



Shanghai Pharmaceuticals Holding Co., Ltd.*

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

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

Interim Report 2011

* For identification purpose only



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I. IMPORTANT NOTICE

(1) The interim financial report of the Group is unaudited. The board of directors and the audit committee of the Company have reviewed and confirmed this financial report.

(2) Definitions

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

“A Shares”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“Articles of Association” or “Articles”	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
“Code on Corporate Governance Practices”	the Code on Corporate Governance Practices, Appendix 14, Hong Kong Listing Rules
“Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司)
“Group”	the Company and its subsidiaries
“H Shares”	overseas foreign shares with a nominal value of RMB1.00 each of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Shares Prospectus”	the H Shares Prospectus published by the Company on 6 May 2011
“HK\$” or “HK dollars” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Hong Kong Listing Rules
“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會), serving as a strategic reserve fund accumulated by the central government to support future social security expenditures

“Over-Allotment Option”	Goldman Sachs (Asia) L.L.C. on behalf of the International Purchasers has partially exercised the Over-allotment Option, as referred to in the H Shares Prospectus, in respect of 32,053,200 H Shares on 11 June 2011; at the same time, 3,205,320 A Shares held by the shareholders of state-owned Shares fulfilling the obligation of transferring have been converted into H Shares on a one-for-one basis and transferred to NSSF
“PRC” or “China”	the People’s Republic of China; except where the context otherwise requires, references in this report to the PRC or China do not include Hong Kong, Macau or Taiwan
“Reporting Period”	the 6-month period from 1 January 2011 to 30 June 2011
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance”	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended)
“Shanghai Guosheng”	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司)
“Shanghai Pharmaceutical (Group)”	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
“Shanghai SASAC”	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“Shanghai Shangshi”	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
“Shanghai Shengrui”	Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)
“Shares”	shares of Shanghai Pharmaceuticals of nominal value of RMB1.00 each, comprising both A Shares and H Shares
“Shenergy Group”	Shenergy (Group) Co., Ltd. (申能(集團)有限公司)
“SIIC”	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
“Substantial Shareholders”	has the meaning ascribed to it in the Hong Kong Listing Rules
“YOY”	year-on-year

II. BASIC CORPORATE INFORMATION

(1) Corporate Information

Legal name of the Company in Chinese	上海醫藥集團股份有限公司
Legal Chinese abbreviation of the Company	上海醫藥
Legal name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd.
Legal representative of the Company	Lu Mingfang

(2) Contact Person and Contact Details

Name	Han Min (Joint Company Secretary)
Contact address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai, the PRC
Telephone	86-21-63730908
Facsimile	86-21-63289333
E-mail	pharm@pharm-sh.com.cn

(3) Basic Information

Registered address	No. 92 Zhangjiang Road, Pudong New District, Shanghai, the PRC
Postal code of registered address	201203
Office address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai, the PRC
Postal code of office address	200020
Principal place of business in Hong Kong	8th Floor, Gloucester Tower, the Landmark, 15 Queen's Road Central, Hong Kong
Internet website of the Company	www.pharm-sh.com.cn
E-mail	pharm@pharm-sh.com.cn
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New Area, Shanghai, the PRC
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
Compliance advisor	Goldman Sachs (Asia) L.L.C.

(4) Information disclosure and place available for inspection

Newspapers designated by the Company for disclosure of information (A Shares)	China Securities Journal, Shanghai Securities News, Securities Times
Designated website for publishing announcements about A Shares	www.sse.com.cn
Designated website for publishing announcements about H Shares	www.hkexnews.hk
Place available for inspection of the Company's interim report	Office of the board of directors of the Company

(5) **Stock Information of the Company**

Stock Information of the Company				
Type of stock	Stock exchange on which shares are listed	Stock abbreviation	Stock code	Stock abbreviation before any changes
A Shares	Shanghai Stock Exchange	上海醫藥	601607	/
H Shares	The Stock Exchange of Hong Kong	上海醫藥 SH PHARMA	02607	/

(6) **Other Basic Information of the Company**

First registration date of the Company	18 January 1994			
First place of registration of the Company	Shanghai Administration of Industry and Commerce			
Recent changes	Date of change in registration of the Company	9 April 2010		
	Place of change in registration of the Company	Shanghai Administration of Industry and Commerce		
	Legal person business license registration number	310000000026221		
	Tax registration number	Hu 31011513358488x		
	Organization code	13358488-X		
Name of domestic auditor engaged by the Company	PricewaterhouseCoopers Zhong Tian CPAs Limited Co.			
Office address of domestic auditor engaged by the Company	11/F, PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai, the PRC			
Name of international auditor engaged by the Company	PricewaterhouseCoopers			
Office address of international auditor engaged by the Company	22nd Floor, Prince's Building, Central, Hong Kong			

(7) **Key Financial Figures and Indicators**

Special Note:

- (1) During the Reporting Period, due to expiration of certain agreements, the Group does not exert control over TECHPOOL Bio-Pharma Co., Ltd. ("TECHPOOL Bio-Pharma"). TECHPOOL Bio-Pharma was no longer qualified as a subsidiary of the Group and ceased to be consolidated by the Group. The Group has accounted for its investment in TECHPOOL as an investment in associate by equity method since the beginning of the Reporting Period. According to Accounting Standards for Business Enterprises, a one-time investment income of RMB333,739,300 has been recognised by the Group accordingly.
- (2) Upon completion of acquisition of 100% equity interest in Zhongxin Pharmacy Co., Ltd. ("Zhongxin Pharmacy") in early April 2011, the Group has effectively obtained the right to control it and begun to consolidate it since the second quarter.

1. Major Accounting Data and Financial Indicators Prepared in Accordance with the Accounting Standards for Chinese Enterprises ("CAS")

Unit: RMB'000

	30 June 2011	31 December 2010	Fluctuation amount and percentage (%)
Total assets	45,327,264	28,169,020	60.91
Owners' equity	22,727,156	9,134,559	148.80
Net assets per share attributable to equity holders of the Company (RMB per share)	8.4522	4.5841	84.38
	Reporting period (Jan to Jun)	Corresponding period last year	Fluctuation amount and percentage (%)
Operating profit	1,796,470	1,144,849	56.92
Total profit	1,831,975	1,194,580	53.36
Net profit attributable to equity holders of the Company	1,303,197	786,517	65.69
Net profit after deduction of non-recurring profit and loss attributable to equity holders of the Company	812,860	566,314	43.54
Basic earnings per share (RMB per share)	0.6072	0.3947	53.84
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.3787	0.3491	8.48
Diluted earnings per share (RMB per share)	0.6072	0.3947	53.84
Weighted average return on net assets (%)	10.42	9.16	Increased 1.26 percentage point
Net cash flows from operating activities	870,302	1,004,688	-13.38
Net cash flows from operating activities per share (RMB per share)	0.3237	0.5042	-35.80

2. Major Accounting Data and Financial Indicators Prepared in Accordance with the Hong Kong Financial Reporting Standards (“HKFRS”)

Unit: RMB'000

	30 June 2011	31 December 2010	Fluctuation amount and percentage (%)
Total assets	45,327,261	28,240,944	60.50
Equity attributable to equity holders of the parent Company	22,727,156	9,134,559	148.80
Net assets per share attributable to equity holders of the parent Company (RMB per share)	8.4522	4.5841	84.38
	Reporting period (Jan to Jun)	Corresponding period last year	Fluctuation amount and percentage (%)
Profit before income tax	1,831,975	1,194,580	53.36
Net profit attributable to equity holders of the parent Company	1,303,197	786,517	65.69
Basic and diluted earnings Per share (RMB per share)	0.6072	0.3947	53.84
Return on net assets (%)	10.42	9.16	Increased 1.26 percentage point

3. Notes on the Differences between CAS and HKFRS

There is no difference of net profit or net asset between the financial statements prepared in accordance with CAS and HKFRS.

III. CHANGE IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

(1) Change in share statement

Unit: share

	Before current change		Current increase or decrease (+, -)					After current change	
	Amount	Percentage (%)	Issue of new shares	Share distribution	Capital reserve fund into share capital	Others	Subtotal	Amounts	Percentage (%)
I. Trade restricted shares	1,165,714,839	58.50				-69,626,720	-69,626,720	1,096,088,119	40.763
1. State held shares									
2. Shares held by state-owned legal persons	1,165,633,239	58.496				-69,626,720	-69,626,720	1,096,006,519	40.760
3. Other domestically-held shares	81,600	0.004						81,600	0.003
Including: shares held by domestic non state-owned legal persons	81,600	0.004						81,600	0.003
shares held by domestic natural persons									
4. Foreign-held shares									
Including: shares held by foreign legal persons									
shares held by foreign natural person									
II. Shares without selling restrictions	826,928,499	41.50	696,267,200			69,626,720	765,893,920	1,592,822,419	59.237
1. RMB common shares	826,928,499	41.50						826,928,499	30.753
2. Domestically listed foreign shares									
3. Overseas listed foreign shares			696,267,200			69,626,720	765,893,920	765,893,920	28.483
4. Others									
III. Total number of shares	1,992,643,338	100	696,267,200			0	696,267,200	2,688,910,538	100

Note: The Group issued 664,214,000 H Shares on 20 May 2011 and partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued) on 11 June 2011, thereby totally issuing 696,267,200 H Shares; at the same time, 69,626,720 A Shares held by the shareholders of state-owned Shares fulfilling the obligation of transferring have been converted into H Shares on a one-for-one basis and transferred to NSSF. As at the end of the Reporting Period, the Group totally had 765,893,920 H Shares.

(2) Shareholders and Ultimate Controller

1. Number of Shareholders and Their Shareholdings

Unit: share

Total number of shareholders as at the end of the Reporting Period		116,350 (among which 112,387 are shareholders of A Shares and 3,963 are shareholders of H Shares)					
Shareholding of top ten shareholders							
Name	Nature	Shareholding percentage (%)	Total number of shares held	Increase/decrease within the Reporting Period	Number of restricted shares held	Number of pledged or frozen shares	Share type
HKSCC NOMINEES LIMITED	Foreign shareholder	28.41	764,030,220	764,030,220	0	Unknown	H Shares
Shanghai Pharmaceutical (Group)	State-owned legal person shareholder	27.89	749,923,539	-45,288,958	693,006,251	N.A.	A Shares
Shanghai Shangshi	State-owned legal person shareholder	6.45	173,405,773	4,377,568	173,405,773	N.A.	A Shares
Shanghai Shengrui	State-owned legal person shareholder	6.04	162,399,040	-9,807,510	162,399,040	N.A.	A Shares
Shenergy Group	State-owned legal person shareholder	3.02	81,199,520	-4,903,755	81,199,520	N.A.	A Shares
Morgan Stanley Investment Management Inc. – Morgan Stanley China A Share Fund	Others	0.67	18,081,404	5,229,435	0	Unknown	A Shares
China Construction Bank – BOCOM Schroder Stable Configuration Mixed Securities Investment Fund	Others	0.67	18,000,000	0	0	Unknown	A Shares
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	Others	0.57	15,394,090	-359,316	0	Unknown	A Shares
China Everbright Bank Company Limited – Morgan Stanley Huaxin Resource Selected Mixed Securities Investment Fund	Others	0.33	9,002,967	0	0	Unknown	A Shares
ICBC – Boserá Selected Stock and Securities Investment Fund	Others	0.32	8,599,694	0	0	Unknown	A Shares
Shareholdings of top ten shareholders holding shares without selling restrictions							
Name of shareholders holding shares without selling restrictions				Number of shares without selling restrictions held		Share type	
HKSCC NOMINEES LIMITED				764,030,220		H Shares	
Shanghai Pharmaceutical (Group)				56,917,288		A Shares	
Morgan Stanley Investment Management Inc. – Morgan Stanley China A Share Fund				18,081,404		A Shares	
China Construction Bank – BOCOM Schroder Stable Configuration Mixed Securities Investment Fund				18,000,000		A Shares	
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH				15,394,090		A Shares	
Shanghai Shangshi				14,004,065		A Shares	
China Everbright Bank Company Limited. – Morgan Stanley Huaxin Resource Selected Mixed Securities Investment Fund				9,002,967		A Shares	
ICBC – Boserá Selected Stock and Securities Investment Fund				8,599,694		A Shares	
China Resource SZITIC Trust Co., Ltd. - Chongyang No. 3 Securities Investment Collective Capital Trust Plan				8,264,428		A Shares	
NSSF 104 combination				7,500,000		A Shares	
Note on affiliation or concerted actions of the above shareholders			Shanghai Shangshi is the controlling shareholder of Shanghai Pharmaceutical (Group); Morgan Stanley Investment Management Inc. – Morgan Stanley China A Share Fund and China Everbright Bank Co., Ltd. – Morgan Stanley Huaxin Resource Selected Mixed Securities Investment Fund are affiliated to each other since they are both controlled by Morgan Stanley. The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the Administrative Measures on Disclosure of Changes to Shareholding of Listed Companies.				

