or loss

	National Medicines		Sinopharm Accord	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**13,386,417**	12,078,194	**41,248,429**	37,819,278
Profit before income tax	**711,085**	665,330	**1,600,257**	1,297,506
Income tax expense	**(147,142)**	(135,418)	**(318,377)**	(267,557)
Post-tax profit	**563,943**	529,912	**1,281,880**	1,029,949
Other comprehensive income	**(7,613)**	22,501	**–**	–
Total comprehensive income	**556,330**	552,413	**1,281,880**	1,029,949
Total comprehensive income allocated to non-controlling interests	**315,276**	318,500	**557,518**	486,500
Dividends paid to non-controlling interests	**32,121**	26,808	**80,068**	35,538

18. Subsidiaries (continued)

Material non-controlling interests (continued)

Summarised cash flows

	National Medicines		Sinopharm Accord	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash flows from operating activities				
Cash generated from operations	**751,978**	622,598	**1,763,765**	1,763,897
Income tax paid	**(160,728)**	(182,313)	**(291,219)**	(306,481)
Net cash from operating activities	**591,250**	440,285	**1,472,546**	1,457,416
Net cash from investing activities	**(41,373)**	(53,341)	**(9,139)**	(551,943)
Net cash from financing activities	**(435,164)**	355,643	**(476,243)**	(19,506)
Net increase in cash and cash equivalents	**114,713**	742,587	**987,164**	885,967
Cash and cash equivalents at beginning of year	**1,464,491**	721,904	**2,164,308**	1,278,439
Effect of foreign exchange rate changes, net	**–**	–	**(563)**	(98)
Cash and cash equivalents at end of year	**1,579,204**	1,464,491	**3,150,909**	2,164,308

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

19. Investments in associates

	2016 **RMB'000**	2015 RMB'000
Share of net assets	**3,301,657**	1,107,111
Goodwill	**26,333**	26,333
	3,327,990	1,133,444

	2016 **RMB'000**	2015 RMB'000
At 1 January	**1,133,444**	930,179
Acquisition of a subsidiary	**–**	972
Addition in connection with assets restructuring (Note 39)	**1,040,439**	–
Other additions	**276,050**	109,003
Reclassification from investments in subsidiaries upon cessation of control	**953,941**	2,603
Share of results	**232,190**	165,060
Unrealised profit on transactions with associates	**–**	15,404
Share of other comprehensive income	**(1,507)**	–
Share of other reserve	**(429)**	–
Dividends declared by associates attributable to the Group	**(306,138)**	(89,371)
Reclassification to investments in subsidiaries upon transfer of control to the Group	**–**	(406)
At 31 December	**3,327,990**	1,133,444

19. Investments in associates (continued)

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Group 2016	2015	Principal activities
Shanghai Modern Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司)(i)	Ordinary shares of RMB1 each	Shanghai, China	**18.57%(ii)**	–	Pharmaceutical manufacturing

(i) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(ii) Details of the changes in the Group's interest in Shanghai Modern Pharmaceutical Co., Ltd. are disclosed in Note 39. The Group's investment in this associate is accounted for under the equity method of accounting because the Group has significant influence over it by way of representation on the board of directors and participation in the policy-making process, despite the fact that the Group's equity interests in it were lower than 20% for the year ended 31 December 2016.

Shanghai Modern Pharmaceutical Co., Ltd., which is considered a material associate of the Group, is a strategic partner of the Group mainly engaged in the manufacturing and distribution of pharmaceuticals and is accounted for using the equity method.

The following table illustrates the summarised financial information of Shanghai Modern Pharmaceutical Co., Ltd. extracted from its financial statements, reconciled to the carrying amount in the consolidated financial statements:

	2016 RMB'000
Current assets	6,337,024
Non-current assets	8,678,050
Current liabilities	(4,711,258)
Non-current liabilities	(3,365,334)
Non-controlling interests	(1,234,501)
Net assets	5,703,981
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	18.57%
Carrying amount of the investment	1,059,229
Revenue	1,752,331
Profit for the year	154,439
Total comprehensive income for the year	154,439
Dividend received	–

19. Investments in associates (continued)

Set out below are the associates of the Group as at 31 December 2016. The associates listed below have share capital consisting solely of ordinary shares, which of these associates are held directly by the Group. The country of incorporation or registration is also the principal place of business.

Investments in associates as at 31 December 2016

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship
Hubei Yuankang Pharmaceutical Co., Ltd.	Hubei, China	30.00	
Fosun Sinopharm (Hong Kong) Logistics Properties Management Co., Ltd.	Hong Kong, China	45.00	
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd.	Xinjiang, China	45.00	Note (i)
Sichuan Kangdaxin Medical Co., Ltd.	Sichuan, China	25.00	Note (i)
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	Sichuan, China	49.00	Note (i)
Shanghai Dong's Pharmaceutical Information Co., Ltd.	Shanghai, China	46.00	
Sinopharm Holding (Tianjin) Health Consultancy Co., Ltd.	Tianjin, China	35.00	
Qinghai Pharmaceutical Group Co., Ltd.	Qinghai, China	47.08	Note (i)
Yichang Humanwell Pharmaceutical Co., Ltd.	Hubei, China	20.00	Note (i)
Sinopharm Holding Shanxi Xinzhou Co., Ltd.	Shanxi, China	20.00	
Shanghai Guoda Lingyun Drug Store Co., Ltd.	Shanghai, China	51.00	
Sinopharm Group Health (Anhui) Pharmaceutical Co., Ltd.	Anhui, China	28.57	
Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd.	Jiangsu, China	21.12	
Shanghai Beiyi Guoda Pharmaceutical Co., Ltd.	Shanghai, China	26.00	
Shanghai Liyi Drug Store Co., Ltd.	Shanghai, China	35.00	
Sinopharm Holding Zhuhai Co., Ltd.	Guangdong, China	10.00	
Shenzhen Main Luck Pharmaceutical Co., Ltd.	Guangdong, China	35.20	Note (i)
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	Jiangsu, China	33.00	Note (i)
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	Guangdong, China	49.00	Note (i)
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	Guangdong, China	49.00	Note (i)
Shenzhen Zhijun Pharmaceutical Trade Co., Ltd.	Guangdong, China	49.00	
Shanghai Modern Pharmaceutical Co., Ltd.	Shanghai, China	18.57	Note (i)
Jilin Baiqi Pharmaceutical Co., Ltd.	Jilin, China	35.00	
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	Shanghai, China	49.00	Note (i)
Sinopharm Holding Medical Investment Management Co., Ltd.	Shanghai, China	45.00	
Sinopharm Nutraceuticals (Shanghai) Co., Ltd.	Shanghai, China	14.25	
Sinopharm Guohua Network Technology Co., Ltd.	Beijing, China	6.00	
Sinopharm Group Changsha Co., Ltd.	Hunan, China	10.00	Note (i)
Sinopharm Health Online Co., Ltd.	Shanghai, China	45.00	
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	Jilin, China	49.00	
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	Anhui, China	49.00	Note (i)

Note (i): These companies are mainly engaged in pharmaceuticals research, production and sales. They are vendors of the Group.

19. Investments in associates (continued)

Summarised financial information of associates

Set out below is the aggregate financial information of the associates that are not individually material.

Summarised statement of financial position

	2016 RMB'000	2015 RMB'000
Current		
Cash and cash equivalents	1,887,784	1,086,226
Other current assets (excluding cash and cash equivalents)	5,302,345	2,764,780
Total current assets	7,190,129	3,851,006
Financial liabilities (excluding trade payables)	(899,364)	(207,118)
Other current liabilities (including trade payables)	(3,959,478)	(2,310,492)
Total current liabilities	(4,858,842)	(2,517,610)
Non-current		
Assets	4,173,645	2,691,335
Liabilities	(250,881)	(139,849)
Net assets	6,254,051	3,884,882

Summarised statement of comprehensive income

	2016 RMB'000	2015 RMB'000
Post-tax profit from continuing operations	857,242	770,548
Other comprehensive income	4,551	–
Total comprehensive income	861,793	770,548
Dividends received from associates	306,138	89,371

The information above reflects the amounts presented in the financial statements of the associates adjusted for differences in accounting policies between the Group and the associates.

20. Financial instruments by category

At 31 December 2016	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Financial assets included in other non-current assets	1,653,931	–	1,653,931
Available-for-sale investments	–	467,448	467,448
Finance lease receivables	5,269,088	–	5,269,088
Trade receivables	69,245,421	–	69,245,421
Financial assets included in other receivables	2,888,289	–	2,888,289
Restricted bank deposits	5,017,640	–	5,017,640
Cash and cash equivalents	25,572,759	–	25,572,759
Total	109,647,128	467,448	110,114,576

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	33,497,877	33,497,877
Trade payables	66,745,815	66,745,815
Dividends payable	93,770	93,770
Financial liabilities included in accruals and other payables	7,613,545	7,613,545
Financial liabilities included in other non-current liabilities	333,289	333,289
Total	108,284,296	108,284,296

At 31 December 2015	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Financial assets included in other non-current assets	1,437,057	–	1,437,057
Available-for-sale investments	–	324,316	324,316
Finance lease receivables	1,899,851	–	1,899,851
Trade receivables	65,032,756	–	65,032,756
Financial assets included in other receivables	2,202,295	–	2,202,295
Restricted bank deposits	4,602,286	–	4,602,286
Cash and cash equivalents	19,966,052	–	19,966,052
Total	95,140,297	324,316	95,464,413

20. Financial instruments by category (continued)

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	28,963,478	28,963,478
Trade payables	59,563,296	59,563,296
Dividends payable	93,022	93,022
Financial liabilities included in accruals and other payables	5,115,267	5,115,267
Financial liabilities included in other non-current liabilities	150,017	150,017
Total	93,885,080	93,885,080

21. Available-for-sale investments

	2016 RMB'000	2015 RMB'000
Listed equity investments, at fair value (i)	**74,000**	80,751
Unlisted equity investments	**244,627**	243,565
Asset-backed securities, at fair value (ii)	**148,821**	–
	467,448	324,316
Less: Current portion	**(5,468)**	(2,069)
	461,980	322,247

Notes:

(i) During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB10,151 thousand (2015: gain of RMB39,873 thousand), of which none (2015: none) was reclassified from other comprehensive income to the statement of profit or loss for the year.

(ii) Please refer to Note 3 (3) (iii) for details of asset-back securities.

22. Finance lease receivables

	2016 RMB'000	2015 RMB'000
Finance lease receivables	**6,260,183**	2,308,533
Less: Unearned finance income	**(938,135)**	(389,468)
Net finance lease receivables	**5,322,048**	1,919,065
Less: Provision for impairment (a)	**(52,960)**	(19,214)
	5,269,088	1,899,851
Less: Current portion	**(1,480,990)**	(349,720)
	3,788,098	1,550,131

The fair value of finance lease receivables approximates to their carrying amount.

An aged analysis of lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period, is as follows:

	2016 RMB'000	2015 RMB'000
Lease receivables:		
Below 1 year	**5,333,194**	2,308,533
Between 1 and 2 years	**926,989**	–
	6,260,183	2,308,533

	2016 RMB'000	2015 RMB'000
Net finance lease receivables		
Below 1 year	**4,524,264**	1,919,065
Between 1 and 2 years	**797,784**	–
	5,322,048	1,919,065

22. Finance lease receivables (continued)

The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following three consecutive accounting years:

	2016 **RMB'000**	2015 RMB'000
Lease receivables:		
Below 1 year	**1,538,871**	520,123
1 to 2 years	**1,550,036**	518,777
2 to 3 years	**1,412,125**	501,955
Over 3 years	**1,759,151**	767,678
	6,260,183	2,308,533

	2016 **RMB'000**	2015 RMB'000
Net finance lease receivables:		
Below 1 year	**1,519,737**	353,253
1 to 2 years	**1,362,482**	403,599
2 to 3 years	**1,137,332**	432,372
Over 3 years	**1,302,497**	729,841
	5,322,048	1,919,065

(a) Movement in provision for impairment of finance lease receivables is as follows:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**19,214**	–
Provision for impairment (Note 9)	**33,746**	19,214
At 31 December	**52,960**	19,214

As at 31 December 2016, the carrying value of the finance lease receivables pledged or charged as security for the Group's bank borrowings amounted to RMB439,809 thousand (2015: RMB388,880 thousand) (Note 31).

