上海医药
SHANGHAI PHARMA

# 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)*

2011 ANNUAL REPORT

* For identification purpose only

Headquartered in Shanghai, Shanghai Pharmaceuticals Holding Co., Ltd. is the only national large pharmaceutical group in the PRC that has leading positions in both pharmaceutical product and distribution markets.

The Company's business covers the major stages of the pharmaceutical industry, including pharmaceutical business, pharmaceutical distribution and supply chain solutions and pharmaceutical retail, which will benefit from our vertically integrated business model. This model also enables us to benefit from all the major stages of the pharmaceutical industry value chain, as well as enjoy the potential synergies arising from our coordinated efforts across business segments.

# Contents

# Important Notice

(I) The board of directors and the board of supervisors of the Group and the directors, supervisors and senior management warranted that this report does not contain any false information, misleading statement or material omission and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents herein contained.

(II) Mr. Chen Naiwei, an independent non-executive director of the Group, was absent from the board meeting approving this annual report on 29 March 2012 for certain reasons and appointed Mr. Bai Huiliang, an independent non-executive director, as his proxy to vote on his behalf.

(III) PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("PricewaterhouseCoopers"), issued standard unqualified auditor's reports for the financial reports that were prepared by the Group based on the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards respectively.

(IV) Mr. Lu Mingfang, the Chairman, Mr. Xu Guoxiong, the President and Mr. Shen Bo, the Chief Financial Officer of the Group warranted the truthfulness and completeness of the financial reports in the annual report.

(V) Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation? No

(VI) Is there any instance of providing external guarantee that is in breach of the established decision making procedure? No

(VII) 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" | the Code on Corporate Governance Practices in Appendix 14 to the Hong Kong Listing Rules |
| "Controlling Shareholders" | has the meaning ascribed to it in the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group) |
| "Company", "Group", "Shanghai Pharmaceuticals" | Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司) |
| "H Shares" | overseas foreign shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars |
| "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 |
| "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" | the over-allotment option in respect of 32,053,200 H Shares partially exercised by Goldman Sachs (Asia) L.L.C. on behalf of the international purchasers on 11 June 2011, as referred to in the H Shares Prospectus; at the same time, 3,205,320 A Shares held by the holders of state-owned Shares fulfilling the obligation of reducing shareholding 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; unless the context otherwise requires, references herein to the PRC or China do not include Hong Kong, Macau and Taiwan |
| "Reporting Period" | the 12-month period from 1 January 2011 to 31 December 2011 |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended) |
| "Shares" | shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares |
| "Shanghai SASAC" | Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會) |
| "SIIC" | Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司) |
| "Shanghai Shangshi" | Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司) |
| "Shanghai Pharmaceutical (Group)" | Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司) |
| "Shanghai Shengrui" | Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司) |
| "Shanghai Guosheng" | Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) |
| "Shenergy Group" | Shenergy (Group) Co., Ltd. (申能(集團)有限公司) |
| "YOY" | year-on-year |

# Basic Corporate Information

## (I) 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 |
| Name of the Company in English | Shanghai Pharmaceuticals Holding Co., Ltd. |
| Legal representative of the Company | Mr. Lu Mingfang |
| Authorised representatives of the Company | Mr. Lu Mingfang, Ms. Han Min |

## (II) DIRECTORS

| | |
|---|---|
| Executive directors: | Mr. Lu Mingfang (Chairman), Mr. Zhang Jialin, Mr. Xu Guoxiong |
| Non-executive directors: | Mr. Lu Shen, Mr. Jiang Ming |
| Independent non-executive directors: | Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei, Ms. Tommei Tong |

## (III) SUPERVISORS

Mr. Zhou Jie (chief supervisor), Mr. Wu Junhao, Ms. Chen Xin (employee representative supervisor)

## (IV) JOINT COMPANY SECRETARY

Ms. Han Min, Ms. Mok Mingwai

## (V) AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Ms. Tommei Tong, Mr. Bai Huiliang, Mr. Chen Naiwei

## (VI) REMUNERATION AND ASSESSMENT COMMITTEE OF THE BOARD OF DIRECTORS

Mr. Chen Naiwei, Mr. Zeng Yixin, Mr. Bai Huiliang

## (VII) STRATEGY COMMITTEE OF THE BOARD OF DIRECTORS

Mr. Lu Mingfang, Mr. Bai Huiliang, Ms. Tommei Tong

## (VIII) CONTACT PERSON AND CONTACT DETAILS

| | Secretary of the board of directors |
|---|---|
| Name | Han Min |
| Contact address | Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai, the PRC |
| Telephone | 021-63730908 |
| Facsimile | 021-63289333 |
| E-mail | pharm@pharm-sh.com.cn |

## (IX) BASIC INFORMATION

| | |
|---|---|
| Registered address | No. 92 Zhangjiang Road, Pudong New Area, 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<br>36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai, the PRC |
| H Share Registrar | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong |
| Compliance advisor | Goldman Sachs (Asia) L.L.C. |

## (X) INFORMATION DISCLOSURE AND PLACE AVAILABLE FOR INSPECTION

| | |
|---|---|
| Newspapers designated by the Company for disclosure of information | Shanghai Securities News, Securities Times |
| Designated website for publishing announcements about A Shares | http://www.sse.com.cn |
| Designated websites for publishing announcements about H Shares | http://www.hkexnews.hk; www.pharm-sh.com.cn |
| Place available for inspection of the Company's annual report | Office of the board of directors |

## (XI) 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 code before any changes |
| A Shares | Shanghai Stock Exchange | 上海醫藥 | 601607 | 600849 |
| H Shares | Hong Kong Stock Exchange | SH PHARMA | 02607 | / |

## (XII) OTHER RELEVANT INFORMATION OF THE COMPANY

| | | |
|---|---|---|
| **First registration date of the Company** | | 18 January 1994 |
| **First place of registration of the Company** | | Shanghai Administration for 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 for Industry and Commerce |
| | Legal person business license registration number | 310000000026221 |
| | Tax registration number | Hu 31011513358488x |
| | Organisation code | 13358488-X |
| **Name of domestic auditor engaged by the Company** | | PricewaterhouseCoopers Zhong Tian CPAs Limited Company |
| **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 |

# Summary of Accounting Data and Business Data under the Chinese Accounting Standards for Business Enterprises

## (I) MAJOR ACCOUNTING DATA

*Unit: RMB*

| Item | Amount |
|---|---|
| Operating profit | 2,873,728,361.29 |
| Total profit | 3,035,102,055.06 |
| Net profit attributable to equity holders of the Company | 2,042,238,482.84 |
| Net profit after deduction of non-recurring profit and loss attributable to equity holders of the Company | 1,424,034,687.07 |
| Net cash flows from operating activities | 1,772,438,011.82 |

## (II) DEDUCTING NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNT

*Unit: RMB*

| Non-recurring Profit and Loss Item | Amount in 2011 | Amount in 2010 | Amount in 2009 |
|---|---|---|---|
| Profit or loss on disposal of non-current assets | 454,032.49 | 37,255,613.66 | 3,558,218.13 |
| Government subsidies recognised in current profit and loss, excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume | 96,781,630.41 | 90,915,969.03 | 981,023.00 |
| Profit or loss on debt restructuring | 3,816,450.74 | -911,648.81 | 39,350.90 |
| Corporate restructuring expenses, including settlement expenses to employees and integration expenses | | -5,420,577.00 | -24,123,723.00 |
| Net profit or loss for the period starting from the beginning of the period to the date of acquisition of subsidiary arising from business combination under common control | 50,867,928.00 | 266,814,837.21 | 1,401,708,121.91 |
| Profit and loss from the change in fair value of investment from holding marketable financial assets and marketable financial liabilities and investment gain from disposal of marketable financial assets, marketable financial liabilities and financial assets available for sale other than that from the valid straddle business relevant to normal business of the Company | 118,813,494.58 | 19,424,843.78 | 14,270,295.96 |
| Reversal of provisions for impairment of receivables which was individually tested for impairment | 32,879,590.75 | 37,668,495.70 | 3,720,052.43 |
| Other non-operating income and expenses apart from the above | 46,359,797.45 | 33,382,693.97 | 2,458,957.84 |
| Other profit and loss items which fall into the definition of non-recurring profit and loss | 519,117,011.95 | | -62,813,752.14 |
| Impact to income tax | -218,008,811.24 | -59,306,936.70 | 16,340,678.80 |
| Impact to minority interest | -32,877,329.36 | -60,394,832.12 | -280,949,240.95 |
| Total | 618,203,795.77 | 359,428,458.72 | 1,075,189,982.88 |

*Note:* During the Reporting Period, Techpool Bio-Pharma Co., Ltd. ("Techpool Bio-Pharma") was no longer included into the consolidated financial statements of the Group. An one-off gain on investment of RMB333,740,000 was recorded due to changes in the accounting treatment.*

* Unless otherwise specified, all of the financial data contained in this report are denominated in Renminbi.

## (III) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE THREE YEARS UP TO THE END OF THE REPORTING PERIOD

*Unit: RMB*

| Major accounting data | 2011 | 2010 | | Change compared to the corresponding period last year (%) | 2009 |
|---|---|---|---|---|---|
| | | After adjustment | Before adjustment | | |
| Total operating income | 54,899,872,504.11 | 38,721,655,199.70 | 37,411,066,143.70 | 41.78 | 31,260,880,691.19 |
| Operating profit | 2,873,728,361.29 | 2,181,679,173.30 | 2,076,567,304.30 | 31.72 | 2,072,083,282.17 |
| Total profit | 3,035,102,055.06 | 2,283,252,222.05 | 2,172,536,599.05 | 32.93 | 2,130,044,701.34 |
| Net profit attributable to equity holders of the Company | 2,042,238,482.84 | 1,456,194,794.72 | 1,368,252,869.36 | 40.24 | 1,296,789,536.20 |
| Net profit after deduction of non-recurring profit and loss attributable to equity holders of the Company | 1,424,034,687.07 | 1,096,766,336.00 | 1,096,766,336.00 | 29.84 | 221,599,553.32 |
| Net cash flows from operating activities | 1,772,438,011.82 | 2,210,790,425.47 | 1,686,087,803.47 | -19.83 | 1,910,792,750.16 |

| | End of 2011 | End of 2010 | | Change compared to the end of last year (%) | End of 2009 |
|---|---|---|---|---|---|
| | | After adjustment | Before adjustment | | |
| Total assets | 47,667,822,923.30 | 30,163,471,580.16 | 28,169,020,175.36 | 58.03 | 21,874,563,387.59 |
| Total liabilities | 21,686,357,160.46 | 17,335,243,145.90 | 16,284,756,691.10 | 25.10 | 11,439,421,997.46 |
| Equity interest attributable to equity holders of the Company | 23,078,472,247.95 | 10,009,718,814.04 | 9,134,559,252.97 | 130.56 | 8,282,006,605.39 |
| Total share capital | 2,688,910,538.00 | 1,992,643,338.00 | 1,992,643,338.00 | 34.94 | 569,172,884.00 |

*Note:* In May and June 2011, the Group issued over 696 million H Shares, raising net proceeds of HKD15.49 billion, causing significant impact to various financial indicators of the Company.

*Unit: RMB*

| Major financial indicators | 2011 | 2010 After adjustment | 2010 Before adjustment | Change compared to the corresponding period last year (%) | 2009 |
|---|---|---|---|---|---|
| Basic earnings per share (RMB per share) | 0.8437 | 0.7308 | 0.6867 | 15.45 | 0.6508 |
| Diluted earnings per share (RMB per share) | 0.8437 | 0.7308 | 0.6867 | 15.45 | 0.6508 |
| Basic earnings per share after deduction of non-recurring profit and loss (RMB per share) | 0.5883 | 0.6068 | 0.6068 | –3.05 | 0.3893 |
| Weighted average return on net assets (%) | 11.82 | 15.32 | 15.75 | Decrease of 3.50 percentage points | 16.90 |
| Weighted average return on net assets after deduction of non-recurring profit and loss (%) | 8.04 | 13.72 | 13.72 | Decrease of 5.68 percentage points | 12.60 |
| Net cash flows from operating activities per share (RMB per share) | 0.66 | 1.11 | 0.85 | -40.54 | 0.96 |

| | End of 2011 | End of 2010 (After adjustment) | End of 2010 (Before adjustment) | Change compared to the end of last year (%) | End of 2009 |
|---|---|---|---|---|---|
| Net assets per share attributable to equity holders of the Company (RMB per share) | 8.58 | 5.02 | 4.58 | 70.92 | 4.16 |
| Gearing ratio (%) | 45.49 | 57.47 | 57.81 | Decrease of 11.98 percentage points | 52.30% |

*Note:* In this annual financial report, retrospective adjustments were made on the data from the 2010 financial statements as the Group acquired a 96.9% equity interest in Shanghai New Asiatic Pharmaceuticals Co., Ltd. and 100% equity interest in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. in 2011, which were common control combination. The data of 2009 are the opening balance and the balance from the previous year as extracted from the 2010 audited financial statements, and no retrospective adjustments were made.

## (IV) NOTES ON THE DIFFERENCES BETWEEN THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES AND HONG KONG FINANCIAL REPORTING STANDARDS

There is no difference of consolidated net profit and consolidated net asset of the Group between the financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Hong Kong Financial Reporting Standards. Unless otherwise specified, the financial data and analysis referred to in this annual report are extracted from the audited financial statements of the Company prepared in accordance with the Chinese Accounting Standards for Business Enterprises.

# Changes in Share Capital and Information about Shareholders

## (I) SHARE CAPITAL AND PUBLIC FLOAT

As at 31 December 2011, the total share capital of the Group comprised 2,688,910,538 shares, in which 1,836,420,979 shares were shares without selling restrictions (1,070,527,059 A Shares and 765,893,920 H Shares). The Group has sufficient public float and is in compliance with the minimum public float requirements set by the Securities Law of the People's Republic of China and the Hong Kong Listing Rules.