- Notes: (1) The Group issued 664,214,000 H Shares on 20 May 2011 and partially exercised the H Shares Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued) on 11 June 2011, and the shareholders of state-owned Shares who have the obligation of transferring have reduced their shareholdings accordingly.
- (2) Shanghai Shangshi has increased its holding of the Company's A Shares for several times since 31 March 2011, and together with its persons acting in concert, plan to continue to increase its holding of the Company's Shares in its own name through the trading system of Shanghai Stock Exchange in the following twelve months (starting from the date of its first increase of shareholding). Increase in its accumulated percentage of shareholding will not exceed 2% of total outstanding Shares of the Company (see the Company's Interim Announcement 2011-009 No. 026 for details). As at the end of the Reporting Period, Shanghai Shangshi has increased its shareholding in the Company by 14,004,065 A Shares in total.
- (3) HKSCC NOMINEES LIMITED holds Shares on behalf of customers. Since the Hong Kong Listing Rules do not require customers to declare whether Shares held by them have been pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of Shares that have been pledged or frozen.
- (4) Shanghai Pharmaceutical (Group) undertakes to voluntarily lock up 56,917,288 Shares without selling restrictions held by it for 36 months until 10 February 2013.

(3) Disclosure of Interests

1. *Interests and short positions of directors and supervisors in shares*

As at 30 June 2011, Mr. Lu Mingfang, executive director and chairman of the Group, held 37,674 A Shares of the Company, while Mr. Lu Shen, non-executive director of the Group, held 6,440 A Shares of the Company.

Except as disclosed in this report, as at 30 June 2011, the directors, supervisors and chief executive officers of the Group have neither interests nor short positions in the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) as recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

2. **Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares and Underlying Shares**

As at 30 June 2011, the following shareholders had interests and short positions in the Shares or underlying shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or were directly or indirectly interested in 5% or more of the voting rights at the general meetings of the Company:

Name of shareholder	Share type	Nature of Shareholding Interests	Number of shares	Percentage of number of H Shares/ domestic shares held at the end of the Reporting Period to the entire issued H Shares/domestic shares (%)	Percentage of the entire share capital of the Group at the end of the Reporting Period (%)
SIIC (Note 1 (1))	Domestic shares	Interest of controlled corporation	923,329,312	48.01	34.34
Shanghai Shangshi (Note 1 (2))	Domestic shares	Beneficial owner/ Interest of controlled corporation	923,329,312	48.01	34.34
Shanghai Pharmaceutical (Group) (Note 1 (3))	Domestic shares	Beneficial owner	749,923,539	39.00	27.89
Shanghai Guosheng	Domestic shares	Interest of controlled corporation	162,399,040	8.45	6.04
Shanghai Shengrui	Domestic shares	Beneficial owner	162,399,040	8.45	6.04
Credit Suisse (Hong Kong) Limited	H Shares	Interest commonly held with another person	99,632,100(L) 99,632,100(S)	13.01(S) 13.01(L)	3.71(L) 3.71(S)
Credit Suisse AG	H Shares	Interest of controlled corporation	99,632,100(L) 99,632,100(S)	13.01(S) 13.01(L)	3.71(L) 3.71(S)
Temasek Holdings (Private) Limited	H Shares	Interest of controlled corporation	104,373,900(L)	13.63	3.88
NSSF	H Shares	Beneficial Owner	66,633,400(L)	8.70	2.48
T. Rowe Price Associates, Inc. and its affiliates	H Shares	Investment Manager	55,765,800(L)	7.28	2.07
JPMorgan Chase & Co.	H Shares	Investment Manager/ Custodian/ approved lending agent	54,261,600(L) 0(S) 53,761,600(P)	7.08(L) 0.00(S) 7.02(P)	2.02(L) 0.00(S) 2.00(P)
Morgan Stanley	H Shares	Interest of controlled corporation	44,662,500	5.83	1.66

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

Note 1:

- (1) SIIC is a wholly-owned subsidiary of the Shanghai SASAC. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate Shanghai Overseas Companies, its Major Overseas Companies and the State-owned Assets under Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] Document No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC held 933,329,312 shares of the Company in total (including A Shares and H Shares), of which, 10,000,000 H Shares were held by SIIC through its wholly-owned subsidiaries, while 923,329,312 A Shares were indirectly held by SIIC through Shanghai Shangshi.
- (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, of the 923,329,312 A Shares of the Company held by Shanghai Shangshi, 173,405,773 Shares were directly held by Shanghai Shangshi, while 749,923,539 Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).
- (3) Shanghai Guosheng is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shengrui is a wholly-owned subsidiary of Shanghai Guosheng and Shanghai Guosheng is therefore deemed to hold shares in the Company through Shanghai Shengrui.

Note 2:

- (1) Figures disclosed above are based on the information provided in the website of the Hong Kong Stock Exchange (www.hkexnews.hk).
- (2) With respect to the H shareholders listed in the table above, the latest number of shares of Credit Suisse (Hong Kong) Limited, Credit Suisse AG and NSSF was updated to 20 May 2011, while the latest number of shares of the remaining H shareholders was updated to or after 17 June 2011.
- (3) Save as disclosed above, as at 30 June 2011, the Company was not aware that there was any other person (other than the directors, supervisors or chief executive officers of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

(4) Purchase, redemption or sale of the Company's listed securities

During the Reporting Period, neither the Group nor the subsidiaries of the Group purchased, sold or redeemed any listed shares of the Company.

During the Reporting Period, Shanghai Shangshi, one of the Substantial Shareholders of the Group, further acquired 14,004,065 A Shares of the Company in the aggregate.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Changes in shareholdings of directors, supervisors and senior management

During the Reporting Period, there was no change in the shareholdings of the directors, supervisors and senior management.

(2) Appointment or dismissal of directors, supervisors and senior management of the Company

During the Reporting Period, the Company did not appoint or dismiss any directors, supervisors or senior management of the Company.

As at 30 June 2011, the composition of our Board, the board of supervisors and the senior management was as follows:

Our Board consists of nine directors, comprising three executive directors, namely Mr. Lu Mingfang, Mr. Zhang Jialin and Mr. Xu Guoxiong; two non-executive directors, namely Mr. Lu Shen and Mr. Jiang Ming; and four independent non-executive directors, namely Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei and Ms. Tommei Tong. The directors were all elected by the shareholders of the Company for a term of three years, which is renewable upon re-election and re-appointment.

The board of supervisors of the Company consists of three members, namely, Mr. Zhou Jie as the chief supervisor, Mr. Wu Junhao as the supervisor and Ms. Chen Xin as the employee representative supervisor. Except for the employee representative supervisor who was elected by employees, the other supervisors were elected by the shareholders of the Company for a term of three years, which is renewable upon re-election and re-appointment.

Our senior management of the Company consists of seven members, namely, Mr. Xu Guoxiong, Mr. Jiang Yuanying, Mr. Ren Jian, Mr. Ge Jianqiu, Mr. Li Yongzhong, Mr. Shen Bo and Ms. Han Min.

(3) Compliance with the Model Code

The Board of the Company confirms that the Company has adopted the Model Code.

Upon inquiry, all the directors and supervisors have acknowledged that during the Reporting Period, they complied with the Model Code in all aspects.

V. EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the Company employed a total of 32,914 employees.

The Company puts much emphasis on the recruitment, inducement, training and retainment of talents and concerns about the fairness of the remuneration system. We implement a market-oriented remuneration system which is based on performance appraisal, and the salary of our staff comprises basic salary, subsidies and bonus. In accordance with the applicable laws of the PRC, the Company has entered into labour contract with each employee and the aforesaid contract includes provisions such as contract term, wages, working hours, break and vacation, employee benefits, social securities, health and safety, confidentiality obligations and grounds for termination.

In accordance with applicable regulations, the Company established the pension contribution plan, employees' medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. In accordance with applicable PRC laws and regulations, the amount of contributions of the aforesaid social securities is strictly based on state, provincial and municipal requirements of the PRC. The Company also established an employee housing fund according to applicable PRC regulations.

The Company supports and invests in continuing education programs for the management staff and technical staff. In addition to sending some of the top managers overseas for training and offering annual project management training for its project managers, the Company also offers management courses and occupational skills training according to the demand for expertise with reference to the Company's development, as part of its commitment to ever upgrading employees' knowledge and skills.

VI. REPORT OF THE DIRECTORS

Unless otherwise stated, financial figures set out in the Report of the Director were extracted from the financial statements of the Company which were prepared in accordance with the Accounting Standards for Chinese Enterprises.

(1) Discussion and Analysis of the Overall Operation during the Reporting Period

1. Operation during the Reporting Period

Shanghai Pharmaceuticals is a national large pharmaceutical group headquartered in Shanghai and covering the whole pharmaceutical chain from R&D, manufacturing to distribution and retail. 2011 is a year of strategic significance for the development of the Group, in which we have not only successfully floated our A and H Shares, but also embarked on our national strategy and a new three-year action plan.

In the first half of 2011, the macro-economic and pharmaceutical market environment were intricate and complicated: NDRC implemented the 27th round of price adjustment and a new wave of price reduction was induced by the tender of essential drugs in different areas. Besides, the full implementation of medical insurance "double control" on medical units and the surge in raw material prices of Chinese medicine and chemical pharmaceuticals caused by inflation have also posed unprecedentedly huge challenge to the product mix and operation mode of the Group. According to its basic judgment on the entry of China's pharmaceutical industry into a period of ten-year golden opportunity, the Group regards such challenge as the necessary and important test to seize the future huge opportunity of development. During the Reporting Period, the Group has adhered to "three main themes", namely "operation", which involves continuous industrial development, "financing", which involves the successful issuance of H Shares and "transformation", which involves perking up integrated value. The Group, leveraging on its professional, dedicated, centralised and integrated work ethics and contribution from all staff, encountered various market changes and adjusted its industrial structure proactively while at the same time transforming its mode of economic growth smoothly. Besides, the Group has not only achieved a success in listing of H shares, but also maintained a continuous growth in operation performance, while significant progress was also achieved in the implementation of the "two transformations" through changing its mode of development, which in particular, refer to the transformation from a traditional state-owned enterprise to a market-oriented public company and the transformation of target market from Shanghai to the whole country.