23. Deferred income tax

The movements in deferred tax assets and liabilities are as follows:

Deferred tax assets

	Employee benefit obligations RMB'000	Impairment provision for assets RMB'000	Unrealised profits RMB'000	Tax losses RMB'000	Share-based payments RMB'000	Sales rebates and others RMB'000	Total RMB'000
At 1 January 2015	179,557	225,720	31,260	52,309	–	82,743	571,589
Acquisition of subsidiaries	–	3,557	–	–	–	50	3,607
(Charged)/credited to the consolidated statement of profit or loss	(428)	14,986	5,929	10,110	–	34,392	64,989
Credited to other comprehensive income	10,733	–	–	–	–	–	10,733
Disposal of subsidiaries	–	(547)	–	(3,744)	–	–	(4,291)
At 31 December 2015	189,862	243,716	37,189	58,675	–	117,185	646,627
Acquisition of subsidiaries (Note 40)	**–**	**187**	**–**	**–**	**–**	**–**	**187**
Credited/(charged) to the consolidated statement of profit or loss	**22,254**	**11,409**	**(11,405)**	**19,205**	**896**	**172,176**	**214,535**
Charged to other comprehensive income	**(2,385)**	**–**	**–**	**–**	**–**	**–**	**(2,385)**
Credited to capital surplus	**–**	**–**	**–**	**–**	**40**	**–**	**40**
Disposal of subsidiaries and disposals in connection with assets restructuring	**(441)**	**(7,007)**	**–**	**(40,379)**	**–**	**(19,969)**	**(67,796)**
At 31 December 2016	**209,290**	**248,305**	**25,784**	**37,501**	**936**	**269,392**	**791,208**

23. Deferred income tax (continued)

Deferred tax liabilities

	Fair value adjustments on assets relating to business combinations RMB'000	Fair value gains on available-for-sale investments RMB'000	Purchase rebates RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	615,626	11,583	558	5,034	632,801
Acquisition of subsidiaries	68,068	–	–	–	68,068
(Credited)/charged to the consolidated statement of profit or loss	(41,655)	–	21,382	2,055	(18,218)
Charged to other comprehensive income	–	9,968	–	–	9,968
At 31 December 2015	642,039	21,551	21,940	7,089	692,619
Acquisition of subsidiaries (Note 40)	**1,202**	**–**	**–**	**–**	**1,202**
Disposal of subsidiaries and disposals in connection with assets restructuring	**(23,630)**	**–**	**–**	**(23)**	**(23,653)**
(Credited)/charged to the consolidated statement of profit or loss	**(67,004)**	**–**	**1,523**	**(821)**	**(66,302)**
Credited to other comprehensive income	**–**	**(2,538)**	**–**	**–**	**(2,538)**
At 31 December 2016	**552,607**	**19,013**	**23,463**	**6,245**	**601,328**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. Based on the above principle, the Group did not recognise deferred tax assets of approximately RMB25,817 thousand (2015: RMB48,659 thousand) in respect of tax losses amounting to approximately RMB106,379 thousand (2015: RMB194,636 thousand). As at 31 December 2016, these unrecognised tax losses amounting to RMB30,491 thousand, RMB25,817 thousand, RMB20,518 thousand, RMB14,460 thousand and RMB15,093 thousand will expire in 2017, 2018, 2019, 2020 and 2021 respectively.

24. Other non-current assets

	2016 RMB'000	2015 RMB'000
Long-term deposits	**1,378,956**	1,434,631
Payment for acquisition of subsidiaries	**–**	5,880
Continuing involvement assets (i)	**263,834**	–
Others	**165,522**	187,876
	1,808,312	1,628,387

(i) Please refer to Note 3 (3) (iii) for details of continuing involvement assets.

25. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**96,262**	235,494
Work in progress	**11,582**	49,292
Finished goods and trading merchandise	**25,742,389**	22,384,871
	25,850,233	22,669,657
Less: Provision for impairment	**(90,708)**	(116,413)
	25,759,525	22,553,244

The cost of inventories recognised as expense and included in cost of sales amounted to RMB236,827,158 thousand (2015: RMB209,438,319 thousand) (Note 9).

Movements in provision for impairment of inventories are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**116,413**	64,848
Provision for the year (Note 9)	**8,586**	52,939
Credited to cost of sales when inventories were sold	**(34,291)**	(1,374)
At 31 December	**90,708**	116,413

26. Trade receivables

	2016 RMB'000	2015 RMB'000
Accounts receivable	**60,688,999**	59,244,680
Notes receivable	**9,355,552**	6,577,946
	70,044,551	65,822,626
Less: Provision for impairment	**(799,130)**	(789,870)
Trade receivables – net	**69,245,421**	65,032,756

The fair value of trade receivables approximates to their carrying amount.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacturing businesses, sales are made on credit terms normally ranging from 30 to 210 days. The ageing analysis of trade receivables (accounts receivable and notes receivable), based on the invoice date and net of provisions, as at the end of the reporting period, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**68,910,172**	64,609,034
1 to 2 years	**268,232**	403,536
Over 2 years	**67,017**	20,186
	69,245,421	65,032,756

As at 31 December 2016, notes receivable of RMB239,073 thousand (2015: RMB646,973 thousand) and accounts receivable of RMB666,872 thousand (2015: RMB607,950 thousand) were pledged as collaterals for the Group's bank borrowings (Note 31).

As at 31 December 2016, notes receivable of RMB121,230 thousand (2015: RMB70,551 thousand) were pledged as collateral for the Group's notes payable.

The maximum exposure to credit risk as at 31 December 2016 was the carrying value of each category of receivables mentioned above and in Note 27.

27. Prepayments and other receivables

	2016 RMB'000	2015 RMB'000
Prepayments	**2,282,699**	2,824,572
Value-added tax recoverable	**408,783**	321,158
Deposits	**1,218,442**	1,228,327
Staff advances	**44,351**	52,997
Amounts due from related parties (Note 42)		
– other receivables	**247,502**	41,444
– prepayments	**78,308**	75,365
Other receivables	**1,528,735**	959,135
	5,808,820	5,502,998
Less: Provision for impairment	**(130,904)**	(109,255)
	5,677,916	5,393,743

The fair value of prepayments and other receivables approximates to their carrying amount.

28. Pledged deposits and restricted cash, and cash and cash equivalents

	2016 RMB'000	2015 RMB'000
Pledged deposits and restricted cash		
Pledged bank deposits	**4,944,171**	4,602,286
Bank deposits with an initial term of over three months	**73,469**	–
	5,017,640	4,602,286

28. Pledged deposits and restricted cash, and cash and cash equivalents (continued)

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents		
– Cash on hand	**24,307**	12,164
– Cash at banks	**22,424,336**	17,960,149
– Cash in other financial institutions (Note 42)	**3,124,116**	1,993,739
	25,572,759	19,966,052
Pledged deposits and restricted cash, and cash and cash equivalents		
Denominated in		
– RMB	**30,527,086**	24,442,617
– USD	**55,950**	80,910
– HKD	**4,416**	42,972
– Others	**2,947**	1,839
	30,590,399	24,568,338

Bank deposits are pledged as collateral for the following:

	2016 RMB'000	2015 RMB'000
Collateral for bank acceptance notes	**4,857,547**	4,456,915
Collateral for borrowings	**31,256**	127,742
Collateral for letters of credit	**35,753**	12,264
Collateral for letters of guarantee	**8,480**	5,365
Others	**11,135**	–
	4,944,171	4,602,286

The maximum exposure to credit risk as at 31 December 2016 and 2015 approximates to the carrying value of pledged deposits and restricted cash, and cash and cash equivalents.

RMB is not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

28. Pledged deposits and restricted cash, and cash and cash equivalents (continued)

The effective interest rates of bank deposits in banks and other financial institutions are as follows:

	2016	2015
Weighted average effective interest rate (per annum)	**0.88%**	0.66%

29. Share capital

	Number of shares '000	**Domestic shares with par value of RMB1 per share RMB'000**	**H shares with par value of RMB1 per share RMB'000**	**Total RMB'000**
At 1 January 2015	2,767,095	1,574,284	1,192,811	2,767,095
At 31 December 2015	2,767,095	1,574,284	1,192,811	2,767,095
At 31 December 2016	2,767,095	1,574,284	1,192,811	2,767,095

The total number of authorised domestic shares and H shares was 2,767,095 thousand (2015: 2,767,095 thousand) with a par value of RMB1 per share (2015: RMB1 per share). All issued shares were fully paid.

30. Reserves

	Note	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of available-for-sale investments RMB'000	Other reserves (Note (c)) RMB'000	Retained earnings (Note (b)) RMB'000	Total RMB'000
At 1 January 2015							
As previously reported		18,077,173	423,398	16,687	(1,279,202)	7,376,716	24,614,772
Business combinations under common control		–	–	–	10,878	44,036	54,914
At 1 January 2015 (Restated)		18,077,173	423,398	16,687	(1,268,324)	7,420,752	24,669,686
Profit for the year		–	–	–	–	3,772,222	3,772,222
Revaluation of available-for-sale investments							
– gross		–	–	23,075	–	–	23,075
– tax		–	–	(5,769)	–	–	(5,769)
Remeasurement on post-employment benefit obligation							
– gross		–	–	–	(35,714)	–	(35,714)
– tax		–	–	–	8,713	–	8,713
Currency translation differences		–	–	–	4,917	–	4,917
Appropriation to statutory reserves	(a)	–	134,792	–	–	(134,792)	–
Dividend declared		–	–	–	–	(857,799)	(857,799)
Transactions with non-controlling interests		–	–	–	(128,116)	(113,202)	(241,318)
Others		–	–	–	10,000	(4,798)	5,202
At 31 December 2015 (Restated)		18,077,173	558,190	33,993	(1,408,524)	10,082,383	27,343,215
Profit for the year		**–**	**–**	**–**	**–**	**4,647,344**	**4,647,344**
Revaluation of available-for-sale investments							
– gross		**–**	**–**	**(3,942)**	**–**	**–**	**(3,942)**
– tax		**–**	**–**	**591**	**–**	**–**	**591**
Remeasurement on post-employment benefit obligation							
– gross		**–**	**–**	**–**	**7,946**	**–**	**7,946**
– tax		**–**	**–**	**–**	**(1,516)**	**–**	**(1,516)**
Currency translation differences		**–**	**–**	**–**	**(17,918)**	**–**	**(17,918)**
Share of comprehensive income of associates		**–**	**–**	**–**	**(1,507)**	**–**	**(1,507)**
Appropriation to statutory reserves	(a)	**–**	**157,679**	**–**	**–**	**(157,679)**	**–**
Dividend declared	36	**–**	**–**	**–**	**–**	**(1,134,509)**	**(1,134,509)**
Transactions with non-controlling interests		**–**	**–**	**–**	**(1,176,180)**	**–**	**(1,176,180)**
Equity-settled share incentive scheme		**–**	**–**	**–**	**3,359**	**–**	**3,359**
Assets restructuring	39	**–**	**–**	**–**	**(596,589)**	**–**	**(596,589)**
Others		**–**	**–**	**–**	**(26,461)**	**–**	**(26,461)**
At 31 December 2016		**18,077,173**	**715,869**	**30,642**	**(3,217,390)**	**13,437,539**	**29,043,833**

30. Reserves (continued)

Notes:

(a) PRC laws and regulations require companies registered in the PRC to maintain certain statutory reserves, which are to be appropriated from the retained earnings (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before distributing retained earnings to their shareholders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of the net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to a discretionary surplus reserve based on a resolution of the board of directors.

(b) Retained earnings as at 31 December 2016 included the proposed final dividend of RMB1,383,548 thousand (2015: RMB1,134,509 thousand).

(c) Other reserves mainly represent reserves for business combination under common control, transactions with non-controlling interests and remeasurement on post-employment benefit obligations.

31. Interest-bearing bank and other borrowings

	2016 RMB'000	2015 RMB'000
Non-current		
Secured bank borrowings	531,100	235,000
Unsecured bank borrowings	2,614,283	341,595
Unsecured borrowings from other financial institutions	–	31,600
Bond (i)	7,989,916	–
	11,135,299	608,195
Current		
Secured bank borrowings	3,015,119	1,899,549
Unsecured bank borrowings	13,229,011	13,115,842
Unsecured borrowings from other financial institutions	121,600	345,000
Bond (i)	5,996,848	12,994,892
	22,362,578	28,355,283
Total borrowings	33,497,877	28,963,478
The carrying amounts of the Group's borrowings are denominated in the following currencies:		
– RMB	33,466,622	28,823,937
– USD	18,080	102,516
– HKD	13,175	35,177
– EUR	–	1,848
	33,497,877	28,963,478

31. Interest-bearing bank and other borrowings (continued)

Notes:

(i) On 13 March 2013, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB4,000,000 thousand (the "corporate bonds"). The corporate bonds will expire on 13 March 2018, for a period of five years commencing from the issue date of 13 March 2013. The annual interest rate of the corporate bonds for the first three years was fixed at 4.54%. Interest is paid on an annual basis. The Company has the option to raise the interest rate at the end of the third year and the bond holders also have the right for early redemption at the end of the third year, i.e., 13 March 2016. As at 14 March 2016, none of the corporate bonds was redeemed, and the corporate bonds were reclassified as non-current liabilities.

On 9 March 2016, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000 thousand. After deduction of the expenses of approximately RMB12,852 thousand in relation to the issuance, the total net proceeds were approximately RMB3,987,148 thousand. The bonds will mature 5 years from the issue date (i.e., 9 March 2021), and the annual interest rate is 2.92%. The Company has the right for early redemption at the end of the third year, i.e., 9 March 2019. Interest is paid on an annual basis. As at 31 December 2016, the corporate bonds are classified as non-current liabilities.

On 9 April 2015, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000 thousand. After deduction of the expenses of approximately RMB3,525 thousand in relation to the issuance, the total net proceeds were approximately RMB2,996,475 thousand. The bonds would mature 270 days from the issue date (i.e., 4 January 2016), and the annual interest rate was 4.80%. As at 31 December 2015, the corporate bonds were classified as current liabilities. The bonds matured and were repaid on 4 January 2016.

On 20 May 2015, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000 thousand. After deduction of the expenses of approximately RMB3,525 thousand in relation to the issuance, the total net proceeds were approximately RMB2,996,475 thousand. The bonds would mature 270 days from the issue date (i.e., 14 February 2016), and the annual interest rate was 3.28%. As at 31 December 2015, the corporate bonds were classified as current liabilities. The bonds matured and were repaid on 14 February 2016.

On 22 July 2015, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000 thousand. After deduction of the expenses of approximately RMB3,575 thousand in relation to the issuance, the total net proceeds were approximately RMB2,996,425 thousand. The bonds would mature 270 days from the issue date (i.e., 17 April 2016), and the annual interest rate is 3.03%. As at 31 December 2015, the corporate bonds were classified as current liabilities. The bonds matured and were repaid in 2016.