## (II) CHANGES IN SHARE CAPITAL

### 1. Table of changes in share capital

*Unit: share*

| | | Before current change | | Current increase or decrease (+, -) | | | | | After current change | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Number of shares | Percentage (%) | Issue of new shares | Share distribution | Capital reserve fund into share capital | Others | Subtotal | Number of shares | Percentage (%) |
| I. | Trade restricted shares | 1,165,714,839 | 58.50 | 0 | 0 | 0 | -313,225,280 | -313,225,280 | 852,489,559 | 31.704 |
| | 1. State-held shares | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| | 2. Shares held by state-owned legal persons | 1,165,633,239 | 58.496 | 0 | 0 | 0 | -313,225,280 | -313,225,280 | 852,407,959 | 31.701 |
| | 3. Other domestically held shares | 81,600 | 0.004 | 0 | 0 | 0 | 0 | 0 | 81,600 | 0.003 |
| | Including: Shares held by domestic non-state-owned legal persons | 81,600 | 0.004 | 0 | 0 | 0 | 0 | 0 | 81,600 | 0.003 |
| | Shares held by domestic natural persons | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| | 4. Foreign-held shares | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| | Including: Shares held by foreign legal persons | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| | Shares held by foreign natural person | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| II. | Shares without selling restrictions | 826,928,499 | 41.50 | 696,267,200 | 0 | 0 | 313,225,280 | 1,009,492,480 | 1,836,420,979 | 68.296 |
| | 1. RMB common shares | 826,928,499 | 41.50 | 0 | 0 | 0 | 243,598,560 | 243,598,560 | 1,070,527,059 | 39.813 |
| | 2. Domestically listed foreign shares | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| | 3. Overseas listed foreign shares | 0 | 0.00 | 696,267,200 | 0 | 0 | 69,626,720 | 765,893,920 | 765,893,920 | 28.483 |
| | 4. Others | 0 | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0.000 |
| III. | Total number of shares | 1,992,643,338 | 100.00 | 696,267,200 | 0 | 0 | 0 | 696,267,200 | 2,688,910,538 | 100.000 |

*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, the state-owned shareholders with the obligation to reduce their shareholding reduced their shareholdings by a total of 69,626,720 A Shares, which were converted into H Shares on a one-for-one basis and were transferred to NSSF. At the end of the Reporting Period, the total share capital of the Group's H Shares was 765,893,920 H Shares.

## 2. Changes in trade restricted shares

| Name | Number of trade restricted shares at the beginning of the year | Number of shares with restriction released in the year | Increase in trade restricted shares in the year | Number of trade restricted shares at the end of the year | Reason for trade restriction | Expiry date for trade restriction |
|---|---|---|---|---|---|---|
| Shanghai Pharmaceutical (Group) | 738,295,209 | 45,288,958 | 0 | 693,006,251 | Committed not to transfer the Shares in Shanghai Pharmaceuticals held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring until 10 February 2013 (excluding the 56,917,288 originally non-trade restricted Shares under 36-month voluntary lock-up) | 10 February 2013 |
| Shanghai Shangshi | 169,028,205 | 9,626,497 | 0 | 159,401,708 | Committed not to transfer the Shares in Shanghai Pharmaceuticals held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring until 10 February 2013 | 10 February 2013 |
| Shanghai Shengrui | 172,206,550 | 172,206,550 | 0 | 0 | Committed to a 12-month lock-up since the completion date of the major asset restructuring | / |
| Shenergy Group | 86,103,275 | 86,103,275 | 0 | 0 | Committed to a 12-month lock-up since the completion date of the major asset restructuring | / |
| Hainan Zhong Wang Investment and Management Company Limited (海南中網投資管理有限公司) | 81,600 | 0 | 0 | 81,600 | The advanced consideration repayable to Shanghai Pharmaceutical (Group) in the share segregation reform remained outstanding | To be decided |
| Total | 1,165,714,839 | 313,225,280 | 0 | 852,489,559 | / | / |

*Notes:* 1. During the offering of H Shares by the Group, Shanghai Pharmaceutical (Group), Shanghai Shangshi, Shanghai Shengrui and Shenergy Group, being State-owned shareholders with the obligation to reduce their shareholding, reduced their shareholding by 45,288,958 A Shares, 9,626,497 A Shares, 9,807,510 A Shares and 4,903,755 A Shares (trade restricted shares) respectively, which were converted into H Shares on a one-for-one basis and transferred to NSSF;

2. The 162,399,040 A Shares and 81,199,520 A Shares (trade restricted shares) held by Shanghai Shengrui and Shenergy Group respectively were available for listing and trading since 3 November 2011 upon the expiry of the trade restriction period.

## (III) ISSUE AND LISTING OF SECURITIES

### 1. Issue of securities over the last three years

*Unit: share*

| Type of share and its derivative securities | Date of issue | Issue price | Volume of issue | Listing date | Number of shares approved for listing and trading | Date of termination for the transaction |
|---|---|---|---|---|---|---|
| Shares | | | | | | |
| Non-public offer of ordinary A Shares denominated in RMB | 10 February 2010 | RMB11.83 | 455,289,547 | 10 February 2013 | 455,289,547 | / |
| Non-public offer of ordinary A Shares denominated in RMB | 10 February 2010 | RMB11.83 | 169,028,205 | 10 February 2013 | 169,028,205 | / |
| Public offer of H Shares | 20 May 2011 | HK$23.00 | 664,214,000 | 20 May 2011 | 664,214,000 | / |
| Public offer of H Shares | 11 June 2011 | HK$23.00 | 32,053,200 | 11 June 2011 | 32,053,200 | / |

*Notes:* 1. The Group carried out two non-public offerings during the major asset restructuring on 10 February 2010:

(1) An issue of 455,289,500 A Shares of RMB11.83 each to Shanghai Pharmaceutical (Group) as the consideration for acquisition of the pharmaceutical assets valued at an aggregate of RMB5,386,075,300;

(2) An issue of 169,028,200 A Shares of RMB 11.83 each to Shanghai Shangshi. The proceeds of RMB1,999,603,700 was the consideration for acquisition of the pharmaceutical assets of Shanghai Industrial Holdings Ltd.

2. The Group issued 664,214,000 H Shares on 20 May 2011 and partially exercised the Over-Allotment Option of the H Shares (pursuant to which a total of 32,053,200 H Shares were issued) on 11 June 2011.

### 2. Change in the total number and structure of the shares of the Company

During the Reporting Period, 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, the state-owned shareholders with the obligation to reduce their shareholding reduced their shareholdings by a total of 69,626,720 A Shares, which were converted into H Shares on a one-for-one basis and were transferred to NSSF. At the end of the Reporting Period, the total share capital of the Group's H Shares was 765,893,920 H Shares.

### 3. Existing internal staff shares

As at the end of the Reporting Period, the Company has no internal staff shares.

## (IV) SHAREHOLDERS AND DE FACTO CONTROLLER

### 1. Number of shareholders and their shareholdings

*Unit: share*

| | | | |
|---|---|---|---|
| Aggregate number of shareholders as at the end of 2011 | 116,122 (A Shares); 3,624 (H Shares) | Aggregate number of shareholders as at 29 February 2012 | 117,435 (A Shares); 3,567 (H Shares) |

**Shareholding of top ten shareholders**

*Unit: share*

| Name | Nature | Shareholding percentage (%) | Total number of shares held | Increase/ decrease in the Reporting Period | Number of trade restricted shares held | Number of pledged or frozen shares | Share class |
|---|---|---|---|---|---|---|---|
| HKSCC NOMINEES LIMITED | Foreign shareholder | 28.42 | 764,231,020 | 764,231,020 | 0 | Unknown | H Shares |
| Shanghai Pharmaceutical (Group) | State-owned legal person shareholder | 27.89 | 749,923,539 | -45,288,958 | 693,006,251 | 13,648,772 | A Shares |
| Shanghai Shangshi | State-owned legal person shareholder | 6.81 | 183,099,760 | 14,071,555 | 159,401,708 | Nil | A Shares |
| Shanghai Shengrui | State-owned legal person shareholder | 6.04 | 162,399,040 | -9,807,510 | 0 | Nil | A Shares |
| Shenergy Group | State-owned legal person shareholder | 3.02 | 81,199,520 | -4,903,755 | 0 | Nil | A Shares |
| China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH | Others | 1.15 | 30,848,087 | 15,094,681 | 0 | Unknown | A Shares |
| Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund | Others | 1.00 | 26,999,568 | | 0 | Unknown | A Shares |
| New China Life Company Limited – Bonus – Individual Bonus – 018L – FH002 SH | Others | 0.36 | 9,605,764 | | 0 | Unknown | A Shares |
| Agricultural Bank of China – INVESCO Great Wall Resource Monopolies Equity Securities Investment Fund | Others | 0.34 | 9,200,930 | | 0 | Unknown | A Shares |
| Taiping Life Insurance Company Limited – Bonus – Team Bonus | Others | 0.32 | 8,717,325 | | 0 | Unknown | A Shares |

**Shareholdings of top ten shareholders holding shares without trade restrictions**

*Unit: share*

| Name of shareholders holding shares without trade restrictions | | Number of shares without trade restrictions held | Share class |
|---|---|---|---|
| HKSCC NOMINEES LIMITED | | 764,231,020 | H Shares |
| Shanghai Shengrui | | 162,399,040 | A Shares |
| Shenergy Group | | 81,199,520 | A Shares |
| Shanghai Pharmaceutical (Group) | | 56,917,288 | A Shares |
| China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH | | 30,848,087 | A Shares |
| Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund | | 26,999,568 | A Shares |
| Shanghai Shangshi | | 23,698,052 | A Shares |
| New China Life Company Limited – Bonus – Individual Bonus – 018L – FH002 SH | | 9,605,764 | A Shares |
| Agricultural Bank of China – INVESCO Great Wall Resource Monopolies Equity Securities Investment Fund | | 9,200,930 | A Shares |
| Taiping Life Insurance Company Limited – Bonus – Team Bonus | | 8,717,325 | A Shares |
| Note on affiliation or concerted actions of the above shareholders | Shanghai Shangshi is the controlling shareholder of Shanghai Pharmaceutical (Group). 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. | | |

**Shareholdings of top ten shareholders holding shares with trade restrictions and the terms of restriction**

*Unit: share*

| Number | Name of shareholders holding shares with trade restrictions | Number of shares with trade restrictions held | The listing and trading of the shares with trade restrictions | | Terms of trade restrictions |
|---|---|---|---|---|---|
| | | | Time available for listing and trading | Number of additional shares available for listing and trading | |
| 1 | Shanghai Pharmaceutical (Group) | 693,006,251 | 10 February 2013 | 0 | Committed not to transfer the Shares in Shanghai Pharmaceuticals held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring (excluding the 56,917,288 originally non-trade restricted Shares under 36-month voluntary lock-up). |
| 2 | Shanghai Shangshi | 159,401,708 | 10 February 2013 | 0 | Committed not to transfer the Shares in Shanghai Pharmaceuticals held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring. |
| 3 | 海南中網投資管理有限公司 (Hainan Zhong Wang Investment and Management Company Limited) | 81,600 | To be decided | 0 | The advanced consideration repayable to Shanghai Pharmaceutical (Group) in the share segregation reform remained outstanding. |

**Strategic investors or normal legal persons becoming top ten shareholders as a result of the placement of shares**

| Name of strategic investor or normal legal person | Beginning date of agreed-upon shareholding | Ending date of agreed-upon shareholding |
|---|---|---|
| Maxwell (Mauritius) Pte Ltd. | 20 May 2011 | / |
| Guoco Management Co., Ltd. | 20 May 2011 | / |
| GuoLine Capital Limited | 20 May 2011 | / |
| Pfizer Corporation Hong Kong Limited | 20 May 2011 | / |
| Bank of China Group Investment Limited | 20 May 2011 | / |

*Note:* The above shareholders were cornerstone investors that invested during the offering of H Shares of the Group, in which Temasek Holdings (Private) Limited of Singapore invested USD300 million through its wholly-owned subsidiary Maxwell (Mauritius) Pte Ltd.; Hong Leong Group of Malaysia invested USD100 million and USD50 million through its subsidiaries Guoco Management Co., Ltd. and GuoLine Capital Limited respectively; Pfizer Inc. of USA invested USD50 million through its wholly-owned subsidiary Pfizer Corporation Hong Kong Limited; Bank of China invested USD50 million through its wholly-owned subsidiary Bank of China Group Investment Limited. The above shareholders are registered under HKSCC NOMINEES LIMITED.

## 2. Controlling shareholders and de facto controllers

*Unit: HK$*

| Name | Shanghai Industrial Investment (Holdings) Co., Ltd. |
|---|---|
| Responsible person of the Company or legal representative | Teng Yilong |
| Date of establishment | 17 July 1981 |
| Registered capital | 10,000,000 |
| Principal business or management activities | The group actively explores the industry of innovative technology and keeps upgrading the existing conventional industries, and a number of leading industry segments including pharmaceutical products, real estate and infrastructure have emerged. The scope of business also extends to financial investment and the production of consumer goods. |

*Unit: RMB*

| Name | Shanghai Shangshi (Group) Co., Ltd. |
|---|---|
| Responsible person of the Company or legal representative | Teng Yilong |
| Date of establishment | 20 August 1996 |
| Registered capital | 1,859,000,000 |
| Principal business or management activities | Investment in industries, domestic trading and authorised state-owned assets operation and management. |

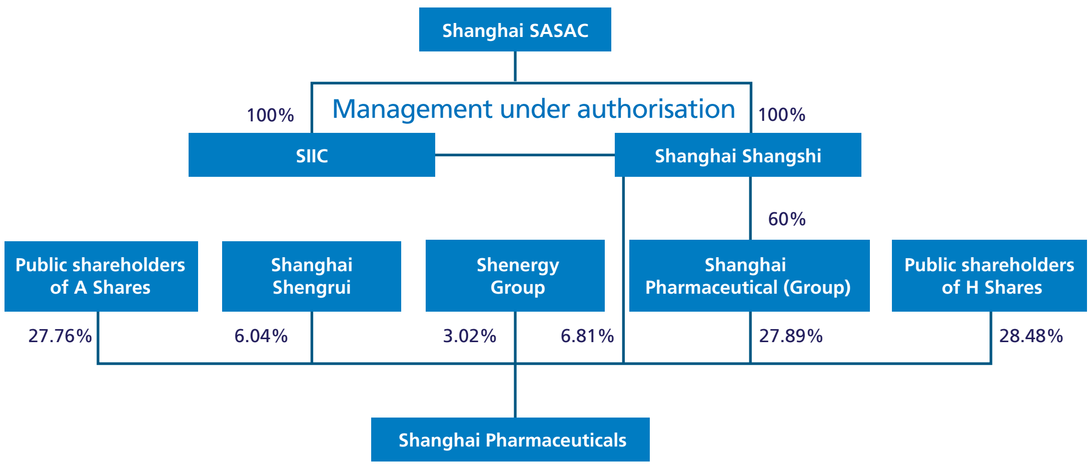
*Unit: RMB*

| Name | Shanghai Pharmaceutical (Group) Co., Ltd. |
|---|---|
| Responsible person of the Company or legal representative | Lu Mingfang |
| Date of establishment | 4 November 1996 |
| Registered capital | 3,158,720,000 |
| Principal business or managing activities | Investment in industries, production and sales of pharmaceutical products and equipment, domestic wholesale and retail and the import and export business approved by the authority of foreign trade and economic cooperation. |

### 3. Change in controlling shareholders and de facto controllers

There was no change in controlling shareholders and de facto controller during the Reporting Period.

### 4. The chart of ownership and control relationship between the Company and the de facto controllers




### 5. Other legal person shareholders with 10% or more shareholding

Save as disclosed in this annual report, as at the end of the Reporting Period, there was no other legal person shareholder with 10% or more shareholding in the Group.

## (V) DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

1. Directors' interests are set out in the subsection headed "Changes in shareholdings and remunerations of directors, supervisors and senior management" below.