During the Reporting Period, the Group's business income was RMB25.21 billion (excluding the antibiotic business, amount denominated in RMB, which is the same as below), up by 36.1% on a YOY basis, which was mainly driven by a growth in the sale of pharmaceutical products; its business profit was RMB1.80 billion, total profit was RMB1.83 billion, and net profit attributable to the equity holders of the Company was RMB1.30 billion, respectively increased by 56.9%, 53.4% and 65.7% as compared with the corresponding period of last year; the operating profit margin after deducting sales and administration costs was 4.4%, down by 0.5% from the operating profit margin of 4.9% of the corresponding period of last year after deducting the operating profit of Techpool Bio-pharma; its earnings per share amounted to RMB0.6072 and earnings per share deducting non-recurring profits and losses were RMB0.3787. During the Reporting Period, the Group further enhanced the management of operational cash flows and thereby its net cash flows from the operating activities were up to RMB870 million. As at 30 June 2011, the owners' equity of the Group was RMB25.36 billion, its owners' equity deducting the minority interest was RMB22.73 billion and its total assets were RMB45.33 billion.

During the Reporting Period, the Group has clinched numerous awards with its reputation among peers rising significantly. The Group took the number two spot in the ranking of "Top 10 China's Pharmaceutical Conglomerates in terms of Integrated Strengths 2011" published at the Summit of Chemical Pharmaceutical Brands 2011, scooped the top spot in the sector of "Integrated Competitive Strengths of Pharmaceutical Enterprises listed on the Main Board in Shanghai and Shenzhen (circulation industry) 2010" on the list of Integrated Competitive Strengths of China's Pharmaceutical Listed Enterprises 2010 published by "Medicine Economic News" edited by China SFDA Southern Medicine Economic Institute. The Group was also on the list of "The 3rd Top 20 Most Competitive China's Pharmaceutical Listed Enterprises" published by the China Pharmaceutical Enterprises Association. In addition, the Group was named as the "Top 100 China's Listed Companies on the Main Board" in the Evaluation of China's listed Companies for 2010 organised by "Securities Times" which lasted for nearly two months and historically ranked within top 100 in the Top 500 Chinese Enterprises in 2011 published by Fortune (Chinese edition) and landed the 99 spot (the Group ranked 136 last year), while Shanghai Pharmaceuticals was also newly included in the SSE Corporate Governance Index.

■ **Pharmaceutical business:** The Group produces and manufactures extensive pharmaceutical product mix, including chemical and biological drugs, modern Chinese medicines and other health-care products. During the Reporting Period, the Group's income from sale of pharmaceutical products (excluding the antibiotic business, the same as below) was RMB4.21 billion, representing a growth of 11.0% as compared with the corresponding period of last year after deducting the income of Techpool Bio-pharma; its gross margin was 45.3%, declined by 3.3% as compared with the corresponding period of last year after deducting the gross margin of Techpool Bio-pharma. The operating profit margin after deducting sales and administration costs was 12.8%, declined by 1.2% as compared with the corresponding period of last year after deducting the operating profit of Techpool Bio-pharma. Of such income, the portion from sale of chemical and biological drugs was RMB1.8827 billion, up by 8.0% on a YOY basis, the portion from sale of modern Chinese medicines was RMB1.66791 billion, up by 9.0% on a YOY basis, the portion from sale of other drugs and medical devices was RMB662.05 million, up by 25.5% on a YOY basis. During the Reporting Period, the Group had 121 products which generated pre-tax sales income of RMB5 million (inclusive) to RMB25 million (including antibiotics, the same as below); had 24 products which generated sales income of RMB25 million (inclusive) to RMB50 million; and had 16 products which generated sales income of RMB50 million (inclusive), among which, the sales income from seven products such as Shenmai injection, Ceftriaxone Sodium, Qingchunbao anti-caducity tablets, live combined bifidobacterium and Rosuvastatin was more than RMB100 million.

The Group has always complied with Good Manufacturing Practices of Drugs promulgated by the government in its manufacturing process and adhered to stringent quality control procedures in order to attain high quality. During the Reporting Period, the Group continued to implement and focus on product strategies and develop key products which have high gross profit margin, market growth rate and market volume. Our five major therapeutic areas are the central nervous system, alimentary tract and metabolism, anti-infectives for systemic use, antineoplastic and immunomodulating agents and cardiovascular system.

■ Distribution and supply chain solution of pharmaceuticals: The Group provides pharmaceutical manufacturers and pharmacists (e.g. hospitals, distributors and retail drugstores) with distribution, storage, logistics and other value-added pharmaceutical supply chain solutions and relevant services. The Group has formed a national distribution network through more than 40 subsidiaries and branches as well as over 30 logistics centres, thereby strategically covering East China, North China and South China and having strong terminal network and value-added service outlets. During the Reporting Period, the Group's sales income from pharmaceutical distribution and supply chain solutions was RMB21.17 billion, increased by 46.2% as compared with the corresponding period of last year, with a gross margin of 6.6%, declined by 0.8% as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 2.4%, increased by 0.3% as compared with the corresponding period of last year. During the Reporting Period, CITIC Pharmaceutical, a wholly-owned subsidiary of the Group, was renamed as "Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd." (Shanghai Pharma Keyuan). The Group has also carried out its "100-Day Collaborative Plan" and continued to allocate its existing resources in a concerted way. Shanghai Pharma Keyuan achieved an operating income of RMB3.96633 billion for the first half of the year, representing a YOY growth of 47.2%, a net profit attributable to the parent company of RMB89.15 million, representing a YOY growth of 30.3%, and an operating margin after deducting sales and administration costs of 3.6%, declined by 0.7% as compared with the corresponding period of last year. During the Reporting Period, Shanghai Pharma Keyuan integrated the existing distribution business of the Group in the northern region to initiate the construction of the investment platform in such region and will deepen its development of the distribution network in the northern region with Beijing as its center. In addition, the Group has actively developed the business of high value medicines direct transportation port (DTP) during the Reporting Period and further expanded the retail and distribution market through the development of DTP pharmacy and acquired strategic strengths through differential strategic positioning. The Group has also jointly introduced the national general drugs distribution services with China Post (Group) Corporation (such service currently covers Shanghai and 16 other provinces and cities) and aims at further developing such distribution service to include special drugs. The Group has also cooperated smoothly with ProLogis in the area of transportation and storage of medicines.

■ **Pharmaceutical retail:** The Group's retail drugstore network spreads throughout nine provinces, municipalities directly under the jurisdiction of the Central Government and autonomous regions. During the Reporting Period, the Group's sales income from the pharmaceutical retail business was RMB1.06 billion, representing a growth of 23.1% as compared with the corresponding period of last year, with a gross margin of 24.0%, increased by 3.5% as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 3.6%, increased by 2.2% as compared with the corresponding period of last year. During the Reporting Period, the Group actively dealt with the situation of the pharmaceutical retail market, by focusing on "adjustment, optimisation, integration and improvement", brought into play the core role of main stores in a professional, dedicated, centralised and integrated manner, carried out such measures as transforming the retail of cosmeceuticals and exploring the new e-business area, and steadily made progress in all works of enterprise operation.

■ **R&D and scientific and technological innovation:** In the first half of 2011, the Group's R&D investment totalled RMB134.55 million, accounting for approximately 3.2% of the Group's sales income of industry. Besides, the Group had 2 clinical approvals for new drugs, 1 approval for production of drugs and 217 projects under research. During the Reporting Period, the 3rd batch project of the Eleventh Five-Year National Science and Technology Major Project for creation of major new drugs – "construction of industry-university-research institute technology alliance in the research and development system" (the "IURI Alliance") which was undertaken by the Group has proceeded smoothly and received government subsidies and the eight 1st and 2nd batch projects of the Eleventh Five-Year National Science and Technology Major Project for creation of major new drugs have completed technological inspection. The "Research on Sulfotanshinone Sodium Injection and its Industrialisation" of the Group has received the Technological Progress Award (Class 3) 2010 of Shanghai. In February 2011, the Group and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang) entered into a strategic cooperation agreement on creation, research and development of material new drugs to jointly promote R&D and industrialised overall cooperation in terms of four drugs, including Deuteporfin, recombinant TNF acceptors with high affinity, LVCR and recombinant human lymphotoxin-a derivative (LT). All of the four drugs have independent intellectual property rights. All projects are being carried out as planned at the current stage. The Deuteporfin and LVCR projects have entered into Phase I clinical stage, and the recombinant TNF acceptors with high affinity project has completed pre-clinical researches and is going to apply for clinical approval.

■Internal integration: During the Reporting Period, the Group further pushed forward internal small restructuring as to internal enterprise equity and business structure to optimise the mode of control and improve the efficiency of operation. During the Reporting Period, the Group's sales and administration cost ratio was 10.0%, declined by 2.4% as compared with the corresponding period of last year after deducting the sales and administration cost of Techpool Bio-Pharma. In order to rationalise industrial relations, streamline management chain, reduce management cost, and perk up efficiency in decision making, the Group considered the streamlining of management structure as a key task for 2011, and as at the end of the Reporting Period, the Group has disposed of 11 companies conducting non-core business that need to be integrated. During the Reporting Period, the Group continued to boost the construction of four uniform management platforms (i.e. the centralised marketing platform for similar key products, the centralised distribution platform with Shanghai Pharmaceutical Distribution Co., Ltd. as the main channel, the joint platform for government public affairs and the centralised procurement platform for block medicinal herbs). The Group also deeply facilitated the construction of cash pool to reduce external loans and save financial costs. In the first half of 2011, the Group entered into a bank-business strategic cooperation agreement with the Bank of Communications, whereby the Bank of Communications will grant the Group an intentional credit facility equal to RMB10 billion and provide all encompassing finance services, which include credit line granted under the "Win to wealth" supply chain finance business, to meet the business requirement of the Group. In addition, the Group has fully started relevant works in readjustment of industrial layout and IT construction to share the Group's resources, intensify internal cooperation and strengthen risk management.

■External M&A and external cooperation: During the Reporting Period, the Group selectively acquired, invested and cooperated through strategic guide to expand its own businesses. During the Reporting Period, the Group further acquired equity interest in China Health System Ltd. (CHS, whose substantial asset is Shanghai Pharma Keyuan, which was ranked in top three in Beijing), thereby completing the acquisition of 100% equity interest in CHS through market-oriented approach and basically realising Shanghai Pharmaceuticals' national pharmaceutical distribution network layout in three important districts, namely East China, South China and North China. Besides, the Group continued to consolidate the professional leadership of its distribution business in East China by acquiring Taizhou Pharmaceutical Co., Ltd. in Zhejiang and Shanghai Yutiancheng Pharmaceutical Co., Ltd. The Group's acquisition of antibiotic business (acquisition of equity interests held by Shanghai Pharmaceutical (Group) in Shanghai New Asiatic Pharmaceutical Co., Ltd. and Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.) is under progress. The Group has obtained the Official Reply of the Ministry of Finance on Approval of Several Issues Related to Equity Interest Held by China Great Wall Asset Management Corporation through Debt-Equity Swap in Shanghai Asia Pioneer Pharmaceutical Co., Ltd. in June 2011 and is now carrying out procedures to update business registration.