On 14 January 2016, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000 thousand. After deduction of the expenses of approximately RMB3,666 thousand in relation to the issuance, the total net proceeds were approximately RMB2,996,334 thousand. The bonds would mature 270 days from the issue date (i.e., 10 October 2016), and the annual interest rate was 2.50%.The bonds matured and were repaid in 2016.

On 17 March 2016, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000 thousand. After deduction of the expenses of approximately RMB2,440 thousand in relation to the issuance, the total net proceeds was approximately RMB1,997,560 thousand. The bonds would mature 270 days from the issue date (i.e., 12 December 2016), and the annual interest rate was 2.69%. The bonds matured and were repaid in 2016.

31. Interest-bearing bank and other borrowings (continued)

Notes: (continued)

On 6 June 2016, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000 thousand. After deduction of the expenses of approximately RMB3,446 thousand in relation to the issuance, the total net proceeds were approximately RMB2,996,554 thousand. The bonds will mature 270 days from the issue date (i.e., 3 March 2017), and the annual interest rate was 2.98%. As at 31 December 2016, the corporate bonds were classified as current liabilities.

On 12 September 2016, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000 thousand. After deduction of the expenses of approximately RMB3,614 thousand in relation to the issuance, the total net proceeds were approximately RMB2,996,386 thousand. The bonds will mature 270 days from the issue date (i.e., 9 June 2017), and the annual interest rate was 2.86%. As at 31 December 2016, the corporate bonds were classified as current liabilities.

The Group's borrowings were repayable as follows:

	Borrowings from banks or other financial institutions As at 31 December		Bonds As at 31 December	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Within 1 year	**16,365,730**	15,360,391	**5,996,848**	12,994,892
Between 1 and 2 years	**1,211,151**	249,600	**4,000,000**	–
Between 2 and 5 years	**1,934,232**	317,700	**3,989,916**	–
Over 5 years	**–**	40,895	**–**	–
	19,511,113	15,968,586	**13,986,764**	12,994,892

All of the Group's borrowings from banks or other financial institutions are with floating rates, as follows:

	2016	2015
Weighted average effective interest rate (per annum)	**4.38%**	5.09%

Interest rates of borrowings from banks or other financial institution are reset periodically according to HIBOR, LIBOR or the benchmark rates announced by the PBOC.

31. Interest-bearing bank and other borrowings (continued)

As at 31 December 2016, secured bank borrowings amounting to RMB13,338 thousand were guaranteed by third parties (31 December 2015: RMB422,468 thousand). The collateral for the rest of the Group's secured bank borrowings is as follows:

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents (Note 28)	**31,256**	127,742
Property, plant and equipment (Note 16)	**76,690**	62,785
Investment properties (Note 15)	**19,060**	20,010
Prepaid land lease payments (Note 14)	**43,143**	47,185
Notes receivable (Note 26)	**239,073**	646,973
Finance lease receivables (Note 22)	**439,809**	388,880
Accounts receivable (Note 26)	**666,872**	607,950
	1,515,903	1,901,525

The fair value of the current borrowings approximates to their carrying amount. The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amount As at 31 December		Fair value As at 31 December	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Borrowings from banks and other financial institutions	**3,145,383**	608,195	**3,200,474**	616,826
Bonds	**7,989,916**	–	**8,522,623**	–

The fair value of the current borrowings equals to their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.38% (2015: 5.09%) and are within level 2 of the fair value hierarchy.

32. Post-employment benefit obligations

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

	2016 RMB'000	2015 RMB'000
Obligations for post-employment benefits in the consolidated statement of financial position	**518,353**	553,912

	2016 RMB'000	2015 RMB'000
Charge for post-employment benefits in the consolidated statement of profit or loss	**40,475**	48,164
Remeasurement (gains)/losses recognised in other comprehensive income (Note 12)	**(12,495)**	44,521
Cumulative remeasurement losses recognised in other comprehensive income	**87,480**	99,975

The amounts recognised in the consolidated statement of financial position are analysed as follows:

	2016 RMB'000	2015 RMB'000
Present value of funded obligations	**12,348**	12,005
Fair value of plan assets	**(46,527)**	(38,016)
Surplus of funded plans	**(34,179)**	(26,011)
Present value of unfunded post-employment benefit obligations	**552,532**	579,923
Liability in the consolidated statement of financial position	**518,353**	553,912

32. Post-employment benefit obligations (continued)

The movements in the defined benefit liability during the year are as follows:

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2015	542,298	(26,026)	516,272
Current service cost	28,991	–	28,991
Past service cost	1,172	–	1,172
Interest expense/(income) (Note 11)	19,449	(1,448)	18,001
	49,612	(1,448)	48,164
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	(3,801)	(3,801)
– Losses from change in financial assumptions	48,322	–	48,322
	48,322	(3,801)	44,521
Contributions:			
– Employers	–	(7,593)	(7,593)
Payments:			
– Benefit payments	(48,304)	852	(47,452)
At 31 December 2015	591,928	(38,016)	553,912

32. Post-employment benefit obligations (continued)

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2016	591,928	(38,016)	553,912
Current service cost	(28,032)	–	(28,032)
Past service cost	53,525	–	53,525
Interest expense/(income) (Note 11)	16,224	(1,242)	14,982
	41,717	(1,242)	40,475
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	366	366
– Gains from change in financial assumptions	(12,861)	–	(12,861)
	(12,861)	366	(12,495)
Contributions:			
– Employers	–	(8,412)	(8,412)
Payments:			
– Benefit payments	(55,904)	777	(55,127)
At 31 December 2016	564,880	(46,527)	518,353

32. Post-employment benefit obligations (continued)

The significant actuarial assumptions are as follows:

	2016	2015
Discount rate	**3.25%**	3.00%
Pension growth rate	**5.00%**	5.00%

Mortality: Average life expectancy of residents in Mainland China.

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

	Impact on defined benefit obligations		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 2.66%	Increase by 2.80%
Pension growth rate	0.50%	Increase by 0.38%	Decrease by 0.35%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Expected maturity analysis of undiscounted post-employments benefits:

At 31 December 2016	**Less than 1 year RMB'000**	**Between 1 and 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Post-employment benefits	**48,130**	**194,083**	**772,760**	**1,014,973**

33. Other non-current liabilities

	2016 RMB'000	2015 RMB'000
Medical reserve funds		
– general (i)	**407,353**	408,737
– for H1N1 vaccines	**68,407**	68,407
Government grants for construction of logistic centers (ii)	**98,751**	85,547
Government grants for products development	**2,400**	47,327
Deferred revenue	**238,055**	290,341
Finance lease deposit (iii)	**69,455**	150,017
Continuing involvement liabilities (iv)	**263,834**	–
Others	**38,560**	24,151
	1,186,815	1,074,527

Notes:

(i) Certain medical reserve funds were received by CNPGC from the PRC government for the State reserve requirements of medical products (including medicines) for serious disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group.

The Group will have to sell pharmaceutical products to specific customers at cost when there are any serious disasters, epidemic and other emergencies, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. RMB1,384 thousand was used to offset trade receivables during the year ended 31 December 2016 (2015: RMB1,232 thousand was used to offset trade receivables, and RMB12,216 thousand was repaid to government). The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised only for use as mentioned above.

(ii) Certain of the Group's subsidiaries received funds from local governments as subsidies for construction of logistics centers. As at 31 December 2016, the directors expect that the construction will not be completed within one year and therefore, the balance is recorded as other non-current liability.

(iii) The deposit was paid by the lessee to the Group as security for execution of the finance lease contract and will be repaid at the end of the contract term.

(iv) As at 31 December 2016, the Group was in continuing involvement of asset-backed securities (Note 3 (3) (iii)). The Group recognised continuing involvement liabilities of RMB263,834 thousand.

34. Trade payables

	2016 RMB'000	2015 RMB'000
Accounts payable	**50,257,200**	43,332,421
Notes payable	**16,488,615**	16,230,875
	66,745,815	59,563,296

The trade payables are non-interest-bearing and are normally settled on 90-day terms The fair value of trade payables approximates to their carrying amount.

The ageing analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Below 3 months	**49,532,985**	49,410,481
Between 3 and 6 months	**12,878,192**	6,221,805
Between 6 months to 1 year	**2,938,441**	2,860,549
Between 1 and 2 years	**748,965**	565,547
Over 2 years	**647,232**	504,914
	66,745,815	59,563,296

The Group's trade payables are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**66,276,986**	59,062,818
USD	**397,669**	478,143
EUR	**–**	6,045
HKD	**71,160**	15,930
MOP	**–**	360
	66,745,815	59,563,296

The Group has accounts payable financing program with certain banks whereby the banks repaid accounts payable on behalf of the Group with an equivalent sum drawn as borrowings. Such draw down of borrowings is a non-cash transaction while repayment of the borrowings in cash is accounted for as financing cash outflows.

During the year ended 31 December 2016, accounts payable of RMB3,037,485 thousand (2015: RMB3,567,502 thousand) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2016 and 31 December 2015, all bank borrowings related to this program were repaid.

35. Accruals and other payables

	2016 RMB'000	2015 RMB'000
Accrual of operating expenses	**1,219,076**	785,919
Collection of accounts receivable on behalf of banks under factoring programs	**2,099,693**	1,098,923
Salary and welfare payable	**1,007,626**	944,889
Advances from customers	**623,558**	582,043
Other deposits	**1,080,870**	935,112
Taxes payable other than income tax	**419,886**	377,240
Interest payable	**427,245**	399,249
Other payables due to related parties (Note 42)	**90,126**	245,520
Advances due from related parties (Note 42)	**14,970**	3,283
Payables arising from acquisition of subsidiaries and contingent consideration	**441,390**	322,948
Payables arising from acquisition of non-controlling interests	**632,637**	8,096
Payables for exclusive distribution rights	**–**	98,364
Collection on behalf of asset-backed securities	**281,335**	–
Others	**1,341,173**	1,221,136
	9,679,585	7,022,722

The fair value of financial liabilities included in accruals and other payables approximates to their carrying amount.

36. Dividends

The dividends paid by the Company in 2016 were RMB1,134,509 thousand (RMB0.41 (tax inclusive) per ordinary share). A final dividend for the year ended 31 December 2016 of RMB0.50 (tax inclusive) per ordinary share, totalling approximately RMB1,383,548 thousand is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 24 March 2017. These financial statements have not reflected this proposed dividend.

	2016 RMB'000	2015 RMB'000
Proposed final dividend	**1,383,548**	1,134,509

37. Notes to consolidated statement of cash flows

	2016 RMB'000	2015 RMB'000
Profit before income tax	**8,924,822**	7,469,173
Adjustments for:		
– Share of profits and losses of associates (Note 19)	**(232,190)**	(165,060)
– Asset impairment (Note 9)	**124,346**	124,943
– Depreciation (Note 9)	**772,334**	734,714
– Amortisation (Note 9)	**295,427**	271,149
– Gain on disposal of prepaid land lease payments, property, plant and equipment, and intangible assets (Note 8)	**(255,934)**	(5,805)
– Write-back of certain liabilities (Note 8)	**(12,596)**	(33,766)
– Gain on disposal of available-for-sale investments (Note 8)	**(470)**	(42,791)
– Gain on fair value remeasurement of existing equity in a subsidiary disposed of (Note 8)	**(35,080)**	(2,603)
– Finance cost	**1,971,187**	2,071,036
– Gain on disposal of subsidiaries (Note 8)	**(110,377)**	(6,816)
– Fair value gains on available-for-sale investments	**(37)**	–
– Dividend from available-for-sale investments (Note 8)	**(13,727)**	(13,030)
– Equity-settled share incentive scheme expense (Note 10)	**3,833**	–
	11,431,538	10,401,144
– Inventories	**(3,559,829)**	(1,831,443)
– Trade receivables	**(4,852,241)**	2,192,898
– Prepayments, other receivables and other assets	**(4,087,643)**	(813,064)
– Trade payables	**11,207,895**	4,324,935
– Accruals, other payables and other liabilities	**1,164,140**	930,736
Cash generated from operations	**11,303,860**	15,205,206

38. Commitments

(a) Capital commitments

Capital expenditures at the end of reporting period are as follows:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment:		
– contracted but not provided for	**308,685**	301,755

(b) Operating lease commitments

(i) The Group as lessee:

The Group leases various land and buildings under non-cancellable operating lease agreements.

Certain of the operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for a specified number of years.

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

	2016 RMB'000	2015 RMB'000
Within 1 year	**736,498**	611,264
Later than 1 year and not later than 5 years	**1,684,421**	1,242,404
Later than 5 years	**820,650**	461,574
	3,241,569	2,315,242

(ii) The Group as lessor:

The Group leases out certain investment properties under non-cancellable operating lease agreements. The further aggregate minimum rental receivables under these leases are as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**18,649**	56,072
Later than 1 year and not later than 5 years	**41,764**	85,048
Later than 5 years	**13,322**	26,685
	73,735	167,805

39. Material assets restructuring

During the year, the Group had the following major assets restructuring transactions.