2. Interests and short positions of substantial shareholders and other persons in the Shares and underlying shares.

As at 31 December 2011, the following shareholders had interests or short positions in the Shares or underlying shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights at the shareholders' general meetings of the Company:

| Name of shareholder | Share class | Nature of shareholding interest | Number of Shares | Percentage of H Shares/domestic Shares held at the end of the Reporting Period to the entire issued H Shares/ domestic Shares (%) | Percentage in total share capital of the Group at the end of the Reporting Period (%) |
|---|---|---|---|---|---|
| SIIC | Domestic Shares | Interest of controlled corporation | 933,023,299 | 48.52 | 34.70 |
| Shanghai Shangshi | Domestic Shares | Beneficial owner/ Interest of controlled corporation | 933,023,299 | 48.52 | 34.70 |
| Shanghai Pharmaceutical (Group) | 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 |
| Temasek Holdings (Private) Limited | H Shares | Interest of controlled corporation | 124,023,800(L) | 16.19(L) | 4.61 |
| Credit Suisse (Hong Kong) Limited | H Shares | Interest commonly held with another person | 99,632,100(L)<br>99,632,100(S) | 13.01(L)<br>13.01(S) | 3.71(L)<br>3.71(S) |
| Credit Suisse AG | H Shares | Interest of controlled corporation | 99,632,100(L)<br>99,632,100(S) | 13.01(L)<br>13.01(S) | 3.71(L)<br>3.71(S) |
| T. Rowe Price Associates, Inc. and its affiliates | H Shares | Investment Manager | 76,819,979(L) | 10.03(L) | 2.86 |
| JPMorgan Chase & Co. | H Shares | Investment Manager/ Custodian/approved lending agent | 72,492,116(L)<br>0(S)<br>71,453,616(P) | 9.47(L)<br>0.00(S)<br>9.33(P) | 2.70(L)<br>0.00(S)<br>2.66(P) |
| NSSF | H Shares | Beneficial owner | 66,633,400(L) | 8.70(L) | 2.48 |
| Morgan Stanley | H Shares | Interest of controlled corporation | 47,987,060(L)<br>805,560(S) | 6.27(L)<br>0.11(S) | 1.78(L)<br>0.03(S) |

*Notes:* 1. In the table above, (L) represents long position, (S) represents short position, (P) represents shares in lending pool

2. 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 943,431,199 Shares of the Company in total (including A Shares and H Shares), of which 10,407,900 H Shares were held by SIIC through its wholly-owned subsidiary, while 933,023,299 A Shares were indirectly held by SIIC through Shanghai Shangshi.

3. 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 933,023,299 A Shares held by Shanghai Shangshi in the Company, 183,099,760 A Shares were directly held by Shanghai Shangshi, while 749,923,539 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).

4. 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 of the Company through Shanghai Shengrui.

5. Figures disclosed in the table above are based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

6. With respect to holders of the H Shares listed in the table above, the latest number of H Shares held by Credit Suisse (Hong Kong) Limited, Credit Suisse AG and NSSF was updated to 20 May 2011, while the latest number of H Shares held by the remaining holders of H Shares was updated to or after 22 August 2011.

7. Save as disclosed above, as at 31 December 2011, the Company was not aware that there was any other person (other than the directors or the President of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

## (VI) PRE-EMPTIVE RIGHTS

The Articles of Association of the Company contain no provisions on mandatory pre-emptive rights. According to the Articles of Association, the Company may increase its registered capital by way of public offering, rights issue to existing shareholders or bonus issue to existing shareholders or by other means permitted by laws and administrative regulations.

## (VII) PURCHASE, SALE AND REDEMPTION OF SHARES

During the Reporting Period, none of the Company and its subsidiaries purchased, sold or redeemed any listed Shares of the Company.

# Directors, Supervisors and Senior Management

## (I) BIOGRAPHICAL DETAILS OF DIRECTORS

During the Reporting Period, the board of directors of the Group consisted of nine directors, comprising three executive directors, two non-executive directors and four independent non-executive directors. The directors were all elected by the shareholders of the Company for a term of three years (from 31 March 2010 to 31 March 2013), renewable upon re-election.

**Mr. Lu Mingfang,** born in March 1957, master in economics from Fudan University and master in professional accountancy from the Chinese University of Hong Kong, senior economist. He joined the Group in December 2008 and was the Chairman and an executive director of the Group and director of the Group's certain subsidiaries during the Reporting Period (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). Mr. Lu has been a director of Shanghai Shangshi since January 2010, vice chairman of China Pharmaceutical Industry Association since March 2009, vice chairman of China Pharmaceutical Enterprises Association since January 2009, chairman and executive director of Shanghai Pharmaceutical (Group) since December 2008, executive director of SIIC since September 2005, and executive director of Shanghai Industrial Holdings Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 0363) since January 2002. His previous positions included director and general manager of Shanghai Industrial United Holdings Co., Ltd., vice president of SIIC, chief executive officer of Shanghai Industrial Holdings Ltd., chairman of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and chairman of Shanghai Pharmaceutical Joint Stock Company (the predecessor of the Company).

**Mr. Zhang Jialin,** born in May 1955, master majoring in management engineering from China Textile University, senior economist. He joined the Group in October 2008. He is the vice chairman and an executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Zhang has been the vice chairman and president of Shanghai Pharmaceutical (Group) between June 2010 and July 2010, respectively. His previous positions included deputy director and director of the supply department of Shanghai Pharmaceutical Administration Bureau, vice manager and manager of Shanghai Pharmaceutical Materials Supply and Marketing Company, head of the department of organisation, president assistant and vice president of Shanghai Pharmaceutical (Group) Corporation, and executive vice president of Shanghai Pharmaceutical (Group).

**Mr. Lu Shen,** born in August 1956, bachelor in radio electronics from Shanghai University of Science and Technology and master in business administration from Shanghai Jiao Tong University, senior economist. He joined the Group in March 2010. He is a non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Lu has been the chairman of Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) since July 2008 and the vice president of SIIC since September 2005. His previous positions included chairman of the City Hotel Shanghai, director and deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., director and general manager of Shanghai Industrial United Holdings Co., Ltd., and president and vice chairman of Shanghai Industrial Development Co., Ltd.

**Mr. Xu Guoxiong,** born in April 1956, bachelor in Chinese language and literature from Shanghai Normal University and master in business administration from Asia International Open University (Macau), economist. He joined the Group in March 2010. He is the President and an executive director of the Group and director of the Group's certain subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). He has been the vice chairman of the China Pharmaceutical Industry Research and Development Association since May 2010. His previous positions included general manager's assistant and deputy general manager of Shanghai Bicycle Group Co., Ltd., general manager of the department of industry and president assistant of China Hua Yuan Group Co., Ltd., vice chairman and general manager of Hua Yuan Kai Ma Machinery Co., Ltd., and vice president of Shanghai Pharmaceutical (Group).

**Mr. Zeng Yixin,** born in October 1962, bachelor in medicines from the Department of Medicine of Hunan Hengyang Medical College and master and doctorate from the Sun Yat-Sen Medical University (currently known as Sun Yat-Sen University), professor, Ph.D. supervisor and academician in the Chinese Academy of Sciences. He joined the Group in March 2010. He was an independent non-executive director of the Group during the Reporting Period and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Zeng has been the president of Peking Union Medical College since January 2012; director of the National Key Laboratory in Oncology in South China since March 2006; academician, standing committee member, deputy director and head of the medical group of the Department of Life Science and Medicine of the Chinese Academy of Sciences since November 2005, June 2006 and June 2008, respectively; and director of the Cancer Center of, president of the affiliated cancer hospital of, and head of the cancer institute of Sun Yat-Sen University since September 1997. His previous positions included attending physician and research assistant of Guangdong People's Hospital, associate of Howard Hughes Medicine Institute of the School of Medicine of the University of Pennsylvania of United States, and vice president of the affiliated cancer hospital of Sun Yat-Sen University.

**Mr. Bai Huiliang,** born in October 1943, undergraduate in organic chemistry from Beijing University of Technology, senior engineer. He joined the Group in March 2010. He is an independent non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Bai has been the president of the China Nonprescription Medicines Association since August 2009; independent non-executive director of Gansu Duyiwei Biological Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002219) since December 2006, of Sihuan Pharmaceutical Holdings Group Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 0460) since October 2010 and of Shandong Xinhua Pharmaceutical Company Limited (a company listed on the Shenzhen Stock Exchange with stock code 000756) since December 2011; vice president of the China Pharmaceutical Industry Association since November 2005; and vice president of the China Pharmaceutical Enterprises Association since March 2005. His previous positions included director of the department of safety supervision of the State Food and Drug Administration, visiting researcher at the China Center for Pharmacoeconomics and Outcomes Research of Peking University, and executive vice president of the China Nonprescription Medicines Association.

**Mr. Chen Naiwei,** born in August 1957, bachelor in economic law from East China University of Political Science and Law and doctorate in civil and commerce law from Macau University of Science and Technology, professor of law and PRC practicing lawyer. He joined the Group in March 2010. He is an independent non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Chen has been the vice president of China Law Association on Science and Technology since October 2010; independent non-executive director of ZTE Corporation (a company listed on the Hong Kong Stock Exchange with stock code 0763 and on the Shenzhen Stock Exchange with stock code 000063) since July 2009; independent non-executive director of Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 300129) since August 2010; director of All China Lawyers Association since October 2008; vice president of the Shanghai Bar Association since April 2008; arbitrator of the China International Economic and Trade Arbitration Commission since October 2005; vice president of the Technology Law and Intellectual Property Law Research Center of Shanghai Law Society since March 2005; professor of law at Fudan University since August 2004; arbitrator of the Court of Arbitration for Sport of the International Olympics Committee since December 2002; arbitrator of Shanghai Arbitration Commission since October 1999; and senior partner of Allbright Law Offices since September 1999. His previous positions included head of the Faculty of Law and the director of the Center for the Study of Intellectual Property at the Shanghai Jiao Tong University.

**Ms. Tommei Tong,** born in January 1965, bachelor from the University of Hong Kong, senior member of the Chartered Association of Certified Accountants and of Hong Kong Institute of Certified Public Accountants. She joined the Group in March 2010. She is an independent non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Ms. Tong has been an independent non-executive director of MGM China Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 2282) since June 2011. Her previous positions include the chief financial officer of Ping An Insurance (Group) Company of China, Ltd. (a company listed on the Shanghai Stock Exchange with stock code 601318 and on the Hong Kong Stock Exchange with stock code 2318), chief executive officer and executive director of TOM Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 2383 and an associated company of Hutchison Whampoa Limited).

**Mr. Jiang Ming,** born in September 1957, bachelor in history from Fudan University, economist. He joined the Group in March 2010. He is a non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. He has been the vice president of Shanghai Guosheng since May 2008. His previous positions included principal staff member of the organisation department of the Shanghai Municipal Committee of the Communist Party of China, general manager of the securities business department of China Rural Development and Trust Investment Corporation, general manager of the securities business department of China Xinda Trust and Investment Corporation, deputy general manager and general manager of the Shanghai headquarters of China Galaxy Securities Co., Ltd.

The Group has received the annual confirmation letter issued by each of the four independent non-executive directors, namely Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei and Ms. Tommei Tong in respect of their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules, and still believes that they are independent parties.

## (II) BIOGRAPHICAL DETAILS OF THE SUPERVISORS

During the Reporting Period, the board of supervisors of the Group consisted of three members. 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 (from 31 March 2010 to 31 March 2013), renewable upon re-election.

**Mr. Zhou Jie,** born in December 1967, master in engineering from Shanghai Jiao Tong University. He was appointed as our chief supervisor in March 2010 and is the director of the Group's certain subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). Mr. Zhou has been a non-executive director of Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 0981 and the New York Stock Exchange under the ticker symbol "SMI") since January 2009; executive director and executive vice president of SIIC since May 2008 and November 2007, respectively; and reappointed as an executive director and the deputy chief executive officer of Shanghai Industrial Holdings Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 0363) since November 2007. His previous positions included chairman and general manager of Shanghai SIIC Asset Management Co., Ltd.

**Ms. Chen Xin,** born in May 1963, undergraduate in economic management from the Open College of Party School of the Central Committee of the Communist Party of China ("CCCPC") and graduate in politics from the Party School of the CCCPC, senior political engineer. She was appointed as our employee representative supervisor in March 2010 and holds no concurrent office of director in any of the Group's subsidiaries. Ms. Chen has been a member of the standing committee of China Energy Chemistry Trade Union and Shanghai Federation of Trade Unions since February 2003 and May 2008, respectively. Her previous positions included director of the department of organisation of Shanghai Pharmaceutical (Group), and vice chairman of Shanghai Pharmaceutical Trade Union.

**Mr. Wu Junhao,** born in June 1965, master in management from East China Normal University, economist. He was appointed as our supervisor in March 2010 and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Wu has been the manager of the finance management department of Shenergy Group since April 2011, and a supervisor of China Everbright Bank Co., Ltd. since November 2009. His previous positions included the deputy principal of Shanghai Shenergy Assets Management Co., Ltd., and deputy principal, principal and senior principal of assets management department and vice manager (in charge) of the financial management department of Shenergy Group.

## (III) BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Our senior management consists of six members, appointed by the board of directors for a term of three years (from 31 March 2010 to 31 March 2013) renewable upon reappointment by the board of directors.

**Mr. Xu Guoxiong** is our President. Please refer to the subsection headed "Biographical Details of Directors".

**Mr. Jiang Yuanying,** born in January 1963, master in pharmacology from the Department of Navy Medicine of the Second Military Medical University ("SMMU"), professor of pharmacology and Ph.D. supervisor. He is our vice president and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Jiang has been the vice chairman of the Shanghai Pharmaceutical Association since December 2001. His previous positions included vice president and president of the School of Pharmacy of the SMMU.

**Mr. Ren Jian,** born in March 1965, bachelor in inorganic materials from East China Institute of Chemical Technology and executive master of business administration from the China Europe International Business School, engineer. He is our vice president and is the director of the Group's certain subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). His previous positions included director of the human resources department director of the organisation department, director of the leader management department, and vice president of Shanghai Pharmaceutical (Group).

**Mr. Li Yongzhong,** born in February 1970, undergraduate in international finance from Shanghai Institute of Foreign Trade and executive master of business administration from China Europe International Business School, pharmacist. He is our vice president and director of the Group's certain subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). His previous positions included deputy manager of the New Drug Branch, deputy general manager and general manger of the pharmaceutical distribution business department, and general manager assistant and deputy general manager of Shanghai Pharmaceutical Joint Stock Company.

**Mr. Shen Bo,** born in March 1973, bachelor majoring in accounting from Shanghai Institute of Construction Materials Industry and master in professional accountancy from Chinese University of Hong Kong. He has passed the PRC Certified Public Accountants exam. He is our chief financial officer and director of the Group's certain subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). His previous positions included deputy manager of the finance department of Shanghai Jinling Co., Ltd., chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and general manager of the finance department of Shanghai Pharmaceutical (Group).

**Ms. Han Min,** born in January 1977, bachelor in economics from Shanghai University and master majoring in finance and investment from the Business School of the University of Nottingham of the United Kingdom. She has passed the PRC Certified Public Accountants exam. She is our secretary of the board of directors and a joint company secretary. She holds no concurrent office of director in any of the Group's subsidiaries. Her previous positions included deputy general manager of the investment banking department of China International Capital Corporation Limited, and manager of the risk control department of the China Construction Bank, Shanghai Branch.