During the Reporting Period, the Group actively strengthened external cooperation: the Group deepened its strategic cooperation with 69 multinational pharmaceutical suppliers in the pharmaceutical distribution sectors in three major business areas of high-end drugs, high-quality consumables and vaccines, and it is expected that the total amount under the agreements on procurement by the Group from the above suppliers will exceed RMB20 billion in 2011; the Group entered into a Memorandum of Understanding with Pfizer, under which, the two parties will cooperate in registration, commercialisation and distribution of an innovative drug produced by Pfizer in China and will further expand the area of cooperation in the future; the Group entered into a framework agreement on overall strategic cooperation with China Post Logistics Co., Ltd., an affiliate of China Post (Group) Corporation, to carry out overall cooperation in various areas, which included basic drugs distribution, special drugs (anaesthetic and psychiatric medicine etc.) distribution, high value medicines direct transportation port business (DTP), the construction of modern medical logistic center and financial support of logistic supply chain.

2. Major problems and risks encountered by the Company and the business development plan for the second half year and risk management measures

For the second half year of 2011, the Group will face opportunities and challenges simultaneously.

Opportunities: Bio-pharmacy is included as a national strategic emerging industry and pharmaceutical companies can count on more national development policy support. With the increasing concern on health by the general public, the demand for medicines will continue to rise. The Chinese government is advancing with the centralisation of pharmaceutical industry and promulgates policies to support the expansion of large-scale pharmaceutical enterprise. The successful listing of H Shares has guaranteed significant finance resources for further development of the Group.

Challenges: The global currency dispute, scramble for resources and trade war are only in their prelude, while the difficulty of financing continues to increase under the influence of the tightening of domestic credit. On the other hand, the manufacturing cost will surge substantially under the the pressure from eco-friendly measures, rollout of new GMP and the increase in raw material prices, transportation costs and salaries. Under the present tender policy, companies which focus on basic medicine and general medicine will lose more markets of local hospitals.

Existing problems: There is an urgent need to deepen the transformation of the system and mechanism of the Group and the further strengthening of the enhancement of integrated value of the industrial chain. On the other hand, we have to speed up the process of merger and acquisition which is in line with the national strategy, enhance the industrialisation of newly developed products, accelerate the pace of constructing projects aiming at enhancing industrial competence and further deepen the construction of an internal comprehensive management and control system.

In the second half of 2011, the Group plans to focus on the following important work in response to all possible challenges: (i) making good use of H Shares-raised funds: see the H Shares Prospectus disclosed by the Group for the use of proceeds; (ii) improving the ability of responsiveness: restructuring products and converting the mode of marketing in response to the policy influence caused by decrease of the pharmaceutical price by the State and invitation of bids for basic medicines; (iii) strictly controlling two expenses: reducing the marketing expenses and management expenses through such measures as optimising organisational structure and strictly implementing budget; (iv) accelerating mergers and acquisitions (“M&A”) and integration: as per the national strategic requirements, accelerating commercial and industrial M&A, pushing forward the construction of such base projects as SPH biological pharmaceutical industrial park, and optimising industrial layout; (v) enhancing risk management: enhancing the control and management of the Group’s holding enterprises and participating enterprises, completing the construction of the internal control system of the Group and the enterprises directly under the Group and effectively implementing the principal responsibility for safety production to create a safe and controllable situation for the Group’s sustained and stable development.

(2) Primary Businesses and Operating Status of the Company

1. Primary Businesses by Industry or by Product

Unit: yuan, Currency: RMB

By Industry or by product	Operating income	Operating cost	Business profit margin (%)	Increase or decrease in operating income on a YOY basis (%)	Increase or decrease in operating cost on a YOY basis (%)	Increase or decrease in business profit margin on a YOY basis (%)
By industry						
Manufacturing	4,212,660,882.36	2,263,916,332.87	46.26	3.00	14.02	Down by 5.19 %
Distribution	21,173,079,801.78	19,741,940,751.49	6.76	46.18	47.34	Down by 0.74 %
Retail	1,061,809,480.50	801,819,372.23	24.49	23.10	17.54	Up by 3.57%

Note: The data above are before inter-segment eliminations.

Including: During the Reporting Period, the total amount of the connected transactions, i.e. the listed company selling products and providing labour to its controlling shareholders and subsidiaries, was RMB3.3794 million.

2. Primary Businesses by Region

Unit: yuan, Currency: RMB

Region	Operating Income	Increase or decrease in operating income on a YOY basis (%)
Domestic	24,602,331,948.82	35.51
Overseas	498,822,494.32	87.75

3. Operation of Major Controlled Companies and Companies with Equity Participation

Unit: 10,000 yuan, Currency: RMB

Name of company	Nature of business	Percentage of shareholding (%)	Registered capital	Scale of assets	Owners' equity attributable to the parent company	Operating income	Operating profit	Net profit attributable to the owner of the parent company
Shanghai Pharmaceuticals Distribution Co., Ltd.	Sale of pharmaceuticals	100	181,687	1,444,706.35	219,749.88	1,646,499.83	45,193.14	29,614.88
Shanghai Pharma Keyuan (Note 1)	Sale of pharmaceuticals	100	50,000	443,670.38	107,380.41	396,633.11	12,221.80	8,914.96
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Chemical and biological pharmaceutical	100	66,604	195,501.12	89,950.23	122,015.82	7,101.63	6,111.28
Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Chemical and biological pharmaceutical	100	22,500	78,520.15	57,059.85	34,731.56	10,756.88	9,456.26
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chemical and biological pharmaceutical	100	54,580	157,860.19	97,053.77	59,484.04	14,567.10	12,553.07
Changzhou Pharmaceutical Co., Ltd.	Chemical and biological pharmaceutical	60.59	7,879	187,168.85	87,328.65	178,229.19	11,131.68	7,449.18
Shanghai Traditional Chinese Medicine Co., Ltd.	Traditional Chinese medicines	100	46,369	275,041.31	78,330.83	177,690.88	5,363.62	3,990.56
Qingdao Growful Pharmaceutical Co., Ltd.	Traditional Chinese medicines	63.93	9,300	77,104.42	46,584.62	31,201.03	6,157.75	5,535.75
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Traditional Chinese medicines	55	12,850	112,732.55	79,371.90	49,951.64	8,698.24	7,620.82
Shanghai Fahrenheit Pharmacy Co., Ltd.	Retail pharmacy operations	100	9,957	82,683.95	25,171.80	91,638.00	297.01	182.45
Techpool Bio-Pharma	Chemical and biological pharmaceutical	40.80	10,000	73,366.82	57,267.60	36,358.23	9,449.27	8,119.08
Sino-American Shanghai Squibb Pharmaceutical Ltd.	Chemical pharmaceutical	30.00	USD1,844	116,044.31	52,883.10	121,319.53	15,404.57	11,359.30
Shanghai Roche Pharmaceuticals Ltd. (Note 2)	Chemical pharmaceutical	30.00	USD6,236	348,627.48	159,545.52	262,240.98	38,729.05	30,868.42

Note:

1. Shanghai Pharma Keyuan, whose former name was CITIC Pharmaceutical, has been consolidated into the statements of the Group since the second quarter. The data of Shanghai Pharma Keyuan, such as its income and profit, are those generated in the first half of the year.
2. Shanghai Roche Pharmaceuticals Ltd. holds a 30% equity interest in Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group.

(3) Investment of the Company

1. Use of proceeds from H Shares fund raising

Unit: 100 million, Currency: HK dollar

Year of fund raising	Method of fund raising	Total amount of proceeds	Total amount of proceeds used in the Reporting Period	Cumulative total amount of proceeds used	Total amount of remaining unused proceeds	Usage and placement of unutilised proceeds
2011	H Shares Issue	160.14	42.10	42.10	118.04	Bank deposit
Total	/	160.14	42.10	42.10	118.04	/

During the Reporting Period, the Group proceeded with the global offering of H Shares and listed in Hong Kong. The total number of H shares issued was 696,267,200 Shares and the issue price is HK\$23 per Share with total proceeds amounting to HK\$16,014,145,600, while the final amount of proceeds after deducting issue costs would be subject to the capital verification report. According to the H Shares Prospectus of the Group and the disclosed interim announcement 2010-035, the intended usage of the proceeds from the issuance of H Shares included the merger and acquisition of domestic and foreign pharmaceutical enterprises, the establishment, M&A of commercial pharmaceutical network, research and development, construction of corporate information system, the supplement of liquidity and optimisation of financial structure. At present, proceeds have been used in the following areas: 1. Repayment of borrowing in the amount of US\$537 million raised for the acquisition of 100% shareholdings in CHS and interest incurred, which in total amounted to approximately HK\$ 4.21 billion; 2. Upon the approval by the 17th meeting of the fourth session of the Board held on 12 July 2011, it was agreed that RMB2.0 billion will be injected into the subsidiaries which would be applied in the distribution business and technology information construction. The Company is now carrying out the relevant procedures.

2. Projects committed

Unit:10,000 yuan, Currency: RMB

Committed project names	Will there be any change to the project?	Intended investment of proceeds from H Shares	Actual investment of proceeds from H Shares	Is the project carried out as scheduled	Progress of the project	Expected return	Actual return	Does the project return meet expectation	Reasons for behind schedule and failure to deliver expected return	Reasons for changes and illustration of procedures of changes in usage of proceeds
Acquisition of CHS	No	356,891.99	356,891.99	Yes	Completed		3,922.98		N/A	N/A
Total	/			/	/		/	/	/	/

3. Projects financed by non-raised funds

There is no significant investment financed by non-raised funds.

VII. IMPORTANT ISSUES

(1) Corporate Governance

As at the end of the Reporting Period, in accordance with relevant PRC laws and regulations, the Articles of Associations of the Company and the Hong Kong Listing Rules, we have formed three board committees, namely the audit committee, the remuneration and assessment committee and the strategy committee.

The audit committee consists of three independent non-executive directors, namely Ms. Tommei Tong, an independent non-executive director with the appropriate professional qualifications who serves as the chairman of the committee, Mr. Bai Huiliang and Mr. Chen Naiwei.

The remuneration and assessment committee consists of three independent non-executive directors, namely Mr. Chen Naiwei, who is the chairman of the remuneration and assessment committee, Mr. Zeng Yixin and Mr. Bai Huiliang.

The strategy committee consists of three directors, namely Mr. Lu Mingfang, who is the chairman of the strategy committee, Mr. Bai Huiliang and Ms. Tommei Tong, both of whom are the independent non-executive directors of the Company.

During the Reporting Period, the Group held 1 shareholders' general meeting, 6 board meetings, 2 meetings of the board of supervisors, while the strategy committee, audit committee and remuneration and assessment committee under the board held 1, 4 and 2 meetings respectively.

Compliance of Code on Corporate Governance Practices:

The Group is an A+H listed company and shall abide by the laws and regulations both in the PRC and in Hong Kong. The Group does not violate any relevant laws and regulations of the PRC as an A Shares listed company.

The H Shares of the Group were listed on the Hong Kong Stock Exchange on 20 May 2011. The Group had been dealing with a large number of urgent matters associated with the Global Offering and listing of H Shares before and after the listing date. Besides, the Group should hold its 2010 Annual General Meeting before 30 June 2011 according to the relevant laws and regulations of the PRC. Therefore, the Group did not fully comply with Section E.1.3 of the Code on Corporate Governance Practices which requires a company to give at least 20-business day notice of an Annual General Meeting. Instead, the Group gave notice to the shareholders of the Company on 9 June 2011 regarding the Annual General Meeting and the H Share Class Meeting which immediately followed the conclusion of the Annual General Meeting.