(a) The Company disposed of 26% equity interest in Sinopharm Holding A-Think Pharmaceutical Co., Ltd. ("Sinopharm A-Think") and 51% equity interest in China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd. ("Sanyi Pharmaceutical") to Shanghai Modern Pharmaceutical Co., Ltd. ("Modern Pharmaceutical") for an aggregate consideration of approximately RMB486,210 thousand, which shall be satisfied by issuance of 16,731,237 consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to the Company. The above-mentioned consideration shares of approximately 16,731,237 represent approximately 3.01% of the issued share capital of Modern Pharmaceutical as enlarged by the issuance of the consideration shares; and

(b) Sinopharm Accord disposed of 51% equity interest in Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd. ("Zhijun Pharmaceutical"), 51% equity interest in Shenzhen Zhijun Pharmaceutical Trade Co., Ltd. ("Zhijun Pharmaceutical Trade"), 51% equity interest in Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd. ("Pingshan Pharmaceutical"), and Pingshan Base held by Sinopharm Accord to Modern Pharmaceutical for an aggregate consideration of approximately RMB2,511,323 thousand, which shall be satisfied by issuance of 86,418,532 consideration shares in total at the issue price of RMB29.06 per consideration share by Modern Pharmaceutical to Sinopharm Accord. The above-mentioned consideration shares of approximately 86,418,532 represent approximately 15.56% of the issued share capital of Modern Pharmaceutical as enlarged by the issuance of the consideration shares; and

(c) Sinopharm Accord acquired 51% equity interest in Guangdong Southern Pharmaceutical Foreign Trade Co., Ltd. ("Southern Pharmaceutical") by China National Pharmaceutical Foreign Trade Corporation ("Pharmaceutical Foreign Trade") for an aggregate consideration of approximately RMB284,783 thousand, which shall be satisfied by the issuance of approximately 5,323,043 consideration shares in total at the issue price of RMB53.50 per consideration share by Sinopharm Accord to Pharmaceutical Foreign Trade. The above-mentioned approximately 5,323,043 consideration shares represent approximately 1.24% of the issued share capital of Sinopharm Accord as enlarged by the issuance of the consideration shares. Sinopharm Accord acquired 49% equity interest in Southern Pharmaceutical held by 11 individuals for an aggregate consideration of approximately RMB273,615 thousand, which shall be satisfied by cash. Sinopharm Accord shall issue 5,114,297 shares in total at the issue price of RMB53.50 to Ping An Asset Management Co., Ltd. to raise matching funds. The above-mentioned consideration shares of approximately 5,114,297 represent approximately 1.19% of the issued share capital of Sinopharm Accord as enlarged by the issuance of the consideration shares; and

(d) The Company disposed of 100% equity interest in Sinopharm Holding GuoDa Drug Store Co., Ltd., 100% equity interest in Foshan Nanhai Medical Group Co., Ltd. and 100% equity interest in Guangdong Dong Fang Uptodate & Special Medicines Co., Ltd. held by the Company to Sinopharm Accord for an aggregate consideration of approximately RMB2,945,587 thousand, which shall be satisfied by issuance of 55,057,700 consideration shares in total at the issue price of RMB53.50 per consideration share by Sinopharm Accord to the Company. The above-mentioned consideration shares of approximately 55,057,700 represent approximately 12.87% of the issued share capital of Sinopharm Accord as enlarged by the issuance of the consideration shares.

39. Material assets restructuring (continued)

Since the acquisitions and the disposals and deemed disposal under the above assets restructuring are inter-conditional, the acquisitions and the disposals and deemed disposal are regarded as one transaction involving both an acquisition and disposal. Both Modern Pharmaceutical and Pharmaceutical Foreign Trade are subsidiaries of China National Pharmaceutical Group Corporation ("CNPGC"), the ultimate controlling shareholder of the Company. When the Group loses control over subsidiaries, it derecognised (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the carrying amount of the consideration received, (ii) the carrying amount of any investment retained and (iii) any resulting surplus or deficit in reserves.

Upon completion of the assets restructuring, the carrying amount of the shareholding of the non-controlling interests increased by RMB411,901 thousand. The Group recognised a decrease in equity attributable to owners of parent of RMB596,589 thousand.

The above transactions have been approved by the SASAC (State-owned Assets Supervision and Administration Commission of the State Council), the CSRC (China Securities Regulatory Commission), the shareholders' meeting of the Company, Sinopharm Accord and Modern Pharmaceutical, respectively. Upon completion of the assets restructuring, (i) Sinopharm Accord continues to be a subsidiary of the Company, and its shareholding of the Company in Sinopharm Accord increased from 51.00% to 56.06%. (ii) Southern Pharmaceutical becomes a subsidiary of the Company, and the equity interests of the Company in Southern Pharmaceutical are held through Sinopharm Accord, and (iii) each of Sinopharm A-Think, Sanyi Pharmaceutical, Zhijun Pharmaceutical, Zhijun Pharmaceutical Trade, and Pingshan Pharmaceutical cease to be a subsidiary of the Company and become an associated company of the Company as well as a subsidiary of Modern Pharmaceutical. Therefore, each of Sinopharm A-Think, Sanyi Pharmaceutical, Zhijun Pharmaceutical, Zhijun Pharmaceutical Trade Company, and Pingshan Pharmaceutical become a connected person of the Company.

As at 4 January 2017, the new A shares of Sinopharm Accord subscribed for by the Company were listed on the Shenzhen Stock Exchange, subject to a lock-up period of 36 months.

As at 9 March 2017, the new A shares of Modern Pharmaceutical subscribed for by the Company and Sinopharm Accord were listed on the Shanghai Stock Exchange, subject to a lock-up period of 36 months.

40. Transactions with non-controlling interests

(a) Acquisition of additional interests in subsidiaries

During the year, the Group acquired the following additional equity interests in the subsidiaries from the non-controlling interests:

Subsidiaries	Equity interests acquired %	Cash consideration RMB'000
Sinopharm Holding Hunan Co., Ltd.	17.00%	149,882
Sinopharm Holding Henan Co., Ltd.	29.00%	1,134,662
Sinopharm Holding Yunnan Co., Ltd.	20.00%	113,820
Sinopharm Holding Hubei Co., Ltd.	7.00%	164,350
Sinopharm Holding Chongqing Nanchuan Co., Ltd.	15.00%	–
Sinopharm Holding Jinhua Pharmacy Chain Store Co., Ltd.	10.00%	128
Sinopharm Holding Shantou Co., Ltd.	30.00%	3,500
Southern Pharmaceutical (Note 39)	49.00%	273,615
Sinopharm Accord (Note 39)	5.06%	–
		1,839,957

Except for Southern Pharmaceutical and Sinopharm Accord disclosed in note 39, the effect of changes in the equity interests of these subsidiaries on the equity attributable to owners of the parent during the year is summarised as follows:

	Effect on the total equity RMB'000
Carrying amount of non-controlling interests acquired	390,162
Consideration payable to non-controlling interests	1,566,342
Excess of consideration paid over the carrying amount acquired	1,176,180

40. Transactions with non-controlling interests (continued)

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the year ended 31 December 2016

	Effect on the total equity RMB'000
Changes in equity attributable to owners of the parent arising from:	
– acquisition of additional interest in subsidiaries	1,176,180
Net effect for transactions with non-controlling interests on equity attributable to owners of the parent	1,176,180

41. Disposal of subsidiaries and business combinations

(a) Disposal of subsidiaries

The Group disposed of equity interests in certain subsidiaries during the period as follows:

Subsidiaries disposed of	Note	Disposed interests
Sinopharm Holding (Tianjin) Health Consultancy Co., Ltd.		45%
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.		67%
Sinopharm Holding Bengbu Co., Ltd.		70%
Sinopharm Group Health (Anhui) Pharmaceutical Co., Ltd.		71%
Taizhou Fang Tongren Medical Co., Ltd.		100%
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	39	26%
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	39	51%
Shenzhen Zhijun Pharmaceutical Trade Co., Ltd.	39	51%
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	39	51%
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	39	51%
Sinopharm Holding Shanxi Xinzhou Co., Ltd.		60%
Sinopharm Holding Wuwei Co., Ltd.		70%
Sinopharm Holding Qingyang Co., Ltd.		70%
Sinopharm Holding Tibet Pharmaceutical Co., Ltd.		60%
Sinopharm Health Online Co., Ltd.		10%

41. Disposal of subsidiaries and business combinations (continued)

(a) Disposal of subsidiaries (continued)

The details of the assets and liabilities disposed of and cash flows relating to these disposals except those involved in material assets restructuring are summarised as follows:

	At date of disposal RMB'000
Net assets disposed of:	
Cash and cash equivalents	71,731
Property, plant and equipment (Note 16)	197,498
Prepaid land lease payments (Note 14)	16,455
Intangible assets (Note 17)	20,468
Deferred tax assets	49,692
Inventories	90,038
Goodwill (Note 17)	28,210
Other non-current assets	3,659
Trade and other receivables	380,543
Trade and other payables	(428,818)
Interest-bearing bank and other borrowings	(177,949)
Deferred tax liabilities	(3,242)
Other non-current liabilities	(2,781)
Net assets	245,504
Non-controlling interests	(34,766)
Capital and reserves attributable to the Company's shareholders	210,738
Gain on disposal of subsidiaries and gain on fair value remeasurement of existing equity in a subsidiary disposed of	145,457
	356,195
Satisfied by:	
Cash	236,976
Investments in associates	119,219
	356,195

41. Disposal of subsidiaries and business combinations (continued)

(a) Disposal of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2016 **RMB'000**
Cash consideration	**236,976**
Cash and cash equivalents in subsidiaries disposed of	**(71,731)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**165,245**

(b) Business combinations not under common control

Acquisitions during the year are as follows:

The Group acquired equity interests from third parties in certain subsidiaries which are mainly engaged in the distribution of medicines and pharmaceutical products and operations of pharmaceutical chain stores in order to extend the market share of the Group. The subsidiaries acquired by during the year are as follows:

Subsidiaries acquired from third parties	**Acquisition date**	**Acquired interests**
Sinopharm Guoda Qunkang Pharmacy Chain Store (Taishan) Co., Ltd.	31 March 2016	70%
Sinopharm Holding Linqu Co., Ltd.	7 January 2016	80%
Beijing Yishang Juli Technology Co., Ltd.	31 March 2016	100%

The effect of the above acquisitions is summarised as follows:

	RMB'000
Purchase consideration	
– Contingent consideration (i)	20,790
– Cash paid	23,761
Total purchase consideration	44,551

41. Disposal of subsidiaries and business combinations (continued)

(b) Business combinations not under common control (continued)

The details of the assets and liabilities acquired and cash flows relating to these acquisitions are summarised as follows:

	Fair value at acquisition date RMB'000
Cash and cash equivalents	3,755
Property, plant and equipment (Note 16)	2,347
Intangible assets (Note 17)	
– software	4,820
Deferred tax assets	187
Inventories	20,743
Trade and other receivables	64,360
Trade and other payables	(61,572)
Deferred tax liabilities	(1,202)
Interest-bearing bank and other borrowings	(11,600)
Net assets	21,838
Non-controlling interests (ii)	(4,304)
Goodwill (Note 17)	27,017
	44,551
Total purchase consideration	44,551
Less: contingent consideration (i)	(20,790)
	23,761
Less: non-cash settled consideration	(852)
Cash consideration paid in 2016	22,909
Cash and cash equivalents in subsidiaries acquired	(3,755)
Cash outflow on acquisition	19,154

The goodwill is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries acquired not under common control combination.

41. Disposal of subsidiaries and business combinations (continued)

(b) Business combinations not under common control (continued)

Notes:

(i) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay a contingent consideration based on achievement of the profit targets of the acquirees. The maximum undiscounted contingent consideration payable is RMB20,790 thousand.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB20,790 thousand. As at 31 December 2016, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interests

The Group has elected to recognise non-controlling interests measured at the non-controlling interests in the acquiree's net assets excluding goodwill.

(iii) The revenue and net profit of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2016 are summarised as follows:

	From acquisition date to 31 December 2016 RMB'000
Revenue	166,472
Net profit	5,050

(iv) The revenue and net profit of these newly acquired subsidiaries from 1 January 2016 to 31 December 2016 are summarised as follows:

	From 1 January 2016 to 31 December 2016 RMB'000
Revenue	184,711
Net profit	6,351

41. Disposal of subsidiaries and business combinations (continued)

(c) Business combinations under common control

As a part of the assets restructuring (Note 39), on 31 October 2016, the Group obtained a 51% equity interest in Southern Pharmaceutical from Pharmaceutical Foreign Trade. Since both Southern Pharmaceutical and Pharmaceutical Foreign Trade are subsidiaries of China National Pharmaceutical Group Corporation ("CNPGC"), the ultimate controlling shareholder of the Company, the acquisition was a business combination under common control. The business combination under common control was accounted for in accordance with *Accounting Guideline 5 – Merger Accounting for Common Control Combinations* issued by HKICPA. In applying merger accounting, financial statement items of the combining entity for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated financial statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of the above subsidiary on the consolidated statement of financial position.

The consolidated statement of financial position as at 31 December 2015:

	The Group as previously reported	Southern Pharmaceutical	Adjustments	The Group restated
Net assets	40,655,705	220,217	2,755	40,878,677
Share capital	2,767,095	30,000	(30,000)	2,767,095
Share premium	18,077,173	–	–	18,077,173
Statutory reserves	558,190	16,582	(16,582)	558,190
Revaluation of available-for-sale investments	33,993	–	–	33,993
Other reserves	(1,419,402)	40	10,838	(1,408,524)
Retained earnings	10,034,577	173,595	(125,789)	10,082,383
Non-controlling interests	10,604,079	–	164,288	10,768,367
	40,655,705	220,217	2,755	40,878,677

41. Disposal of subsidiaries and business combinations (continued)

(c) Business combinations under common control (continued)

The consolidated statement of financial position as at 31 December 2014:

	The Group as previously reported	Southern Pharmaceutical	Adjustments	The Group restated
Net assets	36,289,629	205,724	2,755	36,498,108
Share capital	2,767,095	30,000	(30,000)	2,767,095
Share premium	18,077,173	–	–	18,077,173
Statutory reserves	423,398	16,582	(16,582)	423,398
Revaluation of available-for-sale investments	16,687	–	–	16,687
Other reserves	(1,279,202)	40	10,838	(1,268,324)
Retained earnings	7,376,716	159,102	(115,066)	7,420,752
Non-controlling interests	8,907,762	–	153,565	9,061,327
	36,289,629	205,724	2,755	36,498,108

42. Significant related party 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 PRC government, indirectly, owns 100% of CNPGC which is the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchase of goods, purchase of fixed assets, interest expenses on bank borrowings and interest income from bank deposits. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, borrowings, restricted bank deposits, cash and cash equivalents.