## (IV) POSITIONS OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE ASSOCIATED CORPORATIONS OF THE GROUP

### 1. Positions of the directors, supervisors and senior management in the immediate controlling shareholder companies

| Name | Shareholder company name | Position | Starting date of service | Expiry date of service | Receiving remuneration and compensation or not |
|---|---|---|---|---|---|
| Lu Mingfang | Shanghai Pharmaceutical (Group) | Chairman | 28 December 2008 | – | No |
| Zhang Jialin | Shanghai Pharmaceutical (Group) | President | 28 July 2010 | – | Yes |

## 2. Employment of directors, supervisors and senior management in the subsidiaries of the Group

| Name | Organisation name | Position | Starting date of service | Expiry date of service | Receiving remuneration and compensation or not |
|---|---|---|---|---|---|
| Lu Mingfang | Shanghai Pharmaceuticals Distribution Co., Ltd. | Chairman | December 2008 | – | No |
| Lu Mingfang | Hangzhou Huqingyutang Pharmaceutical Co., Ltd. | Chairman | January 2010 | – | No |
| Lu Mingfang | Chiatai Qingchunbao Pharmaceutical Co., Ltd. | Chairman | January 2010 | – | No |
| Lu Mingfang | Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Chairman | April 2011 | – | No |
| Xu Guoxiong | Shanghai No.1 Biochemical Pharmaceutical Co., Ltd. | Chairman | October 2007 | – | No |
| Xu Guoxiong | Shanghai Sine Pharmaceutical Laboratories Co., Ltd. | Chairman | December 2008 | – | No |
| Xu Guoxiong | Changzhou Pharmaceutical Co., Ltd. | Chairman | November 2009 | – | No |
| Zhou Jie | Chiatai Qingchunbao Pharmaceutical Co., Ltd. | Director | March 2002 | – | No |
| Ren Jian | Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. | Chairman | June 2010 | – | No |
| Ren Jian | Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Chairman | December 2010 | – | No |
| Ren Jian | Liaoning Herbapex Pharmaceutical (Group) Co., Ltd. | Chairman | February 2011 | – | No |
| Li Yongzhong | Ningbo Pharmaceutical Co., Ltd. | Director | September 2004 | November 2011 | No |
| Li Yongzhong | Shanghai Shang Yi New and Special Drugs Pharmacy Co., Ltd. | Chairman | April 2006 | – | No |
| Li Yongzhong | Qingdao Fahrenheit Growful Pharmaceutical Co., Ltd. | Director | June 2007 | December 2011 | No |
| Li Yongzhong | Shanghai Suzuken Huzhong Pharmaceutical Co., Ltd. | Director | March 2008 | February 2012 | No |
| Li Yongzhong | Shanghai Pharmaceuticals Distribution Co., Ltd. | Director | April 2010 | – | No |
| Li Yongzhong | Guangzhou Z.S.Y. Pharmaceutical Co., Ltd. | Chairman | September 2010 | – | No |
| Li Yongzhong | Shanghai Traditional Chinese Medicine Co., Ltd. | Chairman | September 2010 | – | No |
| Li Yongzhong | Xiamen Traditional Chinese Medicine Co., Ltd. | Chairman | February 2011 | – | No |
| Li Yongzhong | Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Director | April 2011 | – | No |
| Shen Bo | Changzhou Pharmaceutical Co., Ltd. | Director | March 2010 | – | No |
| Shen Bo | Shanghai Pharmaceuticals Distribution Co., Ltd. | Supervisor | April 2010 | – | No |
| Shen Bo | Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Director | April 2011 | – | No |
| Shen Bo | Shanghai Medical Instrument Co., Ltd. | Chairman | April 2011 | – | No |

*Note:* Overseas companies set up for special purposes are not included above.

## (V) INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Changes in shareholdings and remunerations of directors, supervisors and senior management

*Unit: share*

| Name | Position | Gender | Age | Starting date of service | Expiry date of service | Shares held at the beginning of the year (A Share) | Shares held at the end of the year (A Share) | Reasons for changes | Total remuneration paid by company during the Reporting Period (RMB0,000) (before tax) | Receiving remuneration and compensation from shareholder companies or other connected company or not |
|---|---|---|---|---|---|---|---|---|---|---|
| Lu Mingfang | Chairman | male | 55 | 31 March 2010 | 31 March 2013 | 37,674 | 37,674 | | 0.00 | Yes |
| Zhang Jialin | Vice Chairman | male | 56 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 0.00 | Yes |
| Lu Shen | Director | male | 56 | 31 March 2010 | 31 March 2013 | 6,440 | 6,440 | | 0.00 | Yes |
| Xu Guoxiong | Director, President | male | 56 | 31 March 2010 | 31 March 2013 | 0 | 38,900 | *Note 1* | 306.22 | No |
| Zeng Yixin | Independent Director | male | 50 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 11.50 | No |
| Bai Huiliang | Independent Director | male | 69 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 11.50 | No |
| Chen Naiwei | Independent Director | male | 55 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 11.50 | No |
| Tommei Tong | Independent Director | Female | 47 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 11.50 | No |
| Jiang Ming | Director | male | 55 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 0.00 | No |
| Zhou Jie | Chief Supervisor | male | 45 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 0.00 | Yes |
| Chen Xin | Employee supervisor | Female | 49 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 0.00 | Yes |
| Wu Junhao | Supervisor | male | 47 | 31 March 2010 | 31 March 2013 | 0 | 0 | | 0.00 | No |
| Jiang Yuanying | Vice president | male | 49 | 7 June 2010 | 31 March 2013 | 0 | 8,000 | *Note 1* | 73.54 | No |
| Ren Jian | Vice president | male | 47 | 31 March 2010 | 31 March 2013 | 0 | 20,000 | *Note 1* | 171.55 | No |
| Ge Jianqiu | Vice president | male | 42 | 31 March 2010 | 30 November 2011 | 0 | 21,000 | *Note 1* | 180.95 | No |
| Li Yongzhong | Vice president | male | 41 | 31 March 2010 | 31 March 2013 | 0 | 20,500 | *Note 1* | 171.55 | No |
| Shen Bo | Chief financial officer | male | 39 | 31 March 2010 | 31 March 2013 | 0 | 21,400 | *Note 1* | 176.65 | No |
| Han Min | Secretary of the board of directors | Female | 35 | 8 September 2010 | 31 March 2013 | 0 | 12,000 | *Note 1* | 100.30 | No |
| Total | / | / | / | / | / | 44,114 | 185,914 | / | 1,226.76 | / |

*Note:* 1. According to the undertaking on arrangement of annual performance bonus of the senior management of the Group disclosed in the H Shares Prospectus, senior management of the Group purchased A Shares of the Group by using 50% of their annual performance bonus for 2010 received in 2011 through open market trades.

2. The Group had no share incentive plan during the Reporting Period.

2. Save as disclosed in this report, none of the directors, supervisors and the senior management of the Company has any interests or short positions in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which are taken to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise should be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

## (VI) CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| Name | Position | Change situation | Reasons for changes |
|---|---|---|---|
| Ge Jianqiu | Vice president | Resigned | Voluntary resignation |

During the Reporting Period, Mr. Ge Jianqiu, former vice president of the Company, resigned for personal reasons and ceased to perform the relevant duties in the Group and the related enterprises since 1 December 2011.

## (VII) SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the directors or the supervisors had entered into a service contract which is not terminable within one year without payment of compensation (other than statutory compensation).

## (VIII) REMUNERATIONS OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

| | |
|---|---|
| Procedure for determining the remunerations of directors, supervisors and senior management | The remuneration and assessment committee considers and recommends to the board of directors the remunerations and other benefits to be paid to the directors by the Group. The remunerations of the directors and supervisors are resolved at the shareholders' general meeting. The remunerations of all directors are monitored regularly by the remuneration and assessment committee to ensure an appropriate level of remuneration and compensation. The remunerations of the senior management is provided in accordance with the remuneration system for the senior management of the Group, which is implemented by the remuneration and assessment committee. |
| Determination criteria for the remunerations of directors, supervisors and senior management | The Group has a well-established assessment mechanism to carry out assessment. Assessment is conducted according to the relevant administrative measures on annual assessment of the responsibility in operation, with reference to indicator systems including core indicators, operating indicators and control indicators. |
| Actual payment of remunerations to directors, supervisors and senior management | The actual payment of remunerations to directors, supervisors and senior management amounted to RMB12,267,600 in 2011.<br>The Company determines the remunerations of the directors and supervisors with reference to their qualifications, experiences and contributions. |

## (IX) FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals during the Reporting Period are as follows:

| | **For the year ended 31 December 2011 RMB'000** |
|---|---|
| Wages and salaries | **3,103** |
| Bonus | **11,191** |
| Pension contribution by the employer | **320** |
| | **14,614** |

Remuneration bands:

| | **For the year ended 31 December 2011 No. of persons** |
|---|---|
| Remuneration bands (HKD) | |
| HKD500,001 – HKD1,000,000 | **–** |
| HKD1,000,001 – HKD1,500,000 | **–** |
| HKD2,500,001 – HKD3,000,000 | **1** |
| HKD3,000,001 – HKD3,500,000 | **1** |
| HKD3,500,001 – HKD4,000,000 | **1** |
| HKD4,000,001 – HKD4,500,000 | **2** |

During 2011, the Group did not pay any award for joining the Group or as compensation for the loss of office to any directors or the above five highest paid individuals. None of the directors waived or agreed to waive his/her remunerations.

## (X) EMPLOYEES OF THE COMPANY

| | |
|---|---|
| Total number of current employees | 37,249 |
| The number of retired employees whose expenses are borne by the Company | 101 |
| **Composition of professions** | |
| **Type of profession** | **Number of staff in the profession** |
| Management staff | 3,617 |
| Research and development and technical staff | 3,491 |
| Production management staff | 13,626 |
| Sales and marketing staff | 14,688 |
| Other | 1,827 |
| **Education level** | |
| **Type of education level** | **Number of persons** |
| PhD | 54 |
| Master | 535 |
| University graduate | 4,839 |
| College graduate | 9,348 |
| Specialised secondary school graduate (high school) | 13,599 |
| Below specialised secondary school graduate | 8,874 |

## (XI) REMUNERATION POLICY AND LONG-TERM INCENTIVE SCHEME OF THE GROUP

The Group has established a performance appraisal system and a incentive and control system based on performance, duties and responsibilities and capability. Also, the management measures on remunerations of the senior management of the Company, the management measures on appraisal of operating responsibility of subsidiaries and the management measures on appraisal and remunerations of management, research and development staff, sales and marketing staff and production staff have been established. These measures have helped to motivate the working incentive and creativity of all employees, continually improved the Company's business results and procured the achievement of the Company's strategic goal.

The remuneration and compensation package of the employees generally includes salary and bonus, as well as pension, medical and housing contribution fund, work-related injury insurance and other benefits. The Group participates in various employee welfare schemes, such as pension, medical and housing contribution fund, maternity and unemployment insurance organised by the provincial and municipal governments in accordance with the relevant regulations in China.

# Corporate Governance Report

## (I) CORPORATE GOVERNANCE STRUCTURE

To meet the regulatory requirements of domestic and overseas capital markets, the Group has made amendments to the Articles of Association, the rules of procedure of the shareholders' general meeting, the board of directors and the board of supervisors, the rules of procedure for office meetings of the president, the implementation rules of the audit committee of the board of directors, the management system on information disclosure and the management system on connected transactions, and has formulated and approved a series of corporate governance documents including the management system on guarantees, the management system on investor relations and the work rules of the secretary of the board of directors on a timely basis during the Reporting Period.

Except for the issue concerning the notice of shareholders' general meeting mentioned below, as at 31 December 2011, the Group abided by the principles and all code provisions of the Code on Corporate Governance. In addition, during the Reporting Period, the Group also complied with laws and regulations such as the Company Law of the PRC, the Securities Law of the PRC and the Standards on Corporate Governance of Listed Companies.

### 1. Securities transactions by directors and supervisors

The Group has adopted all provisions in the Model Code for Securities Transactions of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules to regulate the securities transactions by directors and supervisors. Having made specific enquiries to directors and supervisors, the Group confirmed that all directors and supervisors complied with the requirements of the Model Code for Securities Transactions of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules on securities transactions by directors and supervisors during the Reporting Period.

### 2. Composition of the board of directors

During the Reporting Period, our board of directors comprised nine directors, namely executive directors Mr. Lu Mingfang, Mr. Zhang Jialin and Mr. Xu Guoxiong; non-executive directors Mr. Lu Shen and Mr. Jiang Ming; and independent non-executive directors Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei and Ms. Tommei Tong. The biographical details of the directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

As far as the Company is aware, none of the members of the board of directors, the Chairman and the President had any connection with each other in respect of finance, business or family or any relationship of material nature.

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

### 3. Primary duties of the board of directors

The Group has complied with the Code on Corporate Governance and assigned respective roles of the Chairman and the President. During the Reporting Period, Mr. Lu Mingfang was the Chairman and Mr. Xu Guoxiong was the President of the Group. Meanwhile, with a view to differentiating the duties of the board of directors and the management, the board of directors is responsible for guiding and effectively monitoring the management, whilst the management is responsible for implementing the established strategies and policies. Pursuant to the Articles of Association, the specific duties of the board of directors include:

- to convene shareholders' general meetings and report to the meetings;
- to implement the resolutions passed at the shareholders' general meetings;
- to decide on the operational plan and investment scheme of the Company;
- to prepare the Company's annual financial budget and final accounts;
- to prepare the Company's profit distribution plan and loss recovery plan;
- to prepare proposals for increases or reductions of the Company's registered capital and for the issuance and listing of corporate bonds or other securities;
- to prepare plans for material acquisition, share repurchase, merger, division, dissolution or change in corporate form;
- save as otherwise specified in laws, administrative regulations, department rules, requirements of securities regulatory authorities of the jurisdiction where the Company's Shares are listed or the Articles of Association, to decide on disposal of assets of the Company and its controlled subsidiaries other than those subject to approval by shareholders' general meetings, to decide on disposal of assets between the Company and its controlled subsidiaries or between the controlled subsidiaries, and to decide on merger or division of the controlled subsidiaries;
- to decide on the Company's internal organization of management;
- to appoint or dismiss the Company's President and the secretary of the board of directors; according to nominations by the President, to appoint or dismiss senior officers including vice presidents and chief financial officer of the Company and to decide on their remuneration, rewards and penalties;
- to establish the Company's basic management systems;
- to prepare proposals for amendments to the Articles of Association;
- to manage information disclosure of the Company;
- to propose to the shareholders' general meeting for appointment or replacement of the accounting firm for the audit of the Company;
- to receive work report submitted by the President and to review his work performance;
- to exercise other duties and powers specified in laws, administrative regulations, department rules or the Articles of Association and conferred by the shareholders' general meetings.