The Group will make its best endeavours to comply with the notice period stipulated in the code provisions of the Code on Corporate Governance Practices in the future.

Save as disclosed above, during the Reporting Period, the Company fully complied with the principles and code provisions stipulated in the Code on Corporate Governance Practices.

(2) Implementation of the profit distribution plan during the Reporting Period (currency involved is RMB)

Upon the approval by the Annual General Meeting of the Company for the Year 2010 held on 30 June 2011, the profit distribution plan of the Company for year 2010 was confirmed as follows: on the basis of an aggregate of 1,992,643,338 Shares of the Company as at 31 December 2010, a cash dividend of RMB1.40 (before tax) per ten A Shares will be distributed to all the holders of A Shares, totaling RMB278,970,067.32. There is no conversion of capital reserve fund into share capital by the Company during the Reporting Period in 2010.

(3) Profit distribution proposal and proposal for converting capital reserve fund into share capital during the Reporting Period

The Group does not have any proposal for profit distribution and proposal for converting capital reserve fund into share capital during the Reporting Period.

(4) Assets transaction

1. Acquisition of assets

Unit: 10,000 yuan, Currency: RMB

Counterparty or ultimate controlling party	Asset acquired	Date of acquisition	Acquisition price of asset	Net profit contribution to the listed company from the date of acquisition to the end of Reporting Period	Net profit contribution from the beginning of the year to the end of the period (applicable to combination of entities under common control)	Is it a connected transaction (If yes, please illustrate the pricing basis)	Pricing basis of the acquisition of asset	Has the transfer of ownership rights of the acquired assets fully completed	Has the assignment of the relating debts and obligations fully completed	Percentage of the net profit contribution of such asset to the listed company to the total profit (%)	Connected relationship
Biomedical Sciences Investment Fund Pte Ltd. etc.	97.37% shareholding interests in China Health System Ltd.	1 April 2011	347,493.08	3,819.81		No	Market price	Yes	Yes	2.93	

VIII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED, SEE ATTACHMENTS)

1. Financial statements
2. Notes to the financial statements

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
Assets			
Non-current assets			
Land use rights	6	757,333	782,933
Investment properties	6	255,779	261,056
Property, plant and equipment	6	3,966,536	4,100,592
Intangible assets	6	3,063,648	516,432
Investments in jointly controlled entities		363,571	204,695
Investments in associates	7	1,831,686	1,062,201
Deferred income tax assets		156,461	150,167
Available-for-sale financial assets		185,075	383,716
Other long-term prepayments		4,694	816,236
		10,584,783	8,278,028
Current assets			
Inventories		6,509,012	5,040,729
Trade and other receivables	8	12,189,881	8,580,616
Financial assets at fair value through profit or loss		2,790	3,234
Restricted cash		285,109	298,764
Cash and cash equivalents		15,755,686	6,039,573
		34,742,478	19,962,916
Total assets		45,327,261	28,240,944
Equity attributable to owners of the parent			
Share capital	9	2,688,910	1,992,643
Share premium		15,329,314	3,282,151
Other reserves		567,721	742,742
Retained earnings		4,141,211	3,117,023
		22,727,156	9,134,559
Non-controlling interests		2,631,578	2,749,704
Total equity		25,358,734	11,884,263

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	<i>Note</i>	30 June 2011 RMB'000	31 December 2010 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	11	40,022	66,098
Deferred income tax liabilities		263,735	43,520
Termination benefit obligations		67,699	79,835
Other non-current liabilities		226,000	224,717
		597,456	414,170
Current liabilities			
Trade and other payables	10	14,582,495	10,912,154
Current income tax liabilities		176,213	211,980
Borrowings	11	4,612,363	4,818,377
		19,371,071	15,942,511
Total liabilities		19,968,527	16,356,681
Total equity and liabilities		45,327,261	28,240,944
Net current assets		15,371,407	4,020,405
Total assets less current liabilities		25,956,190	12,298,433

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2011 RMB'000	2010 RMB'000
Revenue	5	25,210,190	18,523,113
Cost of sales		(21,577,623)	(15,119,338)
Gross profit		3,632,567	3,403,775
Distribution and selling expenses		(1,527,573)	(1,518,752)
General and administrative expenses		(1,003,332)	(900,814)
Operating profit	12	1,101,662	984,209
Other income		25,249	37,143
Gains on disposal of subsidiaries	13	517,477	15,815
Other gains – net	14	126,778	64,549
Finance income		55,793	34,719
Finance costs		(218,442)	(142,199)
Share of profit of jointly controlled entities		43,981	26,173
Share of profit of associates	7	179,477	174,171
Profit before income tax		1,831,975	1,194,580
Income tax expense	15	(338,016)	(184,723)
Profit for the period		1,493,959	1,009,857
Profit attributable to:			
Equity holders of the Company		1,303,197	786,517
Non-controlling interests		190,762	223,340
		1,493,959	1,009,857
Earnings per share attributable to equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	16	0.61	0.39
Dividends	17	–	314,527

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Profit for the period	1,493,959	1,009,857
Other comprehensive income		
Available-for-sale financial assets		
– Gross	(83,121)	(54,293)
– Tax	20,493	13,188
Currency translation differences, net	(2,849)	(1,668)
Other comprehensive income for the period, net of tax	(65,477)	(42,773)
Total comprehensive income for the period	1,428,482	967,084
Attributable to:		
– Equity holders of the Company	1,237,720	743,744
– Non-controlling interests	190,762	223,340
Total comprehensive income for the period	1,428,482	967,084

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Net cash generated from operating activities	681,057	964,492
Net cash used in investing activities	(2,543,770)	(1,655,628)
Net cash generated from financing activities	11,635,457	1,534,053
Net increase in cash and cash equivalents	9,772,744	842,917
Cash and cash equivalents at beginning of period	6,039,573	4,776,503
Exchange loss on cash and cash equivalents	(56,631)	(590)
Cash and cash equivalents at end of period	15,755,686	5,618,830

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2011		1,992,643	3,282,151	742,742	3,117,023	9,134,559	2,749,704	11,884,263
Total comprehensive income for the period ended 30 June 2011		-	-	(65,477)	1,303,197	1,237,720	190,762	1,428,482
Transactions with owners								
Issuance of new shares	9	696,267	12,047,163	-	-	12,743,430	-	12,743,430
Capital injections from non-controlling interests		-	-	-	-	-	152,937	152,937
Acquisition of subsidiaries		-	-	-	-	-	16,306	16,306
Disposal of a subsidiary	2, 13	-	-	-	-	-	(290,959)	(290,959)
Transaction with non-controlling interests		-	-	(109,550)	-	(109,550)	(48,184)	(157,734)
Dividends of the Company		-	-	-	(278,970)	(278,970)	(137,998)	(416,968)
Others		-	-	6	(39)	(33)	(990)	(1,023)
Total transaction with owners		696,267	12,047,163	(109,544)	(279,009)	12,354,877	(308,888)	12,045,989
Balance at 30 June 2011		2,688,910	15,329,314	567,721	4,141,211	22,727,156	2,631,578	25,358,734

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the Company					Non-controlling		
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	interests RMB'000	Total equity RMB'000
Balance at 1 January 2010		569,173	4,760,996	766,795	2,185,046	8,282,010	2,153,134	10,435,144
Total comprehensive income for the period ended 30 June 2010		-	-	(42,773)	786,517	743,744	223,340	967,084
Transactions with owners								
Deemed distribution to equity holders		-	-	-	(272,108)	(272,108)	-	(272,108)
Issue of shares as the consideration for business combination under common control	9	1,423,470	6,722,470	-	-	8,145,940	12,350	8,158,290
Consideration for business combination under common control		-	(8,201,315)	-	-	(8,201,315)	-	(8,201,315)
Acquisition of subsidiaries		-	-	-	-	-	38,386	38,386
Transaction with non-controlling interests		-	-	(15,666)	-	(15,666)	(46,918)	(62,584)
Dividends of the Company		-	-	-	(139,569)	(139,569)	(90,372)	(229,941)
Others		-	-	-	(2,984)	(2,984)	(2,250)	(5,234)
Total transaction with owners		1,423,470	(1,478,845)	(15,666)	(414,661)	(485,702)	(88,804)	(574,506)
Balance at 30 June 2010		1,992,643	3,282,151	708,356	2,556,902	8,540,052	2,287,670	10,827,722

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

1.1 Organisation and history

Shanghai Pharmaceuticals Holding Co., Ltd. (the “Company”), initially known as Shanghai No. 4 Pharmaceutical Co., Ltd. (上海四藥股份有限公司), was incorporated in the People’s Republic of China (the “PRC”) on 18 January 1994 as a joint stock company with limited liability under the Company Law of the PRC. Pursuant to a restructuring, the Company issued 42,966,600 domestic shares of RMB1 each (“A Shares”) to its then shareholder and succeeded all the businesses of Shanghai No. 4 Pharmaceutical Factory (上海第四製藥廠), which was mainly engaged in the manufacturing and sale of pharmaceutical products. The Company then issued 15,000,000 new A Shares to public and all of the Company’s A Shares were listed on Shanghai Stock Exchange on 24 March 1994.

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

In 2009, for the purpose of streamlining and restructuring the pharmaceutical businesses under the control of Shanghai Pharma Group and Shanghai Industrial Investment (Holdings) Co., Ltd. (Shanghai Industrial Group, 上海實業(集團)有限公司), the ultimate holding company of the Company, the Company entered into a series of restructuring agreements with Shanghai Pharma Group and Shanghai Industrial Group and their respective subsidiaries. The principal restructuring transactions are summarised as follows:

- (i) The Company acquired all the assets, liabilities and businesses of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (“Shang Shi Pharma”, 上海實業醫藥投資股份有限公司), a company controlled by Shanghai Industrial Group and was a listed company on the Shanghai Stock Exchange. As consideration, the Company issued 592,181,860 new A Shares to the then shareholders of Shang Shi Pharma. After the acquisition, Shang Shi Pharma was de-listed and de-registered.
- (ii) The Company acquired all the assets, liabilities and businesses of Shanghai Zhong Xi Pharmaceutical Co., Ltd. (“Zhong Xi Pharma”, 上海中西藥業股份有限公司), a company controlled by Shanghai Pharma Group and was a listed company on the Shanghai Stock Exchange. As consideration, the Company issued 206,970,842 new A Shares to the then shareholders of Zhong Xi Pharma. After the acquisition, Zhong Xi Pharma was de-listed and de-registered.
- (iii) The Company acquired certain subsidiaries, associates and assets from Shanghai Pharma Group by issuing 455,289,547 new A Shares to the later.
- (iv) The Company acquired certain subsidiaries from Shanghai Industrial Holdings Co., Ltd. (上海實業控股有限公司), a subsidiary of Shanghai Industrial Group at a cash consideration of RMB1,999.6 million. To finance the cash consideration, the Company issued 169,028,205 new A Shares to Shanghai Shangshi (Group) Co., Ltd. (“Shanghai Shangshi”, 上海上實(集團)有限公司), another company controlled by Shanghai Industrial Group for cash of RMB1,999.6 million.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

1 GENERAL INFORMATION (continued)

1.1 Organisation and history (continued)

The subsidiaries and associates acquired in above-mentioned transactions are collectively referred to as “Acquired Businesses” in this condensed interim financial information. After the above restructuring transactions were completed in the six-month period ended 30 June 2010, the Company changed its name to Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司).

For the six months ended 30 June 2011, the Company issued 696,267,200 H Shares of RMB1 each to certain foreign investors at a price of HK\$23 per share and listed on The Stock Exchange of Hong Kong Limited (“HKSE”) on 20 May 2011.