42. Significant related party transactions (continued)

Beside other PRC government-related entities, the Company's directors and the Group's management consider the following entities are principal related parties of the Group with which the Group had transactions during the year.

Name of related party	Nature of relationship
China National Pharmaceutical Group Corporation	The ultimate holding company of the Company
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	Controlled by CNPGC
Beijing Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Beijing Tiantan Biological Products Co., Ltd.	Controlled by CNPGC
Chengdu Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Chengdu Institute of Biological Products	Controlled by CNPGC
Foshan Winteam Pharmaceutical Co., Ltd.	Controlled by CNPGC
Guangdong Yifang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm (Shanghai) International Medical Health Co., Ltd.	Controlled by CNPGC
Sinopharm (Tianjin) Northern Medical Equipment Co., Ltd.	Controlled by CNPGC
Sinopharm (Tianjin) Medical Devices Co., Ltd.	Controlled by CNPGC
Sinopharm Tianjin Medical Laboratory Science & Technology Co., Ltd.	Controlled by CNPGC
Sinopharm Group Anhui Medical Instrument Co., Ltd.	Controlled by CNPGC
Sinopharm Group Finance Co., Ltd.	Controlled by CNPGC
China Chengde Medicine Co., Ltd.	Controlled by CNPGC
Sinopharm Chuankang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Fengliaoxing (Foshan) Medicines Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Industry Co., Ltd.	Controlled by CNPGC
Guangdong Global Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Henan Medical Devices Co., Ltd.	Controlled by CNPGC
Sinopharm Jiangxi Medical Instruments Co., Ltd.	Controlled by CNPGC
Anhui Jingfang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Guizhou Longlife Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Combined Instrument Co., Ltd.	Controlled by CNPGC
Sinopharm Holding (Liaoning Province) Medical Instruments Co., Ltd.	Controlled by CNPGC
Shandong Luya Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	Controlled by CNPGC
Sinopharm Shanxi Ruifulai Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Shantou Jinshi Pharmaceutical Co., Ltd.	Controlled by CNPGC
China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd.	Controlled by CNPGC
Guizhou Tongjitang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Weiqida Pharmaceutical Co., Ltd.	Controlled by CNPGC
China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd.	Controlled by CNPGC
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Yunnan Medical Instrument Co., Ltd.	Controlled by CNPGC

42. Significant related party transactions (continued)

Name of related party	Nature of relationship
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Scientific Instruments & Materials Shenzhen Co., Ltd.	Controlled by CNPGC
Sinopharm Vanda Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Midland Hospital Management Co., Ltd.	Controlled by CNPGC
Huayi Pharmaceutical Co., Ltd.	Controlled by CNPGC
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Lanzhou Institute of Bio-products Co., Ltd.	Controlled by CNPGC
Sinopharm Shanxi Medical Devices Co., Ltd.	Controlled by CNPGC
Shanghai Institute of Bio-products Co., Ltd.	Controlled by CNPGC
Shanghai Techwell Biopharmaceutical Co., Ltd.	Controlled by CNPGC
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	Controlled by CNPGC
Shanghai Modern Pharmaceutical Co., Ltd.	Controlled by CNPGC
Shydec Pharmaceutical Marketing Co., Ltd.	Controlled by CNPGC
Shanghai Institute of Pharmaceutical Industry	Controlled by CNPGC
Wuhan Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Xinxiang Central Hospital	Controlled by CNPGC
Xinxiang City Second People's Hospital	Controlled by CNPGC
Xinxiang Maternity and Child Hospital	Controlled by CNPGC
Xinxiang Hospital of Traditional Chinese Medicine	Controlled by CNPGC
Changchun Institute of Biological Products	Controlled by CNPGC
China Sinopharm International Corporation	Controlled by CNPGC
China National Scientific Instruments and Materials Co., Ltd.	Controlled by CNPGC
China Bio-Technology Co., Ltd.	Controlled by CNPGC
Sinopharm Shandong Medical Devices Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Foreign Trade Corporation	Controlled by CNPGC
China State Institute of Pharmaceutical Industry	Controlled by CNPGC
China National Pharmaceutical Industry Corporation	Controlled by CNPGC
Sino Pharmengin Corporation	Controlled by CNPGC
Sinopharm Chongqing Pharmaceutical and Medical Industry Design Institute	Controlled by CNPGC
China National Corp. of Traditional and Herbal Medicine	Controlled by CNPGC
China National of Traditional and Herbal Medicine Co., Ltd.	Controlled by CNPGC
Sinopharm (Guangdong) Medical Instruments Co., Ltd.	Controlled by CNPGC
Sinopharm Health Online Co., Ltd.	Associate
Sinopharm Nutraceuticals (Shanghai) Co., Ltd.	Associate
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	Associate
Sinopharm Group Changsha Co., Ltd.	Associate
Sinopharm Holding Zhuhai Co., Ltd.	Associate
Hubei Yuankang Pharmaceutical Co., Ltd.	Associate
Shanghai Beiyi Guoda Pharmaceutical Co., Ltd.	Associate
Shanghai Guoda Lingyun Drug Store Co., Ltd.	Associate

42. Significant related party transactions (continued)

Name of related party	Nature of relationship
Shanghai Liyi Drug Store Co., Ltd.	Associate
Shenzhen Main Luck Pharmaceutical Co., Ltd.	Associate
Sichuan Kangdaxin Medical Co., Ltd.	Associate
Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd.	Associate
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	Associate
Yichang Humanwell Pharmaceutical Co., Ltd.	Associate
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	Associate
Qinghai Pharmaceutical Group Co., Ltd.	Associate
Qinghai Pharmaceutical Co., Ltd.	Subsidiary of an associate
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	Subsidiary of an associate
Beijing Zhonglian Pharmaceutical Chemical Industry Corporation	Associate of CNPGC
Sino-Swed Pharmaceutical Corporation Ltd.	Associate of CNPGC
China Otsuka Pharmaceutical Co., Ltd.	Associate of CNPGC
Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (“Fosun Pharmaceutical”)	The shareholder which has significant influence on the Company
Anhui Jimin Tumor Hospital	Subsidiary of Fosun Pharmaceutical
Foshan Chancheng Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Foshan City Chancheng District Central Hospital Ltd.	Subsidiary of Fosun Pharmaceutical
Foshan City Chanyixing Medicine Development Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Hebei Wanbang Fulin Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Hunan Dongting Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	Subsidiary of Fosun Pharmaceutical
Jinzhou Aohong Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shanghai Zhaohui Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shanghai Chemo Biological Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shenyang Hongqi Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Sichuan Hexin Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Suzhou Erye Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Wenzhou Geriatric Hospital Limited Company	Subsidiary of Fosun Pharmaceutical
Chongqing Haisiman Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Chongqing Yaoyou Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical

42. Significant related party 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 state-owned enterprises, and balances arising from related party transactions, except those disclosed in Note 39.

(a) Significant related party transactions

(i) Significant transactions with related parties except for other PRC government-related entities

	2016 RMB'000	2015 RMB'000
Sales of goods		
China National Pharmaceutical Group Corporation	15	102
Xinxiang Central Hospital	416,143	409,004
Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd.	226,797	212,408
Shanghai Beiyi Guoda Pharmaceutical Co., Ltd.	103,845	81,852
Hubei Yuankang Pharmaceutical Co., Ltd.	80,352	68,907
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	71,178	41,826
Xinxiang City Second People's Hospital	68,962	67,696
Foshan Chancheng Pharmaceutical Co., Ltd.	66,158	53,051
Sinopharm Group Changsha Co., Ltd.	39,633	647
Sichuan Kangdaxin Medical Co., Ltd.	33,050	34,699
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	32,467	2,288
Wuhan Institute of Biological Products Co., Ltd.	22,664	8,544
Wenzhou Geriatric Hospital Limited Company	18,499	–
China National Corp. of Traditional and Herbal Medicine	18,225	13,243
Xinxiang Maternity and Child Hospital	12,569	10,108
Sinopharm Holding (Liaoning Province) Medical Instruments Co., Ltd.	9,230	11
Foshan City Chancheng District Central Hospital Ltd.	7,292	14,740
Xinxiang Hospital of Traditional Chinese Medicine	6,782	9,342
Chengdu Rongsheng Pharmaceutical Co., Ltd.	5,417	6,925
Sinopharm Jiangxi Medical Instruments Co., Ltd.	5,273	–
Lanzhou Institute of Bio-products Co., Ltd.	5,112	6,796
China Chengde Medicine Co., Ltd.	5,048	3,278
Shanghai Institute of Bio-products Co., Ltd.	4,783	8,092
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	4,510	5,379
Beijing Tiantan Biological Products Co., Ltd.	4,467	3,111
Sinopharm Midland Hospital Management Co., Ltd.	4,364	3,310
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	3,773	39
Shanghai Guoda Lingyun Drug Store Co., Ltd.	3,681	9,825

42. Significant related party transactions (continued)

(a) Significant related party transactions (continued)

(i) Significant transactions with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Sales of goods (continued)		
China National Scientific Instruments & Materials Shenzhen Co., Ltd.	**3,053**	431
Foshan City Chanyixing Medicine Development Co., Ltd.	**2,807**	–
China National Pharmaceutical Industry Corporation	**2,518**	3,213
Sino Pharmengin Corporation	**2,499**	–
Sinopharm Holding Zhuhai Co., Ltd.	**2,357**	–
Anhui Jimin Tumor Hospital	**1,858**	2,925
Sinopharm Shandong Medical Devices Co., Ltd.	**1,851**	4,884
Beijing Institute of Biological Products Co., Ltd.	**1,708**	1,929
Hebei Wanbang Fulin Pharmaceutical Co., Ltd.	**1,538**	51
Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd.	**1,514**	1,247
Sinopharm (Shanghai) International Medical Health Co., Ltd.	**1,426**	96
Chengdu Institute of Biological Products	**1,421**	1,485
Shanghai Liyi Drug Store Co., Ltd.	**1,200**	789
Changchun Institute of Biological Products	**1,082**	1,554
Sinopharm (Guangdong) Medical Instruments Co., Ltd.	**1,044**	7
Sinopharm Fengliaoxing (Foshan) Medicines Co., Ltd.	**1,026**	1,538
Others	**16,741**	33,048
	1,325,932	1,128,420
Purchases of goods		
Yichang Humanwell Pharmaceutical Co., Ltd.	**1,442,489**	1,295,480
Sino-Swed Pharmaceutical Corporation Ltd.	**946,514**	894,293
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	**632,500**	495,327
Chengdu Rongsheng Pharmaceutical Co., Ltd.	**486,080**	330,941
Lanzhou Institute of Bio-products Co., Ltd.	**451,136**	288,549
Chongqing Yaoyou Pharmaceutical Co., Ltd.	**308,788**	186,717
Shenzhen Main Luck Pharmaceutical Co., Ltd.	**304,591**	93,926
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	**215,127**	134,393
China Otsuka Pharmaceutical Co., Ltd.	**170,704**	118,189
Guizhou Tongjitang Pharmaceutical Co., Ltd.	**156,067**	196,757
Shydec Pharmaceutical Marketing Co., Ltd.	**153,801**	112,443
China National Pharmaceutical Foreign Trade Corporation	**113,274**	45,424
Chongqing Haisiman Pharmaceuticals Co., Ltd.	**107,435**	89,768
Foshan Winteam Pharmaceutical Co., Ltd.	**73,044**	89,710
Wuhan Institute of Biological Products Co., Ltd.	**65,332**	90,524

42. Significant related party transactions (continued)

(a) Significant related party transactions (continued)

(i) Significant transactions with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Purchases of goods (continued)		
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	**64,332**	–
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	**60,353**	184,289
China National Pharmaceutical Industry Co., Ltd.	**45,033**	38,346
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	**42,553**	–
Anhui Jingfang Pharmaceutical Co., Ltd.	**30,987**	51,370
Sichuan Kangdaxin Medical Co., Ltd.	**30,336**	18,770
China National Scientific Instruments & Materials Shenzhen Co., Ltd.	**26,884**	70,291
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	**25,952**	–
Shanghai Institute of Bio-products Co., Ltd.	**23,190**	36,875
Sichuan Hexin Pharmaceutical Co., Ltd.	**21,671**	9,332
Hunan Dongting Pharmaceutical Co., Ltd.	**18,864**	17,170
Sinopharm Vanda Pharmaceutical Co., Ltd.	**16,985**	14,161
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd.	**16,554**	12,469
Sinopharm Henan Medical Devices Co., Ltd.	**14,691**	13,685
China National Pharmaceutical Industry Corporation	**14,223**	10,671
Sinopharm Chuankang Pharmaceutical Co., Ltd.	**11,714**	9,608
Sinopharm Group Changsha Co., Ltd.	**10,709**	–
Sinopharm (Tianjin) Medical Devices Co., Ltd.	**10,404**	4,110
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	**10,066**	23,322
China National Scientific Instruments and Materials Co., Ltd.	**8,947**	5,515
Shenyang Hongqi Pharmaceutical Co., Ltd.	**8,056**	8,610
Guangdong Global Pharmaceutical Co., Ltd.	**7,683**	3,391
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	**6,802**	–
Sinopharm Weiqida Pharmaceutical Co., Ltd.	**6,593**	19,996
China National Corp. of Traditional and Herbal Medicine	**5,680**	–
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	**5,524**	8,757
Sinopharm Jiangxi Medical Instruments Co., Ltd.	**5,471**	–
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	**5,413**	4,811
Shanghai Zhaohui Pharmaceutical Co., Ltd.	**5,243**	759
Beijing Zhonglian Pharmaceutical Chemical Industry Corporation	**4,778**	4,826
China Sinopharm International Corporation	**4,712**	–
Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd.	**4,235**	3,285
Suzhou Erye Pharmaceutical Co., Ltd.	**4,003**	10,793
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	**3,479**	8,759

42. Significant related party transactions (continued)

(a) Significant related party transactions (continued)

(i) Significant transactions with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Purchases of goods (continued)		
Shandong Luya Pharmaceutical Co., Ltd.	**3,426**	4,692
Guangdong Yifang Pharmaceutical Co., Ltd.	**3,425**	12,316
China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd.	**3,422**	5,348
Huayi Pharmaceutical Co., Ltd.	**3,364**	–
Others	**36,980**	113,026
	6,259,619	5,191,794

	2016 RMB'000	2015 RMB'000
Interest fee paid for other financial services		
Sinopharm Group Finance Co., Ltd.	**54,077**	42,040
China National Pharmaceutical Foreign Trade Corporation	**1,371**	49
	55,448	42,089

	2016 RMB'000	2015 RMB'000
Notes receivable discount		
Sinopharm Group Finance Co., Ltd.	**1,651,712**	2,039,249

	2016 RMB'000	2015 RMB'000
Borrowings		
Sinopharm Group Finance Co., Ltd.	**699,000**	595,000
China National Pharmaceutical Foreign Trade Corporation	**20,000**	128,600
	719,000	723,600

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 were conducted in the ordinary course of business of the Group.