In order to meet the requirements of the revised Code on Corporate Governance which came into effect on 1 April 2012, the Company proposed to add "to perform the corporate governance functions" in "the Powers Exercised by the Board" in the Articles of Association and to add the following to the rules of procedure of the board of directors: "The Board shall perform the corporate governance functions, including but not limited to reviewing the Company's corporate governance policies and their implementation; reviewing and supervising the training and career development of directors and senior management; reviewing and supervising the Company's compliance policies and their implementation; formulating, reviewing and supervising the code of conduct applicable to the employees and directors of the Company and their compliance; reviewing the Company's compliance with the relevant laws, regulations and rules related to corporate governance and disclosing the same in the corporate governance report". The above amendments have been considered and passed by the board of directors and will be proposed for approval at the shareholders' general meeting.

## 4. Board meetings

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

During the Reporting Period, the board of directors held a total of nine meetings, at which proposals were considered in relation to the Company's business results, global offering and listing, formation of and amendments to corporate policies, guarantee plan for 2011, credit facilities for 2011, establishment of subsidiaries and capital increase, etc. Attendance details of the directors at the board meetings are set out in the paragraph headed "Duty Performance of Directors".

## 5. Remuneration and assessment committee

During the Reporting Period, the remuneration and assessment committee under the board of directors consisted of three independent non-executive directors, namely Mr. Chen Naiwei, who acted as its convener/chairman, Mr. Zeng Yixin and Mr. Bai Huiliang. The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating the performance assessment standards for directors, the President and other senior management members of the Company and implementing such assessment, and formulating and reviewing the remuneration policies and proposal for directors, the President and other senior management members.

During the Reporting Period, the remuneration and assessment committee held a total of three meetings, at which the performance assessment report on senior management for 2010 and the proposal for assessment on management responsibilities for 2011 were considered. Set out below is the attendance record of the members during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|---|---|
| Mr. Chen Naiwei | 3/3 | 100% |
| Mr. Zeng Yixin | 3/3 | 100% |
| Mr. Bai Huiliang | 3/3 | 100% |

## 6. Audit committee

During the Reporting Period, the audit committee under the board of directors consisted of three independent non-executive directors, namely Ms. Tommei Tong, who acted as its convener/chairwoman, Mr. Bai Huiliang and Mr. Chen Naiwei. The audit committee is a special body established under the board of directors, mainly responsible for communication, supervision and review of the internal and external audit of the Company.

During the Reporting Period, the audit committee held a total of six meetings, at which matters were considered in relation to the Company's business results, inspection report and self-assessment report on internal control of the Company for 2010, summary of internal audit findings for 2011 and internal audit plan for 2012, audit schedule on financial report for 2011, etc. Set out below is the attendance record of the members during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|---|---|
| Ms. Tommei Tong | 6/6 | 100% |
| Mr. Bai Huiliang | 6/6 | 100% |
| Mr. Chen Naiwei | 6/6 | 100% |

## 7. Strategy committee

During the Reporting Period, the strategy committee under the board of directors consisted of three directors, namely Mr. Lu Mingfang, who acted as its convener/chairman, Mr. Bai Huiliang and Ms. Tommei Tong. The strategy committee is a special body established under the board of directors focusing on strategy study as entrusted by the board of directors, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

During the Reporting Period, the strategy committee held one meeting, at which the proposal for the formulation and design of the Company's overall strategy was considered. Set out below is the attendance of the members during the Reporting Period:

| Name of member | Actual/required attendance (times) | Attendance rate |
|---|---|---|
| Mr. Lu Mingfang | 1/1 | 100% |
| Mr. Bai Huiliang | 1/1 | 100% |
| Ms. Tommei Tong | 1/1 | 100% |

## 8. Remuneration of auditors

With reference to the Group's existing business operations, the audit fee payable by the Group (the parent company) for 2011 was fixed at RMB2,600,000 while the audit fee for internal control was set at RMB600,000 upon negotiations and confirmation by the Group and the domestic auditor, PricewaterhouseCoopers Zhong Tian CPAs Limited Company, and the international auditor, PricewaterhouseCoopers, subject to approval by the shareholders' general meeting of the Company.

## 9. Confirmations by directors and the auditors

The directors have reviewed the effectiveness of the Group's internal control system which covered all material control aspects, including finance, operation and compliance controls and risk management functions.

The directors are responsible for overseeing the preparation of financial statements for each accounting period to give a true and fair view of the financial position, business results and cash flows of the Group. During the Reporting Period, the Group disclosed its annual report for 2010, interim report for 2011 and the first and third quarterly reports for 2011 in accordance with relevant laws and regulations and the applicable listing rules.

In preparing the financial report for the year ended 31 December 2011, the directors have adopted and consistently applied appropriate accounting policies, and have made judgments and estimates that are prudent and reasonable. As far as the directors are aware, there was no event, condition or material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

A statement by the Company's auditors in respect of their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report".

## 10. Deviation from the Code on Corporate Governance

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 shareholders' general meeting by 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 which requires a company to give at least 20-business-day notice of an annual shareholders' general meeting. Instead, the Group gave notice to its shareholders on 9 June 2011 regarding the annual shareholders' general meeting and the H Share class meeting which immediately followed the conclusion of the annual shareholders' general meeting. The Group is aware of the situation, and will procure the compliance with the notice period requirement stipulated in the code provisions of the Code on Corporate Governance in specific circumstances in the future.

# (II) DUTY PERFORMANCE OF DIRECTORS

## 1. Attendance of directors at the board meetings

| Name of director | Independent non-executive director | Required attendance for the year (times) | Attendance in person | Attendance by way of communication | Attendance by proxy | Absence | Attendance rate | Any failure in attending in person twice in succession |
|---|---|---|---|---|---|---|---|---|
| Lu Mingfang | No | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Zhang Jialin | No | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Lu Shen | No | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Xu Guoxiong | No | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Zeng Yixin | Yes | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Bai Huiliang | Yes | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Chen Naiwei | Yes | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Tommei Tong | Yes | 9 | 9 | 5 | 0 | 0 | 100% | None |
| Jiang Ming | No | 9 | 9 | 5 | 0 | 0 | 100% | None |

| | |
|---|---|
| Number of board meetings held in the year | 9 |
| Including: On-site meetings | 4 |
| Meetings held by way of communication | 5 |
| Meetings held by way of on-site and communication | 0 |

## 2. Dissenting opinions on the Company's relevant matters submitted by independent non-executive directors

During the Reporting Period, no dissenting opinions were made by the Group's independent non-executive directors on any proposal of the board of directors or other proposals of the Group in the year.

## 3. Establishment and improvement of work rules of independent non-executive directors, particulars and duty performance of independent non-executive directors

The Group has established the rules of procedure of the board of directors, the work rules of independent directors and other rules in accordance with regulations including the Guidance on Establishment of Independent Director System in Listed Companies issued by the China Securities Regulatory Commission. The work rules of independent directors set forth, among others, scope of work of independent directors including general provisions, eligibility, appointment and replacement, duties and powers, independent opinions and work conditions, and the requirements on their understanding of the Group's operation, communications with the auditors for annual audits and the monitoring and inspection in preparation and disclosure of annual reports.

During the Reporting Period, the independent non-executive directors earnestly attended the board meetings to keep informed of the Group's operations and management, and expressed independent opinions on significant events of the Group including connected transactions in the ordinary course of business, external guarantees and appointment of senior management members in strict compliance with the laws and regulations including the Company Law, the Standards on Corporate Governance of Listed Companies, the Securities Law and relevant listing rules, thereby acting in good faith and with due diligence to safeguard the legitimate interests of all shareholders.

## (III) INDEPENDENCE AND INTEGRITY OF THE COMPANY FROM CONTROLLING SHAREHOLDERS IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANISATION AND FINANCE

| | Whether Independent and integrated | Notes |
|---|---|---|
| Independence and Integrity in respect of Business | Yes | The Group is independent in terms of business: it has a complete organisation and operates independently, and is not in reliance on any of the controlling shareholders and their associates. |
| Independence and Integrity in respect of Personnel | Yes | The Group is independent in terms of personnel: it has independent administrative and human resources bodies under the complete and systematic regulations and rules on employment, human resources and salary management; save as disclosed otherwise in this report, the directors and senior management members of the Group are employees exclusively serving in the Group without concurrent positions in the controlling shareholders and their associates. |
| Independence and Integrity in respect of Assets | Yes | The Group is independent in terms of assets: it has integrated and complete production, supply and sale systems as well as supporting facilities; it possesses independent tangible and intangible assets including building ownership, land use right, industrial properties and non-patented expertise. |
| Independence and Integrity in respect of Organisation | Yes | The Group is independent in terms of organisation: it is free from any jointly-controlled operation or co-occupied office with any of the controlling shareholders and their associates; and none of the Group's functional departments maintains a superior or subordinate relationship with any internal body of the controlling shareholders and their associates. |
| Independence and Integrity in respect of Finance | Yes | The Group is independent in terms of finance: it has independent finance and accounting department and audit department, and has established independent accounting, financial management and internal audit systems; it makes financial decisions independently, maintains independent accounts with banks, and legally operates as an independent tax payer. |

## (IV) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM

| | |
|---|---|
| Overall plan for internal control system construction | In view of the Basic Standards on Internal Control of Enterprises jointly issued by five ministries including the Ministry of Finance of the PRC, the Group's management attached great importance to internal control system construction, joining the efforts of the functional departments to improve and upgrade internal control at two levels namely the headquarters and the core subsidiaries. An internal control project work team under the leadership of the Chairman was established, led by the audit department and supported by relevant functions to jointly facilitate the smooth implementation of the project. In addition, an expert panel of the Group was organised to provide professional support to internal control system construction. Members of the panel comprises professionals from research and development, marketing, quality, investment and development, human resources and other dedicated functions as well as the subsidiaries. |
| Plan for establishment and improvement of internal control system and its implementation | The Group's internal control system construction in 2011 covered 15 key processes in more than 30 enterprises (including the headquarters), mainly including:<br>• streamlined, supplemented and improved the internal control system and approving authorisation of the headquarters, and finalised the approving authorisation list of the headquarters.<br>• established an internal control framework of the headquarters, and developed the internal control manual covering 12 processes (96 sub-processes) of its own operations.<br>• established a unified internal control framework for the subsidiaries, developed an internal control horizontal comparison form, and developed an internal control manual for each subsidiary covering 15 processes, 126 sub-processes, 123 risk points, 543 basic control requirements, 304 optimised or best control requirements, 217 approval procedures and 299 duty breakdown requirements.<br>• developed a self-assessment form and a testing plan to guide internal auditors of the Group to effectively carry out self-assessment on internal control, which gave an intuitional view of the internal control level of each enterprise.<br>• invited internal control experts to provide 12 full-process training sessions and workshops for internal control staff across the Group. |

| | |
|---|---|
| Organisation of supervisory functions on internal control | The board of supervisors of the Group is responsible for supervising directors, managers and other senior management members in performing duties and the Group's operations under the laws, and reports to the shareholders' general meeting. The audit committee is a special committee of the board of directors mainly responsible for communication, supervision and review of the internal and external audit of the Group, so as to ensure that the board of directors excises effective supervision on the management. The Group has a dedicated audit department under a well-established organisational structure, fully responsible for monitoring and assessment on the effectiveness of internal control. The Group has established the internal audit system which specifies the duties and authorisations of its internal audit department and internal auditors, as well as the scope, procedures and standards of internal audit. The Group and its subsidiaries have established respective audit departments or equivalent dedicated or concurrent posts, responsible for organising and implementing daily internal audit, promptly identifying defects and inadequacy of internal control, proposing rectifications and monitoring the implementation, and duly reporting to the board of directors, the audit committee and the management of the Company. |
| Self-assessment on internal supervision and internal control | The inspection on internal control of the Group was divided into two periods: the preliminary inspection period from July to September 2011, with an aim of early identification of weakness and preparation of rectification proposals; and the year-end rectification and inspection period from December 2011 to February 2012. The scope of assessment covered 12 core units (including the headquarters) of the Group and the relevant subsidiaries, where 15 processes were assessed and scored for the purpose of internal control by various means including on-site interview, walk-through test and sample test. |

| | |
|---|---|
| The board of directors' arrangement on internal control activities | The Group has initiated the internal control system establishment project in March 2011. The taskforce of the project was given the task of perfecting the internal control system based on the "Basic Standards on Internal Control of Enterprise and 18 supplementary application guidelines with reference to the actual situation of the Group's business characteristics and internal control basis. The work focused on the cleaning up and improvement of the authorisation and specialisation system through optimising the system construction on a risk-oriented basis. After nine months of steady progress, the Group has formulated the preliminary internal control manual which comprises the list of major risks, array of control, flow chart, authorised approval form and the chart on the breakdown of duties and responsibilities. The Group carried out in-depth evaluation on 15 business processes of core tier-2 subsidiaries and important tier-3 subsidiaries in accordance with the internal control manual. The evaluation was divided into two stages: the preliminary review stage from July to September 2011, during which verification on control implementation was conducted through self-inspection by all entities; and the stage from December 2011 to February 2012 for the year-end control inspection and the inspection on rectification to weakness identified in preliminary review, during which the verification on the implementation of control points and the inspection on rectification to weakness identified in preliminary review were conducted through inter-checking among all entities. During the evaluation, no material weakness was identified in the internal control system of the Company; no design or implementation flaw in internal control that would constitute current or potential material adverse impact on the Company's control targets was identified; no material untrue, inaccurate or incomplete information was identified in the Company's financial statements and the notes thereto; no material loss of assets due to inefficiency in internal control was identified; and no fraud by the senior management of the Company was identified. The internal control system of the Company is basically complete and effectively implemented. |
| Establishment and operation of internal control system over financial reporting | In 2011, the Group drafted the accounting handbook of Shanghai Pharmaceuticals in accordance with the requirements on internal control over financial reporting in the Basic Standards on Internal Control of Enterprises and relevant accounting standards. The handbook covers basic accounting norms, accounting policies, establishment and maintenance procedures of ledgers, accounting treatment and daily practices (including accounting methods, special transactions and treatment requirements, period-end closing procedures, etc.), standards on disclosure of financial statements (including workflows, accountability, information requirements, etc.), and the reconciliations between the Chinese Accounting Standards for Business Enterprise and the Hong Kong Financial Reporting Standards. Furthermore, in the course of internal control tests and assessments on the Group, the Group's internal audit department classified the internal control over accounting as a high risk area which was included into the focus list for testing, and proactively cooperated with auditors on the audit of internal control over financial reporting. |

| | |
|---|---|
| Defect and rectification of internal control | Addressing the issues identified in internal control assessments, the subject subsidiaries in which defect or flaw was identified prepared the management responses which specified the measures, deadline and persons in charge for rectification. In response to the issues identified in internal control inspection, the audit department carried out inspection on rectifications before the end of 2011. According to the findings of the inspection, more than 70.76% internal control issues have been rectified in accordance with rectification plans, the control requirements and operational procedures were clarified, and the established standards were followed in practices. The outstanding issues were either due to hardware conditions (such as commissioning of new systems, adjustment to system functions, etc.), or could not be solved in a short time under the inherent requirement of internal control, or were in progress of ongoing rectifications during the inspection period as a certain period of time is needed although the rectifications had commenced as scheduled. |

## (V) RELEVANT REPORTS ON INTERNAL CONTROL DISCLOSED BY THE COMPANY

1. Disclosure of the self-assessment report on internal control: Yes

2. Disclosure of the audit report on internal control over financial reporting issued by auditors: Yes

3. Disclosure of corporate social responsibility report: Yes

The aforesaid reports are available on the websites www.sse.com.cn and www.hkexnews.hk

## (VI) ESTABLISHMENT OF THE ACCOUNTABILITY SYSTEM ON MATERIAL ERROR IN INFORMATION DISCLOSURE OF ANNUAL REPORTS OF THE COMPANY

The Group has established a sound management system on information disclosure, including the accountability system on material error in information disclosure of annual reports. The Group's management system on information disclosure expressly specifies: in case any person in charge of information disclosure in any member of the Group fails in performing the obligations of information disclosure and examination in violation of relevant laws and regulations and the system, the Group shall impose on the person administrative sanctions (including but not limited to rectification, public criticism, reposting, suspension, demotion, removal, etc.) and financial penalties for indemnification against losses, and shall have the right to pursue legal liability accordingly. In such a case the Group shall file the result of actions with the regulatory authorities within five business days. During the Reporting Period, the Group had no correction of material accounting errors, supplement to material information omission or any adjustment to preliminary results announcement.