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

The address of the Company’s registered office is No. 92 Zhangjiang Road, Pudong New District, Shanghai, PRC.

This condensed consolidated interim financial information was approved for issue on 12 August 2011.

This condensed consolidated interim financial information has not been audited.

1.2 Principal activities

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

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

2 KEY EVENT FOR CURRENT PERIOD

During the year ended and up to 31 December 2010, the Group held 40.8% equity interest in TECHPOOL Bio-Pharma Co., Ltd. (“TECHPOOL”). The directors of the Company and the Group’s management were of the view that the Group had the power to govern the financial and operating policies of TECHPOOL during the year ended and up to 31 December 2010 although its equity interests in this company was below 50%, after considering the facts that the Group can control the financial and operating policies of the entity by virtue of an agreement with other shareholders. From 1 January 2011 onwards, the relevant agreement expired and the Group does not exert control over TECHPOOL. Accordingly, from 1 January 2011, TECHPOOL was no longer qualified as a subsidiary of the Group but as an associate, despite the fact that there was no changes in the respective shareholding percentage between the Group and the other shareholders. Refer to Note 13 to this unaudited interim financial information for details of such event.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

3.1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements of the Company, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

As mentioned in Note 1 of this section, during year 2009 and 2010, the Company acquired certain subsidiaries and associates from Shanghai Pharma Group and Shanghai Industrial Group. These subsidiaries and associates form an integrated part of the pharmaceutical business of Shanghai Pharm Group and Shanghai Industrial Group. As the Company and the Acquired Businesses are under common control of Shanghai Industrial Group, which is controlled by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("SASAC Shanghai"), the aforementioned acquisitions have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial information includes the financial positions, results and cash flows of the Acquired Businesses as if the acquisitions had been completed prior to the beginning of the interim periods.

3.2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements of the Company for the year ended 31 December 2010.

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

New standards, amendments and interpretations to existing standards that are effective during the interim period have been adopted and applied by the Group consistently throughout the interim period unless prohibited by the relevant standard to apply retrospectively.

The Group has adopted following new standards and interpretations to existing standards and annual improvement published by the HKICPA which are mandatory for the first time for the financial period beginning 1 January 2011.

- HKAS 24 (Revised) "Related Party Disclosures" introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
 - The name of the government and the nature of their relationship;
 - The nature and amount of any individually significant transactions; and
 - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. The Group has already early adopted HKAS 24 (Revised) in the Company's annual consolidated financial statements for the year ended 31 December 2010.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

3.2 Accounting policies (continued)

- Amendment to HKAS 34 “Interim Financial Reporting” is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.
- Amendment to HKAS 32 “Classification of Rights Issues” is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.
- Amendment to HK (IFRIC) – Int-14 “Prepayments of a Minimum Funding Requirement” is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.
- HK (IFRIC) – Int 19 “Extinguishing Financial Liabilities with equity instruments” is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by HKICPA, except for amendment to HKAS 34 “Interim financial reporting” and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

The adoption of the abovementioned new or revised standards, amendments and interpretations and also those third annual improvements project (2010) published in May 2010 by the HKICPA did not result in any significant changes to the Group’s significant accounting policies and presentation of this condensed consolidated interim financial information.

New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets	1 January 2012
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets	1 July 2011
HKFRS 9	Financial Instruments	1 January 2013

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

3.3 Critical accounting estimates and assumptions

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 addressed below.

Fair value of the investment in TECHPOOL upon its initial recognition

The Group initially recognised its investment in associate arising from the deemed disposal of TECHPOOL at its fair value (Notes 2,13). As the shares of TECHPOOL are not traded in an active market, the Group uses its judgement to select a method and make assumptions to estimate its fair value. The Group has used discounted cash flow analysis to determine the fair value of its investment in TECHPOOL. The assumptions used in determining the fair value include expected future cash flows, the discount rate determined by weighted average cost of capital and lack of control discount. Any changes in these assumptions will impact the fair value of the investment.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended 31 December 2010.

There have been no changes in the risk management programme since year end or in any risk management policies.

4.2 Liquidity risk

Compared to year end, except for issuance of new shares, the repayments and drawn down of borrowings and partial settlements of dividends during the six-month ended 30 June 2011, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

4.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation (continued)

The carrying value less impairment provision of the current portion of receivables and payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

In 2011 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

In 2011 there were no reclassifications of financial assets.

5 SEGMENT INFORMATION

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

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

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

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

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

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

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations under common control.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

For the six-month period ended 30 June 2011

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	3,519,284	20,499,602	1,061,809	129,495	-	25,210,190
Inter-segment revenue	693,378	673,477	-	18,404	(1,385,259)	-
Segment revenue	4,212,662	21,173,079	1,061,809	147,899	(1,385,259)	25,210,190
Segment operating profit	540,554	507,481	37,662	23,368	(7,403)	1,101,662
Other income						25,249
Gains on disposal of subsidiaries and associates						517,477
Other gains – net						126,778
Finance costs – net						(162,649)
Share of profit of jointly controlled entities	31,545	12,436				43,981
Share of profit of associates	169,201	10,276				179,477
Profit before income tax						1,831,975
Income tax expense						(338,016)
Profit for the period						1,493,959

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

For the six-month period ended 30 June 2010

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	3,518,369	13,976,743	862,587	165,414	–	18,523,113
Inter-segment revenue	571,419	507,748	–	–	(1,079,167)	–
Segment revenue	4,089,788	14,484,491	862,587	165,414	(1,079,167)	18,523,113
Segment operating profit	634,096	311,810	11,634	26,669	–	984,209
Other income						37,143
Gains on disposal of subsidiaries and associates						15,815
Other gains – net						64,549
Finance costs – net						(107,480)
Share of profit of jointly controlled entities	19,836	6,337				26,173
Share of profit of associates	163,375	10,796				174,171
Profit before income tax						1,194,580
Income tax expense						(184,723)
Profit for the period						1,009,857

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

Other segment items included in the condensed consolidated interim financial information for the six-month period ended 30 June 2011 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	134,924	44,813	9,904	4,963	–	194,604
Amortisation of intangible assets and land use rights	12,681	7,198	4,108	629	–	24,616
Capital expenditure	134,236	35,257	4,848	19,431	–	193,772

Other segment items included in the condensed consolidated interim financial information for the six-month period ended 30 June 2010 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	131,361	36,710	6,437	6,982	–	181,490
Amortisation of intangible assets and land use rights	15,773	4,150	90	114	–	20,127
Capital expenditure	211,482	83,457	13,216	477	–	308,632

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 30 June 2011 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	129,458	234,113	-	-	-	363,571
Investment in associates	1,713,259	118,427	-	-	-	1,831,686
Other assets	8,734,694	19,427,652	808,394	24,934,811	156,461	54,062,012
Elimination						(10,930,008)
Total assets						<u>45,327,261</u>
Segment liabilities	2,984,446	15,930,311	525,628	3,707,333	439,948	23,587,666
Elimination						(3,619,139)
Total liabilities						<u>19,968,527</u>

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

	Assets	Liabilities
Segment assets/liabilities after elimination	45,170,800	19,528,579
Unallocated:		
Current income tax liabilities	-	176,213
Deferred tax assets/liabilities	156,461	263,735
Total	<u>45,327,261</u>	<u>19,968,527</u>

The segment assets and liabilities as at 31 December 2010 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	-	204,695	-	-	-	204,695
Investment in associates	982,971	79,230	-	-	-	1,062,201
Other assets	10,144,117	13,936,391	590,501	10,962,944	150,167	35,784,120
Elimination						(8,810,072)
Total assets						<u>28,240,944</u>
Segment liabilities	4,924,727	11,424,178	333,922	3,311,345	255,500	20,249,672
Elimination						(3,892,991)
Total liabilities						<u>16,356,681</u>

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

	Assets	Liabilities
Segment assets/liabilities after elimination	28,090,777	16,101,181
Unallocated:		
Current income tax liabilities	-	211,980
Deferred tax assets/liabilities	150,167	43,520
Total	<u>28,240,944</u>	<u>16,356,681</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

6 LAND USE RIGHTS, INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Land use rights <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Property, plant and equipment ("PP&E") <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
Six months ended 30 June 2011				
Opening net book amount 1 January 2011	782,933	261,056	4,100,592	516,432
Additions (a)	560	–	219,688	2,625,375
Depreciation and amortisation charge (Note 12)	(11,381)	(4,346)	(190,258)	(13,235)
Disposals (b)	(14,779)	(931)	(163,486)	(64,924)
Closing net book amount 30 June 2011	757,333	255,779	3,966,536	3,063,648
Six months ended 30 June 2010				
Opening net book amount 1 January 2010	805,161	600,033	4,051,959	134,900
Addition	36,714	–	268,878	3,040
Depreciation and amortisation charge (Note 12)	(15,828)	(10,895)	(170,595)	(4,299)
Internal transfer	–	14,153	(14,153)	–
Disposals (b)	(8,811)	(1,500)	(224,319)	(9,233)
Closing net book amount 30 June 2010	817,236	601,791	3,911,770	124,408

Note:

- (a) The addition of intangible assets primarily represents the goodwill and business network of approximately RMB2,617,868,000 which is arising from acquisition of CHS (Note 20).
- (b) The disposals of PP&E and intangible assets primarily represent the deemed disposal of PP&E and goodwill arising from loss of control in TECHPOOL (Note 13).

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

7 INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2011
Opening net book amount 1 January 2011	1,062,201
Addition arising from deemed disposal of TECHPOOL (Note 13)	742,754
Share of profit for the period	179,477
Dividends received from associates	(152,746)
Closing net book amount 30 June 2011	1,831,686
	Six months ended 30 June 2010
Opening net book amount 1 January 2010	842,296
Additions	102,183
Share of profit for the period	174,171
Dividends received from associates	(86,504)
Deductions	(5,410)
Closing net book amount 30 June 2010	1,026,736

8 TRADE AND OTHER RECEIVABLES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade receivables from third parties		
Accounts receivable	11,050,127	7,318,273
Less: Provision for impairment	(588,261)	(613,491)
Accounts receivable – net	10,461,866	6,704,782
Notes receivable	466,541	421,474
Trade receivables – net	10,928,407	7,126,256
Other receivables from third parties	1,091,021	1,376,295
Less: Provision for impairment	(645,955)	(694,413)
Other receivables – net	445,066	681,882
Amounts due from related parties, net (Note 21(c))	235,577	114,633
Prepayments	580,831	657,845
Trade and other receivables	12,189,881	8,580,616

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

8 TRADE AND OTHER RECEIVABLES (continued)

Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, sales are made on credit terms of within 180 days. Ageing analysis of gross trade receivables from third parties (accounts receivable and notes receivable) at the respective balance sheet dates are as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Less than 3 months	8,331,741	5,564,342
3 months to 6 months	2,265,430	719,966
6 months to 12 months	318,013	800,801
1 year to 2 years	63,573	61,225
Over 2 years	537,911	593,413
	11,516,668	7,739,747

9 SHARE CAPITAL

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total share capital RMB'000
Issued and fully paid:					
At 1 January 2011	1,992,643	-	1,992,643	-	1,992,643
Issue of H Shares (Note)	-	696,267	-	696,267	696,267
Internal transfer	(69,627)	69,627	(69,627)	69,627	-
At 30 June 2011	1,923,016	765,894	1,923,016	765,894	2,688,910
At 1 January 2010	569,173	-	569,173	-	569,173
Issue of A Shares	1,423,470	-	1,423,470	-	1,423,470
At 30 June 2010	1,992,643	-	1,992,643	-	1,992,643