42. Significant related party transactions (continued)

(a) Significant related party transactions (continued)

(ii) Key management compensation

	2016 RMB'000	2015 RMB'000
Salaries and other short-term employee benefits	**30,940**	29,580
Share incentive scheme expenses	**438**	–
Post-employment benefits	**–**	–
Other long-term benefits	**–**	–
	31,378	29,580

(b) Balances with related parties

(iii) Significant balances with related parties except for other PRC government-related entities

	2016 RMB'000	2015 RMB'000
Cash in other financial institution		
Sinopharm Group Finance Co., Ltd.	**3,124,116**	1,993,739

42. Significant related party transactions (continued)

(b) Balances with related parties (continued)

(iii) Significant balances with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Trade receivables due from		
China National Pharmaceutical Group Corporation	18	–
Xinxiang Central Hospital	68,197	67,873
Xinxiang City Second People's Hospital	63,361	7,343
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	27,157	22,428
Foshan Chancheng Pharmaceutical Co., Ltd.	26,665	25,666
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	22,812	9,955
Wuxi Huihua Qiangsheng Pharmaceutical Chain Co., Ltd.	20,868	22,228
Hubei Yuankang Pharmaceutical Co., Ltd.	11,069	3,497
Sinopharm Holding Yibin Pharmaceutical Co., Ltd.	10,967	1,468
Wenzhou Geriatric Hospital Limited Company	9,978	–
China National Corp. of Traditional and Herbal Medicine	9,057	129
Sichuan Kangdaxin Medical Co., Ltd.	7,054	3,501
Xinxiang Maternity and Child Hospital	5,736	3,403
Xinxiang Hospital of Traditional Chinese Medicine	4,947	4,941
Foshan City Chancheng District Central Hospital Ltd.	3,248	2,671
Beijing Tiantan Biological Products Co., Ltd.	3,202	1,869
Wuhan Institute of Biological Products Co., Ltd.	2,697	5,164
Shanghai Institute of Bio-products Co., Ltd.	1,591	1,403
Chengdu Rongsheng Pharmaceutical Co., Ltd.	1,583	4,554
Sinopharm Group Changsha Co., Ltd.	1,466	121
China Chengde Medicine Co., Ltd.	1,203	455
Anhui Jimin Tumor Hospital	869	2,137
Foshan City Chanyixing Medicine Development Co., Ltd.	805	–
Shanghai Guoda Lingyun Drug Store Co., Ltd.	466	2,777
Lanzhou Institute of Bio-products Co., Ltd.	324	1,147
Sino-Swed Pharmaceutical Corporation Ltd.	68	33
Sinopharm Weiqida Pharmaceutical Co., Ltd.	–	4,911
Others	5,178	5,662
	310,586	205,336

42. Significant related party transactions (continued)

(b) Balances with related parties (continued)

(iii) Significant balances with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Other receivables due from		
Shanghai Modern Pharmaceutical Co., Ltd.	137,241	–
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	52,000	–
Sinopharm Midland Hospital Management Co., Ltd.	34,820	23,947
Sinopharm Group Finance Co., Ltd.	14,861	–
Sinopharm Health Online Co., Ltd.	1,890	–
China Bio-Technology Co., Ltd.	1,800	1,800
Sino Pharmengin Corporation	1,157	–
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	1,101	–
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	809	–
Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd.	775	430
Sinopharm Nutraceuticals (Shanghai) Co., Ltd.	–	14,778
Others	1,048	489
	247,502	41,444
Prepayments due from		
Wuhan Institute of Biological Products Co., Ltd.	29,640	8,071
Jinzhou AoHong Pharmaceuticals Co., Ltd.	8,864	2
Chongqing Yaoyou Pharmaceutical Co., Ltd.	7,353	1,823
Sino-Swed Pharmaceutical Corporation Ltd.	7,089	407
Guizhou Tongjitang Pharmaceutical Co., Ltd.	5,018	9,640
Chengdu Rongsheng Pharmaceutical Co., Ltd.	4,474	6,500
Sinopharm Chongqing Pharmaceutical and Medical Industry Design Institute	2,652	–
Guangdong Global Pharmaceutical Co., Ltd.	1,708	887
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	1,654	–
Shydec Pharmaceutical Marketing Co., Ltd.	1,500	476
Foshan Winteam Pharmaceutical Co., Ltd.	1,169	881
Anhui Jingfang Pharmaceutical Co., Ltd.	897	1,485
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	887	3,060
Shanghai Institute of Pharmaceutical Industry	700	840
Lanzhou Institute of Bio-products Co., Ltd.	504	7
China National Scientific Instruments and Materials Co., Ltd.	411	1,293
Shenzhen Main Luck Pharmaceutical Co., Ltd.	300	1,402
China National Scientific Instruments & Materials Shenzhen Co., Ltd.	–	30,505
Others	3,488	8,086
	78,308	75,365

42. Significant related party transactions (continued)

(b) Balances with related parties (continued)

(iii) Significant balances with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Trade payables due to		
Yichang Humanwell Pharmaceutical Co., Ltd.	**294,472**	327,363
Sino-Swed Pharmaceutical Corporation Ltd.	**116,795**	82,024
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	**110,468**	114,941
Lanzhou Institute of Bio-products Co., Ltd.	**54,598**	46,489
Chongqing Yaoyou Pharmaceutical Co., Ltd.	**51,570**	45,735
Shenzhen Main Luck Pharmaceutical Co., Ltd.	**47,748**	44,376
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	**38,887**	20,311
China National Pharmaceutical Foreign Trade Corporation	**32,636**	13,500
Shydec Pharmaceutical Marketing Co., Ltd.	**31,152**	31,500
Chongqing Haisiman Pharmaceuticals Co., Ltd.	**17,534**	29,066
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	**17,359**	12,532
Guizhou Tongjitang Pharmaceutical Co., Ltd.	**16,818**	28,359
Foshan Winteam Pharmaceutical Co., Ltd.	**13,639**	12,144
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	**11,142**	–
Sichuan Kangdaxin Medical Co., Ltd.	**8,152**	4,590
Sinopharm Group Changsha Co., Ltd.	**8,095**	–
Sinopharm (Tianjin) Medical Devices Co., Ltd.	**7,799**	1,158
Sichuan Hexin Pharmaceutical Co., Ltd.	**7,464**	2,474
China National Pharmaceutical Industry Co., Ltd.	**7,312**	6,016
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	**5,580**	–
Sinopharm Henan Medical Devices Co., Ltd.	**5,512**	2,764
Anhui Jingfang Pharmaceutical Co., Ltd.	**4,589**	13,078
Sinopharm Vanda Pharmaceutical Co., Ltd.	**4,452**	4,966
China National Pharmaceutical Industry Corporation	**4,352**	3,064
Hunan Dongting Pharmaceutical Co., Ltd.	**4,150**	4,083
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd.	**3,595**	2,474
Shenyang Hongqi Pharmaceutical Co., Ltd.	**2,970**	1,074
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	**2,926**	2,845
Shandong Luya Pharmaceutical Co., Ltd.	**2,829**	2,416
China Otsuka Pharmaceutical Co., Ltd.	**2,418**	19,182
Sinopharm Jiangxi Medical Instruments Co., Ltd.	**2,211**	–
Guangdong Yifang Pharmaceutical Co., Ltd.	**2,201**	2,540
Beijing Zhonglian Pharmaceutical Chemical Industry Corporation	**1,778**	1,984
Shanghai Institute of Bio-products Co., Ltd.	**1,708**	4,031

42. Significant related party transactions (continued)

(b) Balances with related parties (continued)

(iii) Significant balances with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Trade payables due to (continued)		
China Pharmaceutical Group Shanghai Medical Instrument Co., Ltd.	**1,533**	240
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	**1,448**	1,883
Jinzhou Aohong Pharmaceuticals Co., Ltd.	**1,331**	13
Sinopharm Group Anhui Medical Instrument Co., Ltd.	**1,274**	12
Sinopharm Tianjin Medical Laboratory Science & Technology Co., Ltd.	**1,224**	–
China Pharmaceutical Group Xinjiang Medical Instrument Co., Ltd.	**1,216**	5,513
Guizhou Longlife Pharmaceutical Co., Ltd.	**1,063**	928
Suzhou Erye Pharmaceutical Co., Ltd.	**1,040**	379
Chengdu Rongsheng Pharmaceutical Co., Ltd.	**971**	–
Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Centre	**872**	514
Sinopharm Chuankang Pharmaceutical Co., Ltd.	**807**	1,480
Sinopharm Shanxi Ruifulai Pharmaceutical Co., Ltd.	**792**	281
Sinopharm (Tianjin) Northern Medical Equipment Co., Ltd.	**761**	–
China Sinopharm International Corporation	**737**	597
China National Scientific Instruments & Materials Shenzhen Co., Ltd.	**599**	–
Guangdong Global Pharmaceutical Co., Ltd.	**574**	995
Sinopharm Group Yunnan Medical Instrument Co., Ltd.	**539**	–
Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd.	**275**	1,003
Sinopharm Group Combined Instrument Co., Ltd.	**150**	1,012
Qinghai Pharmaceutical Co., Ltd.	**–**	8,210
Others	**7,551**	8,987
	969,668	919,126

42. Significant related party transactions (continued)

(b) Balances with related parties (continued)

(iii) Significant balances with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Other payables due to		
China National Pharmaceutical Group Corporation	1,520	1,520
China National Pharmaceutical Foreign Trade Corporation	30,860	130,675
China State Institute of Pharmaceutical Industry	16,500	33,030
China National Pharmaceutical Group Sanyi Pharmaceutical (Wuhu) Co., Ltd.	16,274	–
Sinopharm Group Finance Co., Ltd.	14,045	–
Sino Pharmengin Corporation	5,307	2,554
Sinopharm Health Online Co., Ltd.	1,740	–
China National Corp. of Traditional and Herbal Medicine	1,300	2,446
Sinopharm Nutraceuticals (Shanghai) Co., Ltd.	500	500
Shanghai Beiyi Guoda Pharmaceutical Co., Ltd.	497	184
Jinzhou AoHong Pharmaceuticals Co., Ltd.	96	–
Sinoexcelsior Investment Incorporation*	–	70,990
China National of Traditional and Herbal Medicine Co., Ltd.	–	1,300
Shenzhen Main Luck Pharmaceutical Co., Ltd.	–	500
Chongqing Haisiman Pharmaceuticals Co., Ltd.	–	82
Others	1,487	1,739
	90,126	245,520

* Sinoexcelsior Investment Incorporation was no longer the associate of the Group in 2016.

Other payables to related parties are unsecured and non-interest bearing.

42. Significant related party transactions (continued)

(b) Balances with related parties (continued)

(iii) Significant balances with related parties except for other PRC government-related entities (continued)

	2016 RMB'000	2015 RMB'000
Advanced from		
Beijing Zhonglian Pharmaceutical Chemical Industry Corporation	7,055	–
Jiangsu Wanbang Biochemical Pharmaceuticals Joint Stock Co., Ltd.	4,083	56
Shanghai Chemo Biological pharmaceutical Co., Ltd.	2,106	–
Shanghai Techwell Biopharmaceutical Co., Ltd.	563	–
Sinopharm Shanxi Medical Devices Co., Ltd.	463	–
Sinopharm Shantou Jinshi Pharmaceutical Co., Ltd.	253	–
Xinxiang Central Hospital	191	415
China National Pharmaceutical Industry Corporation	117	–
Jiangyin Tianjiang Pharmaceutical Co., Ltd.	–	2,240
Sinopharm Shandong Medical Devices Co., Ltd.	–	501
Others	139	71
	14,970	3,283

	2016 RMB'000	2015 RMB'000
Borrowings due to		
Sinopharm Group Finance Co., Ltd.	121,600	326,600

Borrowings from Sinopharm Group Finance Co., Ltd., a financial institution, bear interest at 4.33% (2015: 4.47%) and have repayment terms within one year.