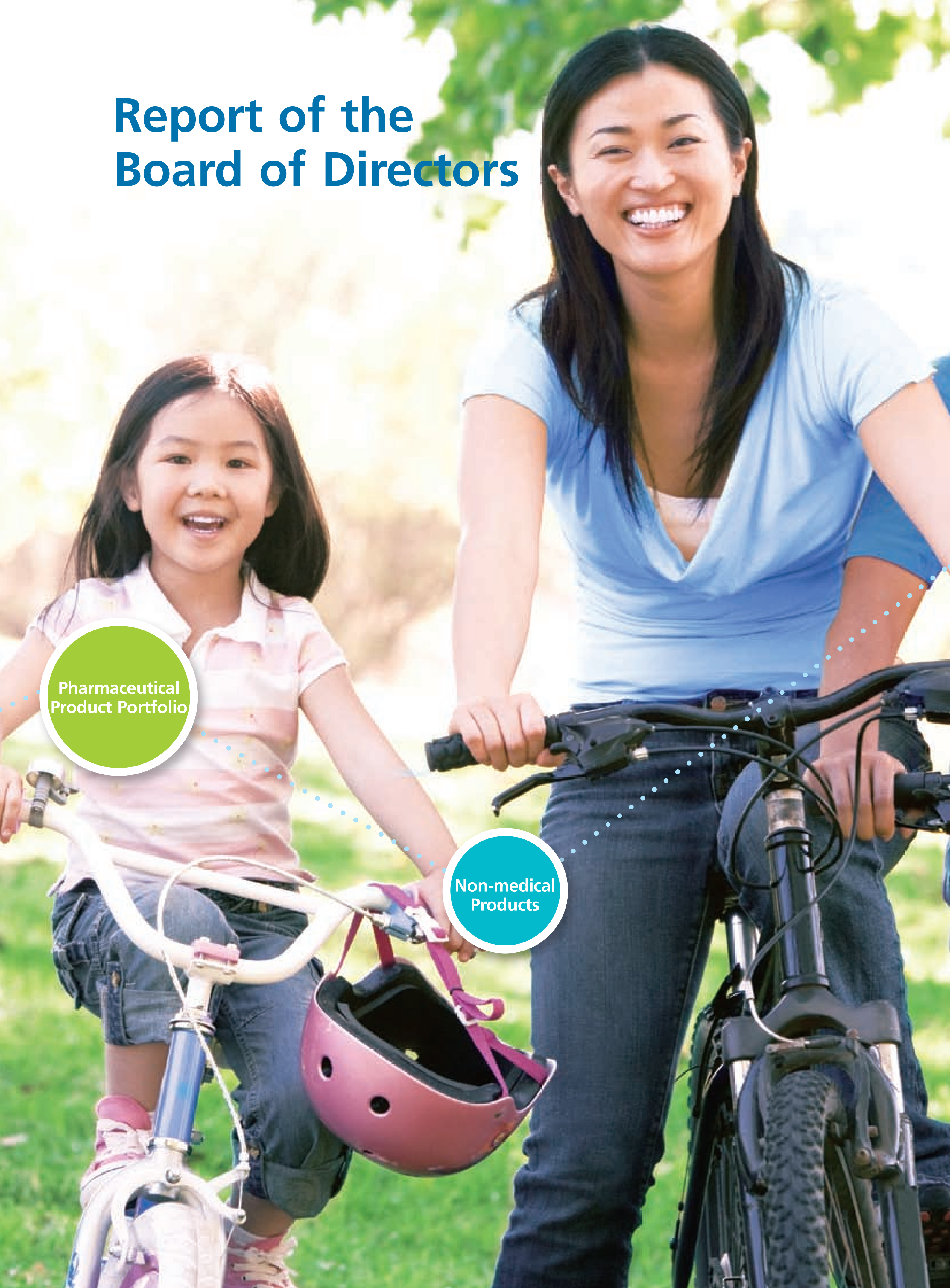
# Shareholders' General Meetings

## (I) INFORMATION OF ANNUAL GENERAL MEETINGS

| Session of meeting | Date of meeting | Newspaper for disclosure of resolutions | Date of disclosure of resolutions |
|---|---|---|---|
| 2010 Annual General Meeting | 30 June 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 1 July 2011 |
| 2011 First H Share Class Meeting | 30 June 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 1 July 2011 |

*Note:* The above resolutions are also published on the websites of the Shanghai Stock Exchange (http://www.sse.com.cn) and the Hong Kong Stock Exchange (http://www.hkexnews.hk).


# Report of the Board of Directors




# (I) MANAGEMENT DISCUSSION AND ANALYSIS

## 1. Business review for the Reporting Period

Year 2011, the opening year for the 12th Five-year Plan, was full of opportunities and challenges for the pharmaceutical industry. The industry was under a diversity of pressures, such as increasingly intensified competition in the pharmaceutical market, the ever-changing competitive landscape, hiking raw material costs and labour costs, higher financing costs due to the tightening of monetary policy, the implementation of the new GMP standards, the 27th and 28th rounds of pharmaceutical price reduction by the National Development and Reform Commission, the tenders of essential drugs nationwide and the new round of price reduction subsequently, the full implementation of medical insurance "double control" on medical institutions, and the promulgation of antibacterial drug classification management policies. However, new opportunities for future development of pharmaceutical enterprises kept arising from the dynamics such as the promotion of new healthcare reform, high priority and strong supports to the pharmaceutical industry from the governments, China's population aging, increasing demand for healthcare consumption and coverage of health insurance, higher medical insurance payment levels and so on. In this regard, quality enterprises with advantages in brand, scale and innovation capability were positioned to profit from the opportunities to survive the pharmaceutical industry restructuring and industrial upgrading.

In 2011, the debuting year for its A+H listing, Shanghai Pharmaceuticals strategically embarked on the "two transformations" which in particular, refer to the transformation from a traditional state-owned enterprise to a market-oriented company and the transformation of target market from Shanghai to the whole country.

**revenue amounted**
**RMB**
# 54.9 Billion


Responding to the uncertain external economy and pharmaceutical industry environment in the Reporting Period, the Group took initiatives for reform and refinement in light of the "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. We adhered to professionalism, dedication, centralisation and concentration. The Group adjusted its industrial structure proactively while transforming its mode of economic growth to boost value through integration. At the same time, it established dual platforms for capital and development at home and abroad through accomplishing the overseas listing, which financed its development and consolidated its position in the industry. During the Reporting Period, the Group basically completed the transformation to a nationwide company through new geological and business expansions, and maintained steady growth in business results.

During the Reporting Period, the Group made certain adjustments to the scope of consolidation of the financial reports, as the antibiotic business and Citic Pharma Co., Ltd. (currently known as "Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.") were included into the Group's scope of consolidation upon completion of the acquisitions, and Techpool Bio-Pharma ceased to be consolidated by the Group. During the Reporting Period, the Group's revenue amounted to RMB54.9 billion, representing a YOY increase of 41.78%; net profit attributable to equity holders of the Company amounted to RMB2.042 billion, representing a YOY increase of 40.24%. Excluding the one-time investment income from the deconsolidation of Techpool Bio-Pharma and the net foreign exchange gain and loss in proceeds, its net profit attributable to equity holders of the Company was RMB1.808 billion, representing an increase of 24.18% YOY. The operating profit margin after deducting sales and administration costs was 4.43%, down by 0.47 percentage point from 4.90% for last year mainly as a result of expansion of distribution operations. Earnings per share amounted to RMB0.8437 and earnings per share deducting non-recurring profits and losses were RMB0.5883. During the Reporting Period, the Group further enhanced management on operating cash flows and its net cash flows from operating activities amounted to RMB1.772 billion. As at 31 December 2011, the owners' equity of the Group was RMB25.981 billion, the owners' equity deducting minority interest was RMB23.078 billion and the total assets were RMB47.668 billion.

## Major Honours

During the Reporting Period, the Group clinched numerous honours and awards with its reputation rising significantly among peers and on capital market:

- It was newly included into the SSE Corporate Governance Index;
- It was included into the top 10 of the Internal Control Index for Chinese Listed Companies, ranking No. 9;
- Its H Shares were included into the Morgan Stanley China Index (MSCI);
- On 5 September 2011, it was officially included into the Hong Kong Hang Seng Index and Hang Seng China AH Index;
- It was included into the Top 10 Corporate Citizens of China CCTV Financial 50 Index;
- It was honoured the "Typical M&A Case" among the corporate governance special awards for 2011 at the Tenth Corporate Governance Forum of China hosted by the Shanghai Stock Exchange;
- It 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;
- It ranked No. 2 among the "Top 10 China's Pharmaceutical Conglomerates in terms of Integrated Strengths 2011" published at the Summit of Chemical Pharmaceutical Brands 2011;
- It was included in "The 3rd Session of Top 20 Most Competitive China's Pharmaceutical Listed Enterprises" published by the China Pharmaceutical Enterprises Association;
- It was included in the top 100 of the Top 500 Chinese Enterprises in 2011 published by Fortune (Chinese edition) for the first time;
- It was included into the Top 25 of Most Innovative Enterprises in 2011 and the Most Admired Chinese Companies in 2011 published by Fortune (Chinese edition);
- It won the "Return on Investment Award" in the second session of the "Battle in Shanghai", a contest on listed companies sponsored by Securities Star;
- It 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;
- It was included into the Top 500 Chinese Enterprises in 2011 (ranking No. 213) and the Top 500 Chinese Manufacturers (ranking No.106);

**829 varieties**
**of pharmaceutical products**

- It was included into the Top 100 Enterprises of Shanghai in 2011 (ranking No. 23) and the Top 50 Manufacturers of Shanghai (ranking No.12);
- It took the top spot in the CVAwards League Table of Chinese Pharmaceutical Industry Strategic Investors for 2011.


## R&D and pharmaceutical business

The Group produces approximately 829 varieties of pharmaceutical products including 58 major varieties (accounting for approximately 50% of its pharmaceutical business) through the production bases in eight provinces and municipalities, covering chemical and biological drugs, modern Chinese medicines and other healthcare products. The five major therapeutic areas are cardiovascular system, alimentary tract and metabolism, central nervous system, antiinfectives for systemic use, antineoplastic and immunomodulating agents.

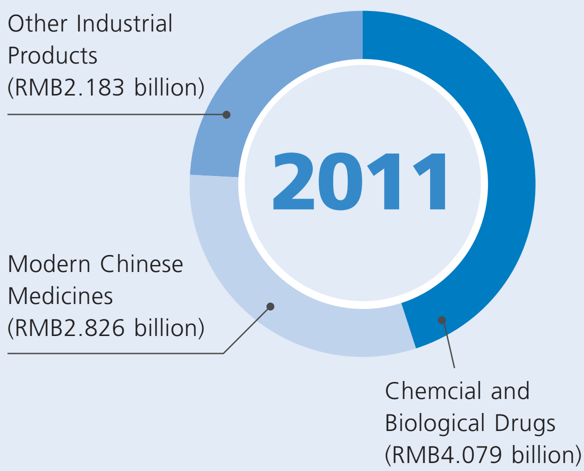
During the Reporting Period, the sales revenue from the Group's pharmaceutical business was RMB9.088 billion, representing a growth of 8.47% YOY, of which the sales revenue from chemical and biological drugs was RMB4.079 billion, up by 2.55% YOY, the sales revenue from modern Chinese medicines was RMB2.826 billion, up by 7.35% YOY, and the sales revenue from other industrial products (active pharmaceutical ingredients, traditional Chinese medicine, healthcare products and medical devices, etc.) was RMB2.183 billion, up by 23.48% YOY. During the Reporting Period, the gross margin of the Group's pharmaceutical business was 44.9%, down by 1.8 percentage points YOY. The Group exercised stricter control over operating costs, and thus effectively offset the impact on profit margin brought by rising raw material costs and falling drug prices. The sales and administration cost ratio decreased by 1.7 percentage points YOY. Operating profit margin after deducting sales and administration costs was 13.0%, essentially unchanged as compared with the same period last year. The Group's research and development investment were RMB404.11 million, representing approximately 4.45% of the sales revenue from its pharmaceutical business.

Among the 10 national science and technology major projects for development of major new drugs in the 11th Five-year Plan undertaken by the Group, the first and second batch projects have completed technological acceptance, and the Group received over RMB55 million from the national industry-university-research institute alliance special fund for development of new drugs and the Shanghai municipal scientific research special fund for Shanghai Pharmaceuticals. During the Reporting Period, the Group newly obtained two clinical approvals for drugs including mammary aggregation elimination capsule (乳癖消軟膠囊), as well as five production approvals for drugs including Kugan capsule (苦甘膠囊), thymosin α1 for injection (注射用胸腺法新); 12 varieties were commercialised and rolled out including cilnidipine tablets (西尼地平片), diclofenac sodium gel (雙氯芬酸鈉凝膠), nateglinide tablets for diabetes mellitus (糖尿病那格列奈片) and venlafaxine hydrochloride capsules (鹽酸文拉法辛膠囊), and 217 projects were in progress of research.

In February 2011, the Group and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 08231) entered into a strategic cooperation agreement on research and development of new drugs in relation to the investment of RMB180 million to jointly promote R&D and industrialisation of four drugs with self-owned intellectual property rights. In particular, the project "recombinant TNF α acceptor fusion protein with high affinity" completed pre-clinical evaluation and was officially registered for application for clinical approval at the end of August 2011. Among the other three projects, deuteporfin and liposomal vincristine (LVCR) have entered into Phase I clinical stage and recombinant human lymphotoxin-α derivative (LT) has entered into Phase II clinical stage. The Group also initiated an independent research and development platform for antibody drugs led by the Central Research Institute and focusing on subsequent industrialisation capacity for antibody development.