Note:

Pursuant to the approval [2011] No. 533 from the China Securities Regulatory Commission (the "CSRC") for the filing of application to list the H Shares on the HKSE and the Global Offering in April 2011, the Company issued 696,267,200 H Shares of RMB1 each to certain investors at a price of HK\$23 per Offer Share and listed in HKSE on 20 May 2011. Excess of total proceeds over the notional amount of share capital and issue costs directly related to the issuance amounting to approximately RMB12,047,163,000 has been recognised as share premium in the condensed consolidated statements of changes in equity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

10 TRADE AND OTHER PAYABLES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Accounts payable to third parties	9,010,139	6,615,806
Notes payable	2,337,243	1,875,014
Advances received from customers	308,353	307,383
Payables for purchase of PP&E	72,559	60,860
Staff welfare and salary payables	332,986	318,395
Tax liabilities other than income tax	29,993	114,218
Amounts due to related parties (Note 21(c))	479,982	354,462
Accrued expense	1,101,860	408,693
Deposits	297,562	136,403
Dividends payable	277,686	48,383
Considerations payable in respect of acquisition of certain subsidiaries	-	234,695
Others	334,132	437,842
	14,582,495	10,912,154

Ageing analysis of the accounts payables to third parties and notes payables at the respective balances sheet dates are as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Less than 3 months	9,567,075	6,722,232
3 months to 6 months	1,062,033	546,420
6 months to 12 months	419,340	982,442
1 year to 2 years	108,679	122,953
2 year to 3 years	93,483	34,268
Over 3 years	96,772	82,505
	11,347,382	8,490,820

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

11 BORROWINGS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Non-current		
Long-term bank borrowings		
– guaranteed	5,200	5,200
– secured	18,867	45,042
– unsecured	11,522	11,423
Other borrowings	4,433	4,433
	40,022	66,098
Current		
Short-term bank borrowings		
– guaranteed	181,250	294,550
– secured	1,372,487	768,822
– unsecured	3,042,896	3,695,988
Other borrowings arising from discount of notes receivables	–	31,287
	4,596,633	4,790,647
Current portion of long-term bank borrowings		
– guaranteed	730	730
– secured	15,000	27,000
	4,612,363	4,818,377
Total borrowings	4,652,385	4,884,475

Movement in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2011	
Opening net book amount 1 January 2011	4,884,475
Additions	5,466,229
Acquisition of subsidiaries	1,460,161
Repayments of borrowings	(7,121,480)
Disposal of subsidiaries	(37,000)
Closing net book amount 30 June 2011	4,652,385
Six months ended 30 June 2010	
Opening net book amount 1 January 2010	3,416,247
Additions	2,456,376
Acquisition of subsidiaries	20,000
Repayments of borrowings	(2,596,079)
Disposal of subsidiaries	(5,000)
Closing net book amount 30 June 2010	3,291,544

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

11 BORROWINGS (continued)

- (a) The weighted average effective interest rates of major borrowings at the respective balance sheet dates are set out as follows:

	30 June 2011	31 December 2010
Bank borrowings		
– RMB	5.61%	4.59%
– USD	3.69%	1.23%
– HKD	3.87%	1.23%

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

- (b) The maturities of the Group's borrowings are as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	4,612,363	4,818,378
Between 1 and 2 years	100	1,634
Between 2 and 5 years	–	30,080
Wholly repayable within 5 years	4,612,463	4,850,092
Over 5 years	39,922	34,383
	4,652,385	4,884,475

12 OPERATING PROFIT

The following items have been charged/(credit) to the operating profit during the period:

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Depreciation of PP&E	190,258	170,595
Depreciation of investment properties	4,346	10,895
Amortisation of		
– land use rights	11,381	15,828
– intangible assets	13,235	4,299
Employee benefit expenses	958,243	874,988
Provision for impairment of trade and other receivables	2,802	5,871
Write-down/(Reversal of) of inventories to net realisable value	7,698	(7,120)

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

13 GAINS ON DISPOSAL OF SUBSIDIARIES

For the six-month period ended 30 June 2011, gain on disposal of subsidiaries primarily represented pre-tax gain of approximately RMB479,195,000 from the deemed disposal of TECHPOOL (Note 2).

From 1 January 2011, because of the loss of control over TECHPOOL (Note 2), the Group has accounted for its investment in TECHPOOL as investment in associate. Consequently, in recording such transaction, the Group (a) derecognised the assets (including goodwill) and liabilities of the TECHPOOL at their carrying amounts at 1 January 2011; (b) derecognised the carrying amount of non-controlling interests in TECHPOOL at 1 January 2011; (c) recognised the investment retained in TECHPOOL at fair value at 1 January 2011; and (d) recognised the resulting difference as gain in the income statement. Impact of the transaction are analysed as below:

	Six months ended 30 June 2011 RMB'000
Fair value of the 40.8% equity investment in TECHPOOL (Note 7)	742,754
Less: Carrying amount of net assets of TECHPOOL as at 1 January 2011	(491,485)
Goodwill in relation to TECHPOOL as at 1 January 2011	(63,033)
Carrying amount of non-controlling interest in TECHPOOL as at 1 January 2011	290,959
Gain on disposal of TECHPOOL	479,195

14 OTHER GAIN

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
(Loss)/gain of financial assets at fair value through profit or loss, net	(288)	3,859
(Loss)/Gain on disposals of investment properties	-	(1,338)
Gain/(loss) on disposals of PP&E	13,898	13,804
Loss on disposals of land-use-right	(332)	-
Gain on disposals of available-for-sale financial assets	119,542	45,695
Provision for impairment of PP&E	-	(1,557)
Foreign exchange gain/(loss)	(6,134)	(1,559)
Others – net	92	5,645
	126,778	64,549

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

15 TAXATION

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Current income tax, PRC enterprise income tax	213,754	181,736
Deferred income tax	124,262	2,987
	338,016	184,723

- (a) The Group was not subject to Hong Kong profits tax during the six-month periods ended 30 June 2011 and 2010 as there was no assessable income arising in or derived from Hong Kong.
- (b) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which is with effect from 1 January 2008. The New CIT Law reduces (increases) the CIT rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008.

For enterprises which were established before the publication of the new CIT Law on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009 and will be 22% for 2010, 24% for 2011 and 25% for 2012. For enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Details of the preferential CIT policies and significant subsidiaries who enjoy these policies are listed as follows:

- Shanghai WaiGaoQiao Pharmaceutical Business and Distribution Centre, Shanghai SiFu Pharmaceutical Co., Ltd., Shanghai Far-East Pharmaceutical Machinery Co., Ltd., Shanghai XinLing Pharmaceutical Co., Ltd. and Shanghai Huacheng Property and Management Co., Ltd., used to enjoy the preferential CIT rate of 15% applicable to the domestic enterprises established in Pudong New Area, Shanghai. According to the "Enterprise Income Tax Law of PRC" and "the Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies" (GuoFa [2007] No.39), the applicable CIT rate for the subsidiaries abovementioned is 22% and 24% for the six-month periods ended 30 June 2010 and 2011, respectively.
- Shanghai Fuda Pharmaceutical Co., Ltd., Shanghai Sine Jiahua Pharmaceutical Co., Ltd., Shanghai Dehua Medicine Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Medicine Co., Ltd., Shanghai SanWei Bio-technology Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning Herbapex Pharmaceutical (Group) Co., Ltd., Shanghai Xingling Pharmaceutical Technology Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai Zhongxisunve Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co.,Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Shanghai Medical Instruments Co., Ltd., Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd. and Changzhou Pharmaceutical Factory Co., Ltd., were approved by relevant local tax authorities as the High-technological Enterprise, and had enjoyed a preferential CIT rate of 15% during the six-month periods ended 30 June 2010 and 2011.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

16 EARNINGS PER SHARE

For the six-month periods ended 30 June 2011 and 2010, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Profit attributable to equity holders of the Company	1,303,197	786,517
Weighted average number of ordinary shares	2,146,251	1,992,643
Basic earnings per share (RMB)	0.61	0.39

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during the six-month periods ended 30 June 2011 and 2010.

17 DIVIDENDS

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Dividends declared by the Company	-	314,527

In March 2011, the directors of the Company proposed a final dividend for 2010. Net amount of the dividend for 2010 was approximately RMB278,970,000, respectively, representing RMB0.14 per share. This proposal was approved by the shareholders meeting in June 2011.

In April 2010, the directors of the Company proposed a final dividend for 2009 and a special dividend for one month ended 31 January 2010. Net amount of the dividend for 2009 and special dividend was approximately RMB104,012,000 and RMB35,557,000, respectively, representing RMB0.102 per share. This proposal was approved by the shareholders meeting in May 2010.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

18 CONTINGENCIES AND GUARANTEES

- (a) The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.
- (b) Outstanding loan guarantees

	30 June 2011 RMB'000	31 December 2010 RMB'000
Outstanding loan guarantees provided to related parties etc.	124,465	95,584

Outstanding loan guarantees primarily comprised loan guarantees of approximately RMB73,026,000 provided by the Group to Shenzhen Kondarl (Group) Corp., Ltd. (深圳市康達爾(集團)股份有限公司). The management has assessed that it is not probable for the Group to repay the guaranty and thus has not made any provision for the outstanding balance of the guaranty.

19 COMMITMENTS

(a) Capital commitments

- (i) Constructions

Capital expenditure contracted for at the respective balance sheet dates but not yet incurred is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
PP&E	-	9,696

- (ii) Acquisition of subsidiaries

As approved by the board of directors on 13 December 2010, the Group has committed to acquired 96.9% equity interests of Shanghai New Asiatic Pharmaceutical Co., Ltd. (上海新亞藥業有限公司, "Shanghai New Asiatic") and 100% equity interests of Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (上海新先鋒華康醫藥有限公司, "Huakang") from Shanghai Pharma Group at a consideration of approximately RMB1,487,780,000 in total. As at 30 June 2011, the Group's commitments in respect of the acquisition of equity interest in Shanghai New Asiatic and Huakang amounted to RMB1,487,780,000.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

19 COMMITMENTS (continued)

(b) Operating lease commitments

- (i) The Group is the lessee:

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
No later than 1 year	12,020	21,815
Later than 1 year and no later than 2 years	12,020	15,221
Later than 2 year and no later than 5 years	12,020	18,491
Later than 5 years	48,905	23,694
	84,965	79,221

- (ii) The Group is the lessor:

The Group leases out certain office premises, plant and equipment under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	30 June 2011 RMB'000	31 December 2010 RMB'000
No later than 1 year	4,552	7,254
Later than 1 year and no later than 2 years	15,390	4,629
Later than 2 year and no later than 5 years	8,370	13,670
Later than 5 years	5,400	8,245
	33,712	33,798

20 BUSINESS COMBINATION

Business combination not under common control

Six-month periods ended 30 June 2011

In December 2010, the Group has acquired 2.63% of equity interest in China Health System Ltd. ("CHS") and recorded it as available-for-sale financial assets in its consolidated balance sheet. For the six-month period ended 30 June 2011, the Group acquired remaining 97.37% of equity interests in CHS from certain independent third parties for a consideration of approximately RMB3,475,011,000, out of which RMB2,673,547,000 has been paid by the Group in cash in 2011. The acquisition date of this transaction was 1 April 2011, on which the Group effectively obtained the right to control CHS.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