43. Principal subsidiaries

As at 31 December 2016, particulars of the Company's principal subsidiaries are as follows:

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
China National Pharmaceutical Group Shanghai Corporation (中國醫藥集團上海公司)	PRC, 24 July 1988	40,237	100	–	Property rental in the PRC
China National Pharmaceutical Group Chemical Reagent Co., Ltd. (國藥集團化學試劑有限公司)	PRC, 24 October 2003	450,000	90	10	Distribution of chemical reagents in the PRC
Sinopharm Holding Beijing Co., Ltd. (國藥控股北京有限公司)	PRC, 28 October 2003	600,000	96	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd. (北京國藥天元物業管理有限公司)	PRC, 28 December 1981	36,130	100	–	Property rental in the PRC
Sinopharm Holding Tianjin Co., Ltd. (國藥控股天津有限公司)	PRC, 12 December 2003	1,300,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shenyang Co., Ltd. (國藥控股瀋陽有限公司)	PRC, 27 November 2003	800,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents; provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shaanxi Co., Ltd. (國藥控股陝西有限公司)	PRC, 30 May 2001	100,000	60	–	Distribution of pharmaceutical and healthcare products, logistics services in the PRC
Sinopharm Holding Beijing Huahong Co., Ltd. (國藥控股北京華鴻有限公司)	PRC, 29 April 1998	350,000	51	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Pharmaceutical Logistics Co., Ltd. (國藥集團醫藥物流有限公司)	PRC, 18 December 2002	300,000	100	–	Provision of pharmaceutical logistics services in the PRC
China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司)	PRC, 21 December 1999	478,800	44	–	Distribution of pharmaceutical products and laboratory supplies in the PRC

43. Principal subsidiaries (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Beijing Kangchen Bio-medicine Co., Ltd. (國藥控股北京康辰生物醫藥有限公司)	PRC, 19 January 2005	130,000	51	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
Shanghai Tongyu Information Technology Co., Ltd. (上海統御信息科技有限公司)	PRC, 27 December 2005	41,000	100	–	Information technology development and medicine consulting in the PRC
Sinopharm Holding Distribution Center Co., Ltd. (國藥控股分銷中心有限公司)	PRC, 30 January 2002	2,000,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Fuzhou Co., Ltd. (國藥控股福州有限公司)	PRC, 15 September 1998	40,000	70	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding Henan Co., Ltd. (國藥控股河南股份有限公司)	PRC, 11 December 2006	57,765	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Fujian Co., Ltd. (國藥控股福建有限公司)	PRC, 20 January 2010	434,000	70	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hong Kong Co., Ltd. (國藥控股股份香港有限公司)	PRC, 14 August 2009	US$9.5 million	100	–	Investment; distribution of pharmaceutical and healthcare products; medicine chain store; and, provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shandong Co., Ltd. (國藥控股山東有限公司)	PRC, 12 April 2006	70,000	67	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Beijing Tianxinpuxin Bio-Medicine Co., Ltd. (國藥控股北京天星普信生物醫藥有限公司)	PRC, 19 July 2002	100,000	51	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43. Principal subsidiaries (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd. (國藥集團新疆藥業有限公司)	PRC, 12 December 2000	780,637	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hubei Co., Ltd. (國藥控股湖北有限公司)	PRC, 19 March 2001	844,444	82	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. (國藥集團上海立康醫藥有限公司)	PRC, 27 July 1994	30,000	100	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Medical Instruments Co., Ltd. (國藥控股醫療器械有限公司)	PRC, 27 July 2006	320,000	100	–	Distribution of medical instruments in the PRC
Sinopharm Holding Anhui Co., Ltd. (國藥控股安徽有限公司)	PRC, 29 December 2008	70,000	67	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Zhejiang Co., Ltd. (國藥控股浙江有限公司)	PRC, 9 October 1995	40,000	70	–	Distribution of pharmaceutical products
Sinopharm Holding Hunan Co., Ltd. (國藥控股湖南有限公司)	PRC, 21 June 2001	520,000	97	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Co., Ltd. (國藥控股重慶有限公司)	PRC, 8 May 2010	30,000	67	–	Distribution of pharmaceutical products and chemical reagents
Sinopharm Holding Jiangsu Co., Ltd. (國藥控股江蘇有限公司)	PRC, 12 October 2001	1,324,453	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Yunnan Co., Ltd. (國藥控股雲南有限公司)	PRC, 20 November 2000	108,855	90	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC

43. Principal subsidiaries (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
China National Accord Medicines Co., Ltd. (國藥集團一致藥業股份有限公司)	PRC, 2 August 1986	362,632	56	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shanxi Co., Ltd. (國藥控股山西有限公司)	PRC, 17 January 2004	60,000	60	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Inner Mongolia Co., Ltd. (國藥控股內蒙古有限公司)	PRC, 14 May 2010	300,000	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Group Southwest Medicine Co., Ltd. (國藥集團西南醫藥有限公司)	PRC, 19 November 1997	20,000	67	3	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Wuxi Co., Ltd. (國藥控股無錫有限公司)	PRC, 28 November 2001	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Lingyun Biopharmaceutical (Shanghai) Co., Ltd. (國藥控股淩雲生物醫藥(上海)有限公司)	PRC, 3 February 1992	50,000	55	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Changzhou Co., Ltd. (國藥控股常州有限公司)	PRC, 5 August 2005	140,000	65	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Jiangxi Co., Ltd. (國藥控股江西有限公司)	PRC, 13 October 2009	100,000	67	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Gansu Co., Ltd. (國藥控股甘肅有限公司)	PRC, 14 January 2010	60,000	70	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jilin Co., Ltd. (國藥控股吉林有限公司)	PRC, 9 July 1999	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC

43. Principal subsidiaries (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Indirect %	Principal activities and place of operations
Sinopharm Holding Ningxia Co., Ltd. (國藥控股寧夏有限公司)	PRC, 21 November 2008	97,620	73	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Guizhou Co., Ltd. (國藥控股貴州有限公司)	PRC, 1 April 2010	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Lerentang Pharmaceutical Co., Ltd. (國藥樂仁堂醫藥有限公司)	PRC, 29 September 2009	175,000	60	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hainan Co., Ltd. (國藥控股海南有限公司)	PRC, 10 July 2000	40,000	68	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Holding Huzhou Co., Ltd. (國藥控股湖州有限公司)	PRC, 14 August 1978	30,000	69	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Qinghai Co., Ltd. (國藥控股青海有限公司)	PRC, 24 January 2003	20,000	70	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shangluo Co., Ltd. (國藥控股商洛有限公司)	PRC, 21 February 2012	10,000	70	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Xingsha Pharmaceutical (Xiamen) Co., Ltd. (國藥控股星鯊製藥(廈門)有限公司)	PRC, 30 December 1998	95,000	60	–	Medicine manufacture, distribution of chemical, reagents, import and export of goods and technology, business consulting, etc

43. Principal subsidiaries (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
Sinopharm Holding Donghong Medical (Shanghai) Co., Ltd. (國藥控股東虹醫藥(上海)有限公司)	PRC, 15 August 1992	12,000	85	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Health Solutions Co., Ltd. (國藥控股健康發展(上海)有限公司)	PRC, 19 January 2004	31,500	100	–	Health consultation, medical consulting, market information consulting and investigation, convention and exhibition services
Shanghai Meiluo Medical Co., Ltd. (上海美羅醫藥有限公司)	PRC, 27 May 2002	30,000	100	–	Distribution of pharmaceutical products, medical equipments and chemical reagents, import and export of goods and technology in the PRC
Sinopharm Holding Wenzhou Co., Ltd. (國藥控股溫州有限公司)	PRC, 31 March 1995	50,000	58	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanxi Co., Ltd. (國藥集團山西有限公司)	PRC, 14 April 2011	1,000,000	80	–	Distribution of pharmaceutical products, laboratory supplies and healthcare products in the PRC
Sinopharm Holding Lingshang Hospital Management Service. Co., Ltd. (國藥控股菱商醫院管理服務(上海)有限公司)	PRC, 5 July 2013	80,000	60	–	Distribution of medical equipment and goods, information technology services in the PRC
Sinopharm Holding Yanan Co., Ltd. (國藥控股延安有限公司)	PRC, 25 October 2013	10,000	90	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Heilongjiang Co., Ltd. (國藥控股黑龍江有限公司)	PRC, 11 October 2010	99,000	65	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

43. Principal subsidiaries (continued)

Company name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Effective interests held by the Group Direct %	Effective interests held by the Group Indirect %	Principal activities and place of operations
Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd. (國藥控股重慶泰民醫藥有限公司)	PRC, 17 August 2012	20,000	60	–	Distribution of pharmaceutical products, medical instruments and chemical reagents in the PRC
Sinopharm Bio-pharmaceutical Co., Ltd. (國藥控股上海生物醫藥有限公司)	PRC, 3 December 2009	20,000	70	–	Distribution of pharmaceutical products, healthcare products, medical instruments and chemical reagents in the PRC
Sichuan Pharmaceutical Group Co., Ltd. of CNPGC (國藥四川醫藥集團有限公司)	PRC, 2 September 2001	65,744	66	–	Management of medical project investment, consulting and technology training in PRC
Sinopharm Holding (China) Financial Leasing Co., Ltd. (國藥控股(中國)融資租賃有限公司)	PRC, 6 February 2015	900,000	70	30	Finance lease service in the PRC
Sinopharm Holding Dalian Hecheng Co., Ltd. (國藥控股大連和成有限公司)	PRC, 17 January 1994	50,000	80	–	Distribution of pharmaceutical products, Chinese herbal medicine, antibiotics, biological products, chemical reagents and medical instruments in the PRC
Sinopharm Holding Chuangke Medical Technology (Shanghai) Co., Ltd. (國藥控股創科醫療技術(上海)有限公司)	PRC, 21 October 2015	5,455	55	–	Distribution of medical instruments in the PRC
Sinopharm Holding Hongrun Medical Business Service (Shanghai) Co., Ltd. (國藥控股虹潤醫藥商務服務(上海)有限公司)	PRC, 22 August 2016	60,000	60	–	Health consultation, medical consulting, distribution of medical equipment, import and export services
Sinopharm Holding GuoDa Drug Store Co., Ltd. (國藥控股國大藥房有限公司)	PRC, 23 March 2004	1,010,000	–	100	Distribution of pharmaceutical and healthcare products in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

44. Events after the reporting period

On 20 July 2016, the Company, National Medicines, and the other non-controlling shareholders entered into the Assets Transfer Agreements and passed the resolutions to make revision to the related transaction proposal on 23 September 2016 and 5 January 2017, pursuant to which the Company proposed to dispose of the 96% equity interest in Sinopharm Holding Beijing Co., Ltd. ("Sinopharm Beijing"), 51% equity interest in Sinopharm Holding Beijing Huahong Co., Ltd. ("Beijing Huahong"), 51% equity interest in Beijing Kangchen Bio-medicine Co., Ltd. ("Beijing Kangchen") and 51% equity interest in Beijing Tianxingpuxin Bio-medicine Co., Ltd. held by the Company (the "Target companies") to National Medicines for an aggregate consideration of approximately RMB5,339.69 million, which will be satisfied by issuance of approximately 212,736,835 consideration shares in total at the issue price of RMB25.10 per consideration share by National Medicines to the Company. While the other non-controlling shareholders also agreed to transfer 4% equity interest in Sinopharm Beijing, 9% equity interest in Beijing Huahong and 49% equity interest in Beijing Kangchen to National Medicines on equal conditions and obtain the consideration shares issued by National Medicines. Upon completion of all the transactions under the Assets Transfer Agreements, the Company's shareholding ratio in National Medicines will increase from 44.01% to 58.52%.

National Medicines also resolved that, upon the completion of the transactions under the proposed Assets Transfer Agreements, National Medicines shall issue no more than 41.04 million subscription shares by way of non-public offer to no more than ten qualified designated investors at the issue price of RMB25.10 per subscription share to raise proceeds of no more than RMB1,030 million in aggregate, and such proceeds will be mainly used for hospital supply chain extension programs, community hospital pharmacy hosting projects, hospital cold-chain logistic system projects and information technology construction projects. Immediately following the completion of the proposed issuance of the subscription shares, National Medicines will be held as to 55.38% by the Company and will continue to be a subsidiary of the Company.

On 17 January 2017, the above transaction has been approved by the CSRC.