During the Reporting Period, the Group continued to implement key products focused strategy to actively adjust its product portfolio. The Group screened out 58 key products for prioritized development with reference to internal indicators (such as sales, gross margin, marketing ability, successful tendering, pricing, etc.) and external indicators (such as market size, future growth potential, market share, ranking, etc.) of each product. The sales revenue from such products grew by 10.25% YOY and accounted for approximately 50% of the sales revenue from the Group's pharmaceutical business.

## Sales Revenue Breakdown of the Group's Pharmaceutical Business



Meanwhile, the product portfolio restructuring posed a challenge to the growth of the Group's pharmaceutical business as a whole. For certain non-major generic drugs and essential drugs subject to noticeable adverse impacts of tendering price reduction and restricted use of antibacterial drugs, the Group proactively explored non-tendering markets while securing the existing mainstream market channel, aiming at multi-channel drug marketing to ensure organic growth of the pharmaceutical business as a whole.

During the Reporting Period, the Group had a total of 17 products contributing sales revenue of RMB100 million or above each (tax exclusive), which were classified by therapeutic areas as follows:

- cardiovascular system: six products, including Shenmai injection (exceeding RMB400 million) and tanshinone IIA (exceeding RMB200 million);
- alimentary tract and metabolism: two products, including live combined bifidobacterium (exceeding RMB200 million);
- antiinfectives for systemic use: two products, including ceftriaxone sodium for injection and cefotaxime sodium for injection (each exceeding RMB200 million);
- other therapeutic areas: seven products, including Shen Xiang healthcare series products (Chinese healthcare products) (exceeding RMB300 million), and Qingliang series products (exceeding RMB200 million).

Among those set out above, the products with a significant growth YOY included: rosuvastatin (active pharmaceutical ingredients for cardiovascular system drugs) with a growth over 50%; cefotaxime sodium for injection with a growth over 30%; and live combined bifidobacterium and tanshinone IIA each with a growth over 20%. In addition, the Group had 18 products with sales revenue ranging from RMB50 million (inclusive) to RMB100 million each, and 103 products with sales revenue ranging from RMB10 million (inclusive) to RMB50 million each.

During the Reporting Period, the Group completed the acquisition of 96.9% equity interests in Shanghai New Asiatic Pharmaceutical Co., Ltd. and the acquisition of 100% equity interests in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. from Shanghai Pharmaceutical (Group).

The Group has established the quality manual governing the group-wide quality management, to embody Group's advanced concepts, values and responsibility for quality management. The manual, with reference to the characteristics of the existing industrial chain and retail distribution system and in full compliance with the GMP and GSP, GMP for medical device and other domestic regulations and standards, introduced mature standards at home and abroad to elaborate the quality management system requirements, in order to maintain the continuity, integrity, suitability and forward-looking of the Group's quality management system. With a commitment to the social responsibility of "caring for life and health, enhancing quality of life and dedicating ourselves to the cause of life and health", the Group adhered to the quality policy of "human-oriented in creating health; quality-foremost in pursuit of excellence" to ensure product quality and safety. During in the Reporting Period, all 1,072 batches for 50 varieties from the Group's 20 business units passed the national pharmaceutical quality samplings.

During the Reporting Period, the Group successfully completed the environmental verification in preparing for the listing of its H Shares, and earnestly normalised and systemised the environmental requirements for a listed company from the organisation, policy and procedure aspects. The Group carried out energy management focusing on corporate power balance, achieving energy conservation through off-peak consumption in summer while catering for its electricity demand in summer. Moreover, the Group organised various training sessions to promote the implementation of the new GMP.

## ■ Pharmaceutical distribution business

The Group provides pharmaceutical manufacturers and resellers (including hospitals, distributors and retail pharmacies) with distribution, storage, logistics and other value-added pharmaceutical supply chain solutions and relevant services. During the Reporting Period, the sales revenue from the Group's pharmaceutical distribution business was RMB46.530 billion, up by 57.08% YOY; the gross margin was 6.89%, down by 0.32 percentage point YOY; operating profit margin after deducting sales and administration costs was 2.90%, up by 0.54 percentage point YOY; the direct sales to hospitals accounted for 61.43%; and the sales of imported and joint venture manufactured pharmaceuticals accounted for 52.10%.

During the Reporting Period, the Group invested a total of approximately RMB5.227 billion in strategic acquisitions and internal integration focusing on eastern, northern and southern China, building up a basic distribution network nationwide. The merger and acquisition resulted in a revenue of RMB10.5 billion and net profit of RMB180 million. The Group provided customers with strong terminal network and value-added services through more than 30 logistics centres:

(1) Eastern China: Sales revenue accounted for 75.0% of the sales revenue from the pharmaceutical distribution business. The Group further consolidated its leading advantages in the region through acquiring controlling interests in Wuxi Shanhe Group Pharmaceutical Logistics Co., Ltd., Zhejiang Xinxin Pharmaceutical Co., Ltd. and Hangzhou Quandetang Pharmacy Co., Ltd.

(2) Northern China: Sales accounted for 16.4% of the sales revenue from the pharmaceutical distribution business. Upon completion of acquisition of 100% equity interest in Citic Pharma Co., Ltd., the Group renamed it as "Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd." ("Shanghai Pharma Keyuan"). In 2011, the sales revenue of Shanghai Pharma Keyuan was RMB8.547 billion, up by 39.84% YOY, and its net profit attributable to the parent was RMB186 million, up by 32.39% YOY (Shanghai Pharma Keyuan

was included into the scope of consolidation of the Group from the second quarter of 2011). Shanghai Pharma Northern Investment Co., Ltd., a company invested by the Group in the amount of USD80 million, was approved to be established, which will integrate the northern internal business resources including Shanghai Pharma Keyuan and Beijing Aixin Weiye Medicine Co., Ltd., etc to consolidate business development in north China.

(3) Southern China: Sales revenue accounted for 5.3% of the sales revenue from the pharmaceutical distribution business. The Group further expanded the pharmaceutical distribution network in southern China centering on Guangzhou by acquiring controlling interests in Guangdong Zhongnan Pharmaceuticals Co., Ltd., Foshan Daxiang Pharmaceutical Co., Ltd., Zhuhai Kangtuo Pharmaceutical Co., Ltd. and Shantou Wande Pharmaceutical Co., Ltd.

The Group actively promoted innovations in business model by leveraging on differentiated strategic positioning to gain strategic advantage, aiming to improve profitability and terminal control of its distribution business:

(1) Vaccines: By exploring the collaborative promotion model with vaccine manufacturers, the Group became the only one commercial enterprise entering into all-around cooperation with all joint venture manufactured and imported vaccine providers in the PRC. Through expansion of the direct network coverage to centres for disease control ("CDC"), the number of the Group's direct CDC customers increased by 50 to a total of 150. As such, the Group established the leading position for its vaccine product distribution business among the commercial enterprises in the PRC.

(2) High-end supplies: Based on the established network, the Group extended this business arm from product distribution and service provision to the upstream of the supply chain. Meanwhile, the product lines originally focusing on cardiac, orthopaedic and neurological areas were diversified and expanded to the full-scope lines, resulting in surging results in the supplies distribution business.

(3) DTP (high value medicines direct transportation port): The Group rolled out multi-point distribution of retail prescription drugs and over-the-counter drugs mainly comprising higher-value drugs at user's own expenses, to directly serve end consumers (including patients, their friends and relatives, medical staff and the public).

(4) SPD (Supply Processing & Distribution, a hospital logistics management technology): By collaborating with in-hospital supply chain, the Group provided supports to IT solutions for hospital operation management and supply chain management.

## Pharmaceutical retail business

During the Reporting Period, the sales revenue from the Group's pharmaceutical retail business was RMB2.277 billion, up by 31.95% YOY; gross profit margin was 22.44%, down by 1.06 percentage points YOY; and operating profit margin after deducting sales and administration costs was 1.08%, down by 0.36 percentage point YOY.

As at the end of the Reporting Period, the Group had about 1,700 chain retail pharmacies under its brand family, including 1,253 directly operated pharmacies. During the Reporting Period, faced by the challenging market conditions, the Group adjusted and enriched the catalogue of major commodities according to market demand, seasonality and commodity inventory, thus achieving the goal of uplifting earnings and profitability.

## Internal integration

During the Reporting Period, the Group's sales and administration cost ratio was 9.88%, declined by 2.30 percentage points YOY. In order to rationalise ownership relations, streamline management chain, reduce management cost and perk up efficiency in decision making, the Group placed emphasis on the streamlining of management structure, and disposed of 39 companies engaged in non-core business.

During the Reporting Period, the Group continued to boost the construction of four uniform management platforms (i.e. the joint platform for government public affairs, the centralised procurement platform, the centralised marketing platform, and the centralised distribution platform). In particulars, a collaboration network for major public affairs focusing on tendering was established by capitalising on the strengths of the Group and its core members in local public affairs. The centralised procurement of 13 varieties of medicinal herbs amounted to over RMB60 million in aggregation. Through improving collaboration between the manufacturing and commercial segments, approximately RMB1.64 billion of pharmaceutical products manufactured by the Group were distributed through its own distribution channels. Furthermore, the Group carried forward the construction of the centralised fund management platform, effectively liquidated the internal idle funds and optimised the loan to deposit ratio, thus cutting down its operating costs. Currently, all wholly-owned subsidiaries have been pooled into the platform, which will be gradually promoted to other controlled subsidiaries.

## 2. Principal business and results

*(1) Principal business by industry or by product*

*Unit: RMB*

| By Industry | Operating income | Operating costs | Operating profit margin | Change in operating income YOY | Change in operating costs YOY | Change in operating profit margin YOY |
|---|---|---|---|---|---|---|
| Manufacturing | 9,088,233,510.87 | 4,920,151,130.18 | 45.86% | 0.92% | 8.67% | -3.86 percentage points |
| Distribution | 46,529,811,776.40 | 43,261,847,619.54 | 7.02% | 57.08% | 57.57% | -0.29 percentage point |
| Retail | 2,276,813,336.85 | 1,755,725,238.59 | 22.89% | 31.95% | 33.74% | -1.03 percentage points |
| Other | 20,609,753.89 | 14,110,078.92 | 31.54% | -70.08% | -13.65% | -44.74 percentage points |
| Elimination | -3,361,081,613.33 | -3,224,075,559.67 | | | | |

*(2) Principal business by region*

*Unit: RMB*

| Region | Operating income | Change in operating income YOY |
|---|---|---|
| Domestic | 53,728,693,252.41 | 42.38% |
| Overseas | 825,693,512.27 | 3.74% |

*(3) Suppliers and customers*

1) The purchase from the largest supplier accounted for 2.26% of the total purchase;

2) The aggregate purchase from the five largest suppliers accounted for 6.33% the total purchase of the Group for the year;

3) The sales to the largest customer accounted for 0.71% of the total sales;

4) The aggregate sales to the five largest customers accounted for 3.48% the total sales of the Group;

5) Information of any interests in the suppliers or customers disclosed in 1)-4) above held by any directors or their respective associates or shareholders: none.

(4) *Reasons for material change in profit constituents, structure or profitability of principal business during the Reporting Period as compared to the previous reporting period*

During the Reporting Period, the one-time investment income from excluding Techpool Bio-Pharma from the scope of consolidation of the Group was RMB334 million, representing 16.34% of the net profit attributable to equity holders of the Company for the year. During the Reporting Period, the Group had no material change in the structure or profitability of principal business as compared to the previous reporting period.

(5) *Explanation of material YOY changes of key financial data in the Reporting Period*

*Unit: RMB*

| Items of consolidated balance sheet | 31 December 2011 | 31 December 2010 | Change (%) | Reason for change |
|---|---|---|---|---|
| Money funds | 14,850,053,673.66 | 6,511,434,447.73 | 128.06% | Increase in proceeds from overseas share offering of the Company in the Reporting Period |
| Bills receivable | 971,206,337.81 | 579,119,785.01 | 67.70% | Additional bills receivable consolidated through acquisition of subsidiaries in the Reporting Period |
| Trade receivables | 10,606,364,608.21 | 6,999,048,491.64 | 51.54% | Additional trade receivable consolidated through acquisition of subsidiaries in the Reporting Period |
| Prepayments | 481,781,725.51 | 1,586,847,945.06 | –69.64% | Transfer out of equity prepayments made in the previous year to the Reporting Period |
| Interests receivable | 30,646,890.65 | 2,492,820.28 | 1,129.41% | Increase in undue interests receivable withheld in the Reporting Period |
| Dividends receivable | 15,990,542.89 | 6,913,103.42 | 131.31% | Increase in dividends receivable from associate(s) in the Reporting Period |
| Other receivables | 595,158,005.45 | 1,040,304,499.96 | –42.79% | Overdue payment recovered from business contacting companies in the Reporting Period |
| Inventories | 8,297,482,726.00 | 5,233,321,673.56 | 58.55% | Additional inventories consolidated through acquisition of subsidiaries in the Reporting Period |
| Other current assets | 144,481,908.13 | 71,927,069.80 | 100.87% | Increase in input VAT pending set-off in the Reporting Period |
| Available-for-sale financial assets | 18,470,202.06 | 116,368,024.72 | –84.13% | Sale of available-for-sale financial assets in the Reporting Period |
| Long-term equity investment | 2,618,839,435.97 | 1,703,071,414.21 | 53.77% | Conversion of subsidiary into associate in the Reporting Period |
| Intangible assets | 1,276,234,104.08 | 896,574,718.84 | 42.35% | Increase in the fair value of intangible assets of subsidiaries acquired in the Reporting Period |
| Goodwill | 2,988,894,594.17 | 422,781,218.07 | 606.96% | Increase in the goodwill of subsidiaries acquired in the Reporting Period |
| Other non-current assets | 76,924,942.82 | 45,215,471.33 | 70.13% | Increase in prepaid construction costs in the Reporting Period |
| Accounts payable | 10,563,558,378.10 | 7,005,820,467.78 | 50.78% | Additional accounts payable consolidated through acquisition of subsidiaries in the Reporting Period |
| Interests payable | 18,004,355.70 | 9,690,795.33 | 85.79% | Increase in undue interests payable withheld in the Reporting Period |
| Dividends payable | 72,935,928.93 | 130,943,042.00 | -44.30% | Dividends were paid to shareholders in the Reporting Period |
| Special payables | 160,382,718.27 | 76,987,163.43 | 108.32% | Increase in government grants received in the Reporting Period |
| Estimated liabilities | 71,342,961.55 | 31,681,497.09 | 125.19% | Compensation payable to employees were reclassified in the Reporting Period |

| Items of consolidated balance sheet | 31 December 2011 | 31 December 2010 | Change (%) | Reason for change |
|---|---|---|---|---|
| Deferred income tax liabilities | 266,287,608.24 | 43,553,673.66 | 511.40% | Increase in deferred income tax liabilities withheld in the Reporting Period as the fair value was higher than the cost of book value |
| Other non-current liabilities | 280,122,157.89 | 151,334,633.04 | 85.10% | Increase in relocation compensation received in the Reporting Period |
| Share capital | 2,688,910,538.00 | 1,992,643,338.00 | 34.94% | Share capital increased due to the overseas share offering of the Company in the Reporting Period |
| Capital reserve | 14,490,121,084.23 | 3,846,390,026.66 | 276.72% | Share premium increased due to the overseas share offering of the Company in the Reporting Period |
| Undistributed profits | 5,196,260,657.58 | 3,513,526,157.93 | 47.89% | Profit of the Company increased in the Reporting Period |

| Items of consolidated income statement | 2011 | 2010 | Change (%) | Reason for change |
|---|---|---|---|---|
| Operating income | 54,899,872,504.11 | 38,721,655,199.70 | 41.78% | Increase in operating income due to business growth and acquisition of subsidiaries in the Reporting Period |
| Operating costs | 46,882,191,570.13 | 31,600,325,052.29 | 48.36% | Increase in operating cost due to business growth and acquisition of subsidiaries in the Reporting Period |
| Business tax and surcharges | 161,210,725.56 | 105,951,285.99 | 52.16% | Increase in operating cost due to business growth in the Reporting Period |
| Financial costs, net | 472,927,482.07 | 237,200,935.79 | 99.38% | Increase in capital cost and foreign exchange loss in the Reporting Period |
| Investment income | 933,914,629.23 | 430,753,288.82 | 116.81% | One-time investment income increased due to the conversion of subsidiary to associate and the disposal of available-for-sale financial assets in the Reporting Period |
| Non-operating expenses | 59,987,910.86 | 123,497,947.67 | −51.43% | Loss from disposal of non-current assets decreased in the Reporting Period |
| Income tax costs | 589,072,373.53 | 415,887,042.40 | 41.64% | Profit increased in the Reporting Period |

| Items of consolidated statement of cash flow | 2011 | 2010 | Change (%) | Reason for change |
|---|---|---|---|---|
| Net cash flow generated from operating activities | 1,772,438,011.82 | 2,210,790,425.47 | −19.83% | Due to macroeconomic conditions, cash inflow decreased in the Reporting Period |
| Net cash flow from investing activities | −3,790,423,474.66 | −2,988,299,754.79 | | Considerations were paid for acquisition of subsidiaries in the Reporting Period |
| Net cash flow generated from financing activities | 10,643,056,917.87 | 2,089,336,569.88 | 409.40% | Increase in proceeds from overseas share offering of the Company in the Reporting Period |