20 BUSINESS COMBINATION (continued)

Details of net assets acquired and goodwill arising from the acquisition dated 1 April 2011, are as follows:

	CHS RMB'000
Acquisition consideration – Cash	3,568,920
Fair value of the net assets acquired	(1,323,024)
Goodwill – Pharmaceutical distribution	2,245,896

The details of the assets and liabilities acquired and cash flow relating to this acquisition are as follows:

	Fair values at acquisition RMB'000	Acquiree's carrying amounts at acquisition RMB'000
Cash and cash equivalents and restricted cash	296,830	296,830
PP&E	21,139	21,139
Investments in associates	124,920	101,930
Intangible Asset	361,722	4,437
Other non-current assets	30,489	30,489
Available-for-sale financial assets	627	627
Inventories	1,445,718	1,445,718
Trade and other receivables	2,539,650	2,539,650
Other current asset	9,216	9,216
Other non-current liabilities	(41,681)	(41,681)
Trade and other payables	(1,865,568)	(1,865,568)
Borrowings	(1,460,161)	(1,460,161)
Deferred income tax liabilities	(98,828)	(3,759)
Other current liabilities	(24,743)	(24,743)
Net assets	1,339,330	1,054,124
Percentage of equity interest acquired	100%	
Minority interest	(16,306)	
Net assets acquired	1,323,024	
Cash and cash equivalents in subsidiary acquired	184,291	
Total cash consideration paid by the Group during current period	(2,673,547)	
Cash inflow from acquisition	(2,489,256)	

As CHS are mainly engaged in pharmaceutical distribution business and most assets and liabilities of it are current assets and liabilities, the directors of the Company are of the view that, except for the intangible assets, investments in associates, and related deferred income tax liabilities, the fair value of its identifiable assets and liabilities approximated to their carrying amount due to their short maturities. An intangible asset of business network of approximately RMB357 million was recognised as at the acquisition date.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

20 BUSINESS COMBINATION (continued)

The revenue included in the condensed consolidated interim financial information of the Group since the acquisition date to 30 June 2011 contributed by CHS was approximately RMB2,066 million.

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

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

Name of related party	Nature of relationship
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Parent company
Shanghai SIICINV Consulting Co., Ltd. (上海上實投資管理諮詢有限公司)	Controlled by Shanghai Industrial Group
Shanghai Industrial Trade Co., Ltd. (上海實業貿易有限公司)	Controlled by Shanghai Industrial Group
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd. (上海振申醫藥進出口有限公司)	Controlled by Shanghai Pharma Group
Shanghai New Asiatic Pharmaceuticals Co., Ltd. (上海新亞藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (上海新先鋒華康醫藥有限公司)	Controlled by Shanghai Pharma Group
Liaoning Medya Pharmaceutical Co., Ltd. (遼寧美亞藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Jointly controlled entity
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾藥房有限公司)	Jointly controlled entity
Shanghai Sanhe Biotechnology Co., Ltd. (上海三合生物技術有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司)	Associate
Henan Kangxin Pharmaceutical Co., Ltd. (河南省康信醫藥有限公司)	Associate
Beijing Xin Hai Kang Pharmaceutical Co., Ltd. (北京信海康醫藥有限公司)	Associate
Hengren Manchu Municipality Grain Packaging Co., Ltd. (桓仁滿族自治縣格瑞恩包裝有限公司)	Associate

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Associate
Shanghai Beisiou Pharmaceutical Co., Ltd. (上海貝斯歐藥業有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司)	Associate
Shanghai Tongyong Pharmaceutical Corp., Ltd. (上海通用藥業股份有限公司)	Associate
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	Associate
Sino-American Shanghai Squibb Pharmaceutical Ltd. (中美上海施貴寶製藥有限公司)	Associate
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司)	Associate
Shanghai Baohua Industrial Co., Ltd. (上海保華實業公司)	Associate
Shanghai Bracco Sine Pharmaceutical Corp. Ltd. (上海信誼博萊科藥業有限公司)	Associate
Shanghai Draeger Medical Instrument Co., Ltd. (上海德爾格醫療器械有限公司)	Associate
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Associate
Shenzhen Kondarl (Group) Corp., Ltd. (深圳市康達爾集團股份有限公司)	Investee

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other government-related enterprises, during the period and balances arising from related party transaction.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

During the six-month periods ended 30 June 2011 and 2010, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Sales of goods		
Jiangxi Nanhua Medicines Co., Ltd.	105,473	95,213
Henan Kangxin Pharmaceutical Co., Ltd.	42,523	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	37,385	16,813
Shanghai Hutchison Pharmaceutical Co., Ltd.	33,865	24
Shanghai Deyi Pharmaceutical Co., Ltd.	31,082	16,065
Shanghai Luoda Pharmaceutical Co., Ltd.	20,791	23,798
Shanghai Roche Pharmaceutical Co., Ltd.	13,105	–
Shanghai Ivyuan Pharmacy Co., Ltd.	6,621	9,227
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	5,155	–
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	4,019	–
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.	3,379	10,538
Shanghai Jianer Pharmacy Co., Ltd.	2,230	4,548
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	1,825	–
Sino-American Shanghai Squibb Pharmaceutical Ltd.	1,705	2,495
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	901	4,085
Liaoning Medya Pharmaceutical Co., Ltd.	–	2,449
Shanghai Pharmaceutical (Group) Co., Ltd.	–	417
Others	2,619	2,923
	312,678	188,595

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Purchase of goods		
Shanghai Roche Pharmaceutical Co., Ltd.	523,878	339,127
Sino-American Shanghai Squibb Pharmaceutical Ltd.	260,293	202,303
Shanghai Hutchison Pharmaceutical Co., Ltd.	53,594	51,946
TECHPOOL Bio-Pharma Co., Ltd.	51,139	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	28,418	15,197
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	18,366	29,669
Shanghai New Asia Pharmaceutical Co., Ltd.	18,275	–
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.	10,478	17,424
Shanghai Deyi Pharmaceutical Co., Ltd.	8,313	1,113
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	7,906	–
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	7,040	–
Shanghai Pharmaceutical (Group) Co., Ltd.	4,126	35,752
Shanghai Tongyong Pharmaceutical Corp., Ltd.	3,965	5,773
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	3,557	–
Shanghai Luoda Pharmaceutical Co., Ltd.	3,271	177
Hengren Manchu Municipality Grain Packaging Co., Ltd.	1,209	2,538
Shanghai Zhengshen Pharmaceutical Import and Export Co., Ltd.	54	10,898
Others	2,874	2,459
	1,006,756	714,376

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	4,038	4,038

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	7,570	5,261
Others	276	276
	7,846	5,537

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Sales of PP&E and land use rights		
Shanghai SIICINV Consulting Co., Ltd.	-	74,256

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

(b) Key management compensation

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Salaries and fee	1,013	663
Bonuses	1,351	2,136
Social benefits	210	159
	2,574	2,958

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

Amount due from related parties:

	30 June	31 December
	2011 RMB'000	2010 RMB'000
Trade receivables	175,946	89,572
Other receivables	29,223	18,144
Prepayments	8,049	-
Dividends receivables	22,359	6,917
	235,577	114,633

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	70,574	41,468
Henan Kangxin Pharmaceutical Co., Ltd.	24,859	–
Shanghai Hutchison Pharmaceutical Co., Ltd.	16,196	6,773
Shanghai Roche Pharmaceutical Co., Ltd.	15,256	–
Shanghai Luoda Pharmaceutical Co., Ltd.	12,007	15,026
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	8,915	6,911
Shanghai Deyi Pharmaceutical Co., Ltd.	8,206	6,513
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	6,465	–
Shanghai Pharmaceutical (Group) Co., Ltd.	2,109	–
Shanghai Ivyuan Pharmacy Co., Ltd.	1,644	1,488
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.	1,432	2,185
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	1,098	–
Shanghai Jianer Pharmacy Co., Ltd.	1,069	–
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	588	3,045
Others	5,528	6,163
	175,946	89,572
Other receivables due from		
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	16,923	–
Shanghai Sanhe Biotechnology Co., Ltd.	3,665	7,209
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	3,539	3,252
Shanghai Beisiou Pharmaceutical Co., Ltd.	–	5,800
Others	5,096	1,883
	29,223	18,144

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Less than 3 months	132,242	33,583
3 months to 6 months	50,035	19,877
6 months to 12 months	11,158	13,567
1 year to 2 years	5,320	8,412
Over 2 years	6,414	32,277
	205,169	107,716

	30 June 2011 RMB'000	31 December 2010 RMB'000
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	3,835	–
Others	4,214	–
	8,049	–

	30 June 2011 RMB'000	31 December 2010 RMB'000
Dividends receivable		
Shanghai Hutchison Pharmaceutical Co., Ltd.	10,025	–
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	8,107	–
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	863	863
Shanghai Draeger Medical Instrument Co., Ltd.	2,518	2,518
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	500	2,212
Others	346	1,320
	22,359	6,913

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade Payables	264,036	177,583
Other Payables	35,562	84,616
Advances	2,280	2,088
Dividends Payable	178,104	91,315
	479,982	355,602

	30 June 2011 RMB'000	31 December 2010 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	188,643	77,401
Sino-American Shanghai Squibb Pharmaceutical Ltd.	17,955	25,490
TECHPOOL Bio-Pharma Co.,Ltd.	17,608	–
Shanghai Hutchison Pharmaceutical Co., Ltd.	12,985	14,187
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	9,266	8,061
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.	3,936	6,033
Shanghai Tongyong Pharmaceutical Corp., Ltd.	3,182	–
Shanghai Deyi Pharmaceutical Co., Ltd.	1,751	549
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,469	3,397
Shanghai Luoda Pharmaceutical Co., Ltd.	1,329	1,751
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	1,279	2,551
Shanghai Henong Pesticide Co., Ltd. (上海赫農農藥有限公司)	1,219	1,219
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	609	7,942
Shanghai Pharmaceutical (Group) Co., Ltd.	96	19,337
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd.	25	2,911
Shanghai New Asiatic Pharmaceutical Co., Ltd.	–	3,294
Others	2,684	3,460
	264,036	177,583

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Other payables due to		
Shanghai Pharmaceutical (Group) Co., Ltd.	18,331	4,064
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,066	–
Shanghai Baohua Industrial Co., Ltd.	4,500	500
Shanghai Roche Pharmaceutical Co., Ltd.	2,155	–
Shanghai Industrial Trade Co., Ltd.	–	79,647
Others	1,510	405
	35,562	84,616

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Less than 3 months	249,671	222,551
3 months to 6 months	7,427	17,889
6 months to 12 months	26,407	20,645
1 year to 2 years	6,695	1,114
Over 2 years	9,398	–
	299,598	262,199

	30 June 2011 RMB'000	31 December 2010 RMB'000
Advances due to		
Shanghai Baohua Industrial Co., Ltd.	2,064	2,064
Others	216	24
	2,280	2,088

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION (continued)

21 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	178,005	91,236
Others	99	79
	178,104	91,315

Dividends payable will be settled upon demand of these related parties.

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Outstanding loan guarantees to		
Shenzhen Kondarl (Group) Corp., Ltd.	72,530	73,026
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	30,000	–
Jiangxi Nanhua Medicines Co., Ltd.	20,000	20,000
Others	1,935	2,558
	124,465	95,584
	30 June 2011 RMB'000	31 December 2010 RMB'000
Outstanding loan guarantees by		
Shanghai Pharmaceutical (Group) Co., Ltd.	5,810	25,810



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