45. Statement of financial position and movements in reserves of the Company

Statement of financial position of the Company

	Note	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Investment properties		**26,202**	4,343
Property, plant and equipment		**79,023**	99,613
Intangible assets		**291,519**	330,407
Investments in subsidiaries		**22,463,344**	19,640,609
Investments in associates		**1,145,133**	317,450
Investment in a joint venture		**2,940**	–
Available-for-sale investments		**234,522**	238,400
Deferred tax assets		**45,619**	44,566
Other non-current assets		**–**	1,698
Total non-current assets		**24,288,302**	20,677,086
Current assets			
Inventories		**834,522**	969,080
Trade receivables		**2,789,731**	3,101,754
Prepayments and other receivables		**12,329,710**	16,286,571
Cash and cash equivalents		**13,470,727**	10,821,238
Total current assets		**29,424,690**	31,178,643
Total assets		**53,712,992**	51,855,729
EQUITY			
Share capital		**2,767,095**	2,767,095
Reserves	(i)	**20,230,186**	19,779,629
Total equity		**22,997,281**	22,546,724

45. Statement of financial position and movements in reserves of the Company (continued)

Statement of financial position of the Company (continued)

	Note	2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**7,989,916**	–
Deferred tax liabilities		**2,468**	–
Post-employment benefit obligations		**35,453**	26,542
Other non-current liabilities		**233,753**	236,898
Total non-current liabilities		**8,261,590**	263,440
Current liabilities			
Trade payables		**3,689,338**	3,582,486
Accruals and other payables		**12,736,976**	12,281,912
Tax payable		**30,959**	87,911
Interest-bearing bank and other borrowings		**5,996,848**	13,093,256
Total current liabilities		**22,454,121**	29,045,565
Total liabilities		**30,715,711**	29,309,005
Total equity and liabilities		**53,712,992**	51,855,729

The financial statements were approved by the Board of Directors on 24 March 2017 and were signed on its behalf by

Li Zhiming
Director

Tan Wee Seng
Director

45. Statement of financial position and movements in reserves of the Company (continued)

(i) Movements in reserves of the Company

	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of available-for-sale investments RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	18,065,998	423,398	–	(62,867)	872,434	19,298,963
Profit for the year	–	–	–	–	1,335,205	1,335,205
Appropriation to statutory reserves	–	134,792	–	–	(134,792)	–
Revaluation of available-for-sale investment						
– gross	–	–	9,872	–	–	9,872
– tax	–	–	(2,468)	–	–	(2,468)
Remeasurement on post-employment						
– gross	–	–	–	(5,525)	–	(5,525)
– tax	–	–	–	1,381	–	1,381
Dividends	–	–	–	–	(857,799)	(857,799)
As at 31 December 2015	18,065,998	558,190	7,404	(67,011)	1,215,048	19,779,629
Profit for the year	**–**	**–**	**–**	**–**	**1,482,697**	**1,482,697**
Appropriation to statutory reserves	**–**	**148,180**	**–**	**–**	**(148,180)**	**–**
Disposal of subsidiaries	**–**	**(603)**	**–**	**–**	**(5,424)**	**(6,027)**
Assets restructuring	**–**	**10,102**	**–**	**5,565**	**90,914**	**106,581**
Equity-settled share incentive scheme	**–**	**–**	**–**	**1,207**	**–**	**1,207**
Remeasurement on post-employment						
– gross	**–**	**–**	**–**	**904**	**–**	**904**
– tax	**–**	**–**	**–**	**(226)**	**–**	**(226)**
Dividends	**–**	**–**	**–**	**–**	**(1,134,509)**	**(1,134,509)**
Others	**–**	**–**	**–**	**(70)**	**–**	**(70)**
As at 31 December 2016	**18,065,998**	**715,869**	**7,404**	**(59,631)**	**1,500,546**	**20,230,186**

46. Share incentive scheme

The Company operates a share incentive scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme (the "Scheme Participants") include the Company's directors, senior management and mid-level management and other employees of the Group who, in the opinion of the Company's directors, shall be awarded. The Scheme became effective on 18 October 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Pursuant to the Scheme, the Board shall select the Scheme Participants and determine the number of shares to be awarded (the "Restricted Shares"). An independent trustee appointed by the Board (the "Trustee") shall purchase from the market such number of H Shares to be awarded as specified by the Board. In each grant of such Restricted Shares to the Scheme Participants, the exercise price to be funded by each of the Scheme Participants shall be no less than 50% of the grant reference price and no less than the most recent audited net assets value per share of the Company, and the balance will be funded by the Company.

The maximum total number of Restricted Shares to be granted under the Scheme shall not exceed 10% of the total issued share capital of the Company as at the effective date of the Scheme. The number of Restricted Shares to be awarded to a Scheme Participant will be subject to the criteria specified in the rules of the Scheme. The total number of Restricted Shares granted or to be granted to any Scheme Participant shall not exceed 1% of the total issued share capital of the Company as at the effective date of the Scheme.

On 16 November 2016, the Board resolved to approve the initial grant of the Restricted Shares under the Scheme to the Scheme participants (the "Initial Grant"), pursuant to which Restricted Shares of 7.23 million, representing approximately 0.2613% of the issued share capital of the Company as at 16 November 2016, shall be granted to 190 selected Scheme Participants on 16 November 2016 at the grant reference price of HKD35.46 per Restricted Share.

Existing shares of the Company will be purchased by the Trustee of the Scheme from the market out of cash contributed by the Group and be held in trust for the relevant Participants until such shares are vested with the Scheme Participants in accordance with the provisions of the Scheme. The Restricted Shares granted and held by the trustee until vesting are referred to as the treasury shares and each treasury share shall represent one ordinary share of the Company.

46. Share incentive scheme (continued)

Conditions for unlocking the Initial Grant

Pursuant to approval from the SASAC, under the Initial Grant, unlocking of the Restricted Shares under the Initial Grant shall be conditional upon fulfilment of the following conditions by the Company and shall be carried out in accordance with the unlocking arrangement as stipulated in the scheme of the Initial Grant:

Unlocking Period	Performance Assessment Target	Proportion of unlocking shares
First unlocking period	The weighted average return on equity ("ROE") for 2017 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises; On the basis of the net profit in 2015, the compound growth rate of net profit for 2017 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises; On the basis of the economic value added ("EVA") in 2015, the compound growth rate of EVA for 2017 shall be not lower than the specified objectives determined by the Board.	33%
Second unlocking period	The weighted average ROE for 2018 shall be not lower than 12.7% and not lower than the 75 percentile of benchmarking enterprises; On the basis of the net profit in 2015, the compound growth rate of net profit for 2018 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises; On the basis of the EVA in 2015, the compound growth rate of EVA for 2018 shall be not lower than the specified objectives determined by the Board.	33%
Third unlocking period	The weighted average ROE for 2019 shall be not lower than 12.8% and not lower than the 75 percentile of benchmarking enterprises; On the basis of the net profit in 2015, the compound growth rate of net profit for 2019 shall be not lower than 12% and not lower than the 75 percentile of benchmarking enterprises; On the basis of the EVA in 2015, the compound growth rate of EVA for 2019 shall be not lower than the specified objectives determined by the Board.	34%

46. Share incentive scheme (continued)

Particulars and movements in the share incentive scheme are as follows:

Date of grant	As at 1 January 2016	Granted	Vesting	Bonus issue	Forfeited	As at 31 December 2016
16 November 2016	–	7,230,000	–	–	–	7,230,000

The fair value of the shares granted was calculated based on the market prices of the Company's shares at the respective grant dates. The Group recognised expenses relating to the Scheme of approximately RMB3,833 thousand in the consolidated statement of profit or loss during the year.

The fair value of the Restricted Share granted was estimated as at the date of grant, using the Asian Options Model, taking into account the terms and conditions upon which the shares were granted. This value is inherently subjective and uncertain due to the assumptions made and the limitation of the valuation model used. The following table lists the inputs to the model:

Date of grant	16 November 2016				
Batch	1	1	2	3	4
	Mid-level management/ other employees	Senior management			
Share price at the date of grant (HKD)	35.45	35.45	35.45	35.45	35.45
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Historical volatility (%)	37.57%	37.57%	34.82%	34.51%	34.96%
Risk-free interest rate (%)	0.79%	0.79%	1.06%	1.10%	1.13%
Number of unlocking shares ('000)	6,130	275	275	275	275
Lock-up period (year)	2	2	3	4	5
Fair value at the date of grant (HKD)	13.5886	13.5886	13.1593	12.6182	12.0383

47. Directors', supervisors' and chief executive's remuneration

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

(a) Directors', supervisors' and chief executive's remuneration

	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Share incentive scheme expense RMB'000	Incentive bonus RMB'000
Executive directors								
Mr. Wei Yulin (i)	1,850	2,112	-	8	100	-	-	4,078
Mr. Li Zhiming (ii)	1,700	2,225	-	8	100	-	136	4,078
Non-executive directors								
Mr. She Lulin	-	-	-	-	-	-	-	-
Mr. Wang Qunbin	-	-	-	-	-	-	-	-
Mr. Liu Hailiang (iii)	-	-	-	-	-	-	-	-
Mr. Deng Jindong	-	-	-	-	-	-	-	-
Mr. Zhou Bin (iv)	-	-	-	-	-	-	-	-
Mr. Chen Qiyu	-	-	-	-	-	-	-	-
Mr. Li Dongjiu	-	-	-	-	-	-	-	-
Mr. Li Yuhua (v)	-	-	-	-	-	-	-	-
Mr. Lian Wanyong (vi)	-	-	-	-	-	-	-	-
Mr. Wu Yijian (vii)	-	-	-	-	-	-	-	-
Mr. Ma Ping (viii)	-	-	-	-	-	-	-	-
Independent non-executive directors								
Ms. Li Ling	300	-	-	-	-	-	-	-
Mr. Lyu Changjiang (ix)	-	-	-	-	-	-	-	-
Mr. Liu Zhengdong	300	-	-	-	-	-	-	-
Mr. Tan Wee Seng	300	-	-	-	-	-	-	-
Mr. Yu Tze Shan Hailson	300	-	-	-	-	-	-	-
Mr. Zhuo Fumin (x)	250	-	-	-	-	-	-	-
Supervisors								
Ms. Zhang Jian (xi)	-	-	-	-	-	-	-	-
Mr. Lian Wanyong (vi)	-	-	-	-	-	-	-	-
Mr. Yao Fang	-	-	-	-	-	-	-	-
Mr. Yang Jun (xii)	935	1,096	-	8	122	-	-	-
Ms. Jin Yi (xii)	381	131	-	47	100	-	-	-
Mr. Tao Wuping (xiii)	300	-	-	-	-	-	-	-
Ms. Li Xiaojuan (xiv)	-	-	-	-	-	-	-	-
	6,616	5,564	-	71	422	-	136	8,156

47. Directors', supervisions' and chief executive's remuneration (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

	Salaries RMB'000	Discretionary bonuses RMB'000	Housing allowance RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Share incentive scheme expenses RMB'000	Incentive bonus RMB'000
Executive directors								
Mr. Wei Yulin (i)	1,705	1,842	–	–	99	–	–	–
Mr. Li Zhiming (ii)	1,555	1,673	–	–	99	–	–	–
Non-executive directors								
Mr. She Lulin	–	–	–	–	–	–	–	–
Mr. Wang Qunbin	–	–	–	–	–	–	–	–
Mr. Liu Hailiang (iii)	–	–	–	–	–	–	–	–
Mr. Deng Jindong	–	–	–	–	–	–	–	–
Mr. Zhou Bin (iv)	–	–	–	–	–	–	–	–
Mr. Chen Qiyu	–	–	–	–	–	–	–	–
Mr. Li Dongjiu	–	–	–	–	–	–	–	–
Mr. Li Yuhua (v)	–	–	–	–	–	–	–	–
Independent non-executive directors								
Ms. Li Ling	300	–	–	–	–	–	–	–
Mr. Lyu Changjiang (ix)	300	–	–	–	–	–	–	–
Mr. Liu Zhengdong	300	–	–	–	–	–	–	–
Mr. Tan Wee Seng	300	–	–	–	–	–	–	–
Mr. Yu Tze Shan Hailson	300	–	–	–	–	–	–	–
Supervisors								
Ms. Zhang Jian (xi)	272	435	–	–	61	–	–	–
Mr. Lian Wanyong (vi)	–	–	–	–	–	–	–	–
Mr. Yao Fang	–	–	–	–	–	–	–	–
Mr. Yang Jun (xii)	476	527	–	–	53	–	–	–
Ms. Jin Yi (xii)	148	–	–	–	63	–	–	–
Mr. Tao Wuping (xiii)	175	–	–	–	–	–	–	–
	5,831	4,477	–	–	375	–	–	–

47. Directors', supervisors' and chief executive's remuneration (continued)

(a) Directors', supervisors' and chief executive's remuneration (continued)

Notes:

(i) Resigned on 24 March 2017 as the Chairman of the Board and the executive director of the Company.

(ii) Mr. Li Zhiming is the chief executive and effected on 24 March 2017 as the Chairman of the Board.

(iii) Resigned on 16 June 2016.

(iv) Resigned on 4 January 2016.

(v) Resigned on 18 October 2016.

(vi) Resigned as a supervisor on 29 January 2016, and appointed as an independent non-executive director on 29 January 2016.

(vii) Appointed on 16 June 2016.

(viii) Appointed on 18 October 2016.

(ix) Resigned on 9 December 2015.

(x) Appointed on 8 March 2016.

(xi) Resigned on 18 June 2015.

(xii) Appointed on 18 June 2015.

(xiii) Resigned as an independent non-executive director on 20 September 2014, and appointed as a supervisor on 18 June 2015.

(xiv) Appointed on 29 January 2016.

(b) Except the contribution to a retirement benefit scheme, no other retirement benefits were paid to any director during the year ended 31 December 2016.

(c) No termination benefits were paid to any director during the year ended 31 December 2016.

(d) No consideration paid to third parties for directors' services during the year ended 31 December 2016.

47. Directors', supervisors' and chief executive's remuneration (continued)

(e) No loans, quasi-loans or other dealings were entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors of the Company and of the holding company of the Company, or bodies corporate controlled by such directors, or entities connected with such directors, also include a shadow director of that director.

(f) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(g) During the year, an executive director was granted restricted shares, in respect of his services to the Group, under the share incentive scheme of the Company, further details of which are set out in note 46 to the financial statements. The fair value of such restricted shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the directors', supervisors and chief executive's remuneration disclosures.

48. Comparative amounts

As further explained in Note 39 and Note 41, on 31 October 2016, the Group obtained 51% equity interests in Southern Pharmaceutical from Pharmaceutical Foreign Trade. Since Southern Pharmaceutical, Pharmaceutical Foreign Trade and the Group are subsidiaries of CNPGC, the acquisition was a business combination under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statements of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and notes to the consolidated financial statements for the comparative period are re-presented as if Southern Pharmaceutical had been combined at the beginning of the comparative period.

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