*(6) Operation of major holding and participating vehicles*

*Unit: RMB0'000*

| Name of company | Nature of business | Shareholding (%) | Registered capital | Asset size | Owners' equity attributable to the parent | Operating income | Operating profit |
|---|---|---|---|---|---|---|---|
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Sale of pharmaceuticals | 100% | 283,686.80 | 1,670,989.21 | 334,858.87 | 3,459,047.99 | 94,088.33 |
| Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Sale of pharmaceuticals | 100% | 50,000.00 | 518,967.28 | 116,051.42 | 854,676.71 | 25,573.60 |
| Shanghai Sine Pharmaceutical Laboratories Co., Ltd. | Production and sale of pharmaceuticals | 100% | 82,100.00 | 190,360.63 | 102,940.23 | 233,132.39 | 8,280.00 |
| Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 100% | 22,500.00 | 83,898.71 | 57,705.40 | 71,861.46 | 21,777.17 |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Production and sale of pharmaceuticals | 96.90% | 36,997.00 | 163,869.47 | 75,392.05 | 86,857.58 | 12,855.11 |
| Shanghai Traditional Chinese Medicine Co., Ltd. | Production and sale of pharmaceuticals | 100% | 46,369.00 | 281,310.67 | 77,061.74 | 346,822.30 | 7,604.01 |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 55% | 12,850.00 | 127,087.48 | 91,024.91 | 99,003.09 | 22,337.15 |
| Changzhou Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 62.69% | 7,879.03 | 177,061.58 | 90,461.76 | 320,600.01 | 19,947.31 |
| Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 100% | 54,580.00 | 167,021.93 | 97,392.36 | 108,553.20 | 17,056.63 |
| Qingdao Growful Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 67.48% | 9,300.00 | 80,669.67 | 48,067.46 | 61,239.22 | 7,422.86 |
| Shanghai Zhonghua Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 100% | 6,364.18 | 20,654.61 | 12,229.69 | 24,984.16 | 3,384.07 |
| Xiamen Traditional Chinese Medicine Co., Ltd. | Production and sale of pharmaceuticals | 61% | 8,403.00 | 28,397.65 | 21,653.30 | 24,070.70 | 3,675.17 |
| Hangzhou Huqingyutang Pharmaceutical Co., Ltd. | Production and sale of pharmaceuticals | 51.01% | 5,316.00 | 35,215.29 | 26,138.60 | 31,063.90 | 1,618.73 |
| Sino-American Shanghai Squibb Pharmaceutical Ltd. | Production and sale of pharmaceuticals | 30% | USD1,844 | 148,167.00 | 64,451.00 | 251,665.50 | 25,742.00 |
| Shanghai Roche Pharmaceuticals Ltd. | Production and sale of pharmaceuticals | 30% | USD6,235.71 | 460,365.90 | 161,282.40 | 526,356.40 | 44,811.60 |

*Note:* Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, participates in Shanghai Roche Pharmaceuticals Ltd. with a shareholding of 30%.

## 3. Consolidated financial position

*(1) Capital structure (including repayment of due debts and performance of due obligations, class of capital instruments used, currency and interest rate structure)*

As at 31 December 2011, the Group's debt asset ratio (total liabilities divided by total assets) was 45.49% (31 December 2010: 57.47%), representing a decrease of 11.98 percentage points YOY. Interest protection multiples (EBIT divided by interest payment) was 7.57 times (2010: 10.29 times).

*(2) Information of material change YOY in asset constituents of the Company*

During the Reporting Period, the proceeds from the Group's H Share offering has not been used up while the proportion of money funds in total assets increased from 21.6% at the beginning of the year to 31.2% at the end of the year. The Group had no material change YOY in other asset constituents.

During the Reporting Period, save as held for trading financial assets and available-for-sale financial assets were measured at fair value, all other assets were measured at historical cost, and the fair value was measured at quoted price in an active market.

*(3) Liquidity and financial resources of the Group*

As at 31 December 2011, the balance of the Group's borrowings was RMB5,727 million, of which the balance of Hong Kong dollar denominated borrowings was equivalent to RMB27 million and the balance of USD denominated borrowings was equivalent to RMB286 million.

As at 31 December 2011, the Group had net accounts receivables and bills receivable totalling RMB11,578 million (31 December 2010: RMB7,578 million), representing an increase of 52.78% YOY. The increase was mainly attributed to the additional accounts receivables and bills receivable consolidated through acquisition of subsidiaries.

As at 31 December 2011, the balance of the Group's net accounts payables and bills payable was RMB12,659 million (31 December 2010: RMB8,886 million), representing an increase of 42.46% YOY. The increase was mainly attributed to the additional accounts payables consolidated through acquisition of subsidiaries.

During the Reporting Period, the Group had sound liquidity and financial resources.

*(4) Pledge of assets of the Group*

As at 31 December 2011, the Group's land use rights with site area of 552,116.58 sq. m. (at cost of RMB77,098,345.15 and book value of RMB61,978,724.29) and buildings and machinery with book value of RMB189,226,974.85 (at cost of RMB272,147,728.58) were pledged to secure short-term borrowings of RMB337,690,000.00 and long-term borrowings of RMB31,885,973.02.

As at 31 December 2011, pledge bank loans of RMB788,764,907.13 were secured by the pledge created over bills receivable with book value of RMB34,007,406.47 and accounts receivable with book value of RMB810,450,342.51.

*(5) Risk in foreign exchange rate fluctuation and any relevant hedging*

The principal activities of the Group are conducted in the PRC and are denominated in RMB. However, there are foreign exchange risks associated with assets and liabilities denominated in foreign currencies already recognised by the Group as well as foreign currencies-denominated transactions in the future (mainly denominated in USD and HKD). During 2011 and 2010, the Group did not enter into any forward foreign exchange contract or currency swap contract.

*(6) Contingent liabilities*

1) The Group does not have any material pending litigation or arbitration to be disclosed

2) Contingent liabilities arising from debt guarantees provided for third parties and guarantees provided to related parties and their financial impact

| Guarantor | Guaranteed party | Value of guarantee (RMB in thousand) | Commencement date of guarantee | Expiration date of guarantee | Whether the guarantee discharged |
|---|---|---|---|---|---|
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Shanghai Luoda Pharmaceutical Co., Ltd. | 1,000.00 | 30 May 2011 | 8 April 2012 | No |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Jiangxi Nanhua Medicines Co., Ltd. | 20,000.00 | 14 February 2011 | 13 February 2012 | No |
| Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd. | 20,000.00 | 22 December 2011 | 21 December 2012 | No |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 55,000.00 | 29 December 2011 | 28 December 2012 | No |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 20,000.00 | 14 March 2011 | 14 March 2012 | No |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 60,000.00 | 16 September 2011 | 16 September 2012 | No |
| Total | / | 176,000.00 | / | / | / |

The guarantees set out above do not have any material financial impact on the Group.

*(7) Material investment held and their performance in the Reporting Period and prospects*

Details are set out in the subparagraph headed "Operation of major holding and participating vehicles" in paragraph "Principal business and operation", as included in the subsection headed "Management Discussion and Analysis" in the section headed "Report of the Board of Directors".

*(8) Material acquisition or disposal of subsidiaries and associates in the Reporting Period*

Details are set out in the subsection headed "Asset Transactions" in the section headed "Significant Events".

*(9) Plan of the Group for material investment or acquisition of capital and assets in future and the relevant financing for such plan in the coming year*

Details are set out in the paragraph headed "Outlook and prospects", as included in the subsection headed "Management Discussion and Analysis" in the section headed "Report of the Board of Directors".

*(10) Opinions on the classified information provided in the Report of the Board of Directors and accounts*

There were no material changes during the year.

*(11) Headcount, remuneration, remuneration policy, bonus, share option plan and training plan in respect of employees*

Details are set out in the subsections above headed "Employees of the Company" and "Remuneration Policy and Long-term Incentive Scheme of the Group".

*(12) Share capital*

Details of changes in the Group's share capital are set out in the section above headed "Changes in Share Capital and Information about Shareholders".

*(13) Information about directors, supervisors and senior management*

As at 31 December 2011, the information about the Group's directors, supervisors and senior management is set out in the section above headed "Directors, Supervisors and Senior Management".

*(14) Management service contracts*

Except for the service contracts entered into with the Group's management, the Group has not entered into contract with any individual, company or legal entity in order to manage or deal with the whole or any substantial part of the Group's business.

*(15) Interests in material contracts held by directors, supervisors and Controlling Shareholders*

During the Reporting Period, the directors, supervisors, Controlling Shareholders and their subsidiaries did not have any personal interests in the material contracts entered into by the Group and its subsidiaries with external parties.

*(16) Directors and supervisors' rights to share subscription*

The Group has not granted the right to subscribe for the shares or bonds of the Group and its subsidiaries to any directors, supervisors or their spouse or children below 18 years old.

*(17) Directors and supervisors' interests in competing business*

As at 31 December 2011, none of the Group's directors or supervisors had any competing interests that constitute or may constitute direct or indirect competition with the Group's business.

## 4. Disclosure of profit forecast or business plan: Yes

As disclosed in Appendix V to the Group's H Shares Prospectus, based on certain assumptions, it was estimated that the Group's consolidated profit attributable to equity holders of the Company (net of tax) in 2011 would be not less than RMB2.1 billion. Due to the deflation of Hong Kong dollars as a result of the fluctuation of the exchange rate between RMB and Hong Kong dollars in 2011 and the fact that the proceeds of the global offering of the Group's H Shares were denominated in Hong Kong dollars and deposited in a special bank account, the H Shares proceeds (after deducting certain portion for uses as disclosed in the H Shares Prospectus and this report) remaining in the special bank account for the duration of 2011 booked certain loss. This booked loss was partially offset by the interest income accrued as a result of the H Share proceeds being deposited in the special bank account. Taking this into account, the Group's actual net profit attributable to equity holders of the Company for 2011 was RMB2.042 billion, slightly lower than the profit forecast as disclosed in the H Shares Prospectus, representing 97.2% of the profit forecast for the offering of H Shares. Without taking into account the net loss in relation to the H Share proceeds as a result of the fluctuation of foreign exchange rate, the Group's net profit attributable to equity holders would have achieved 102% of the profit forecast.

## 5. Outlook and prospects

*(1) Major opportunities and challenges for the Group in 2012*

The pharmaceutical industry, being a strategic emerging sector of the PRC and crucial for people's livelihood, anticipates a steady growth as a whole. The macroeconomic policies of the PRC with a priority to domestic demand-driven growth is positive for sustainable development of the pharmaceutical industry. Under the industrial policies and planning the PRC, the biological pharmaceutical industry has been included into the list of strategic emerging sectors with supports to centralization of the industry, which are beneficial for pharmaceutical conglomerates to play a dominating role in the industrial consolidation. However, the stronger requirements for curbing inflation and securing growth target mounted increasing pressures on funding and costs of enterprises. Given the expanding entire market and the huge pressures from declining pharmaceutical prices and tendering price reduction for essential drugs, there are uncertainties in the market's expectation on the industry growth.

While maintaining a sound growth momentum as a whole, the Group may experience a slower overall growth of its existing pharmaceutical business in the restructuring progress than the industry average growth. After the listing of its A Shares and H Shares, the Group's existing management model still needs to better accommodate corporate development and market demand. Following large-scale mergers and acquisitions, the subsequent management and consolidation are yet to be further promoted, and the value of consolidation is yet to take shape. As such, the Group will continue to advance the transformation by enhancing internal reform and consolidation and boosting strategic mergers and acquisitions, aiming at organic growth in restructuring to achieve rational and balanced growths in revenue, profit and cash flows to create value for shareholders.

*(2) Business plan for the coming year*

In 2012, the Group will strive to procure double-digit growth in revenue and net operating profit attributable to equity holders, and to attain a stable cash flow generated from operating activities.

*(3) Business development plan and risk management measures for the coming year*

In 2012, the Group expects to focus on the following aspects to address the possible challenges: (1) building up the competitiveness of the pharmaceutical business: with a focus on the energy level upgrading, the Group will promote layout optimisation and GMP renovation, increase industrial investment to speed up industrial mergers and acquisitions, and expand product network coverage and brand building so as to expedite the integration of internal product resources to facilitate growth of major products; (2) keeping competitive edge of distribution business: the Group will step up the integration of existing distribution resources while identifying and seizing new opportunities for distribution mergers and acquisitions to accelerate the development new businesses with higher value addition including DTP, vaccine and high-end supplies, and press forward the implementation of nationwide pharmaceutical logistics layout planning and the information technology construction to regain the strategic position of retail business through integration initiatives; (3) seeking breakthroughs in R&D transformation: while seeking breakthroughs in the first-run emulation, the Group will push ahead the international registration to secure increasing secondary development of service providers, opening completely the technology platform of research institutes under an open R&D model, and accelerate the construction of pilot bases; (4) adjusting and optimizing management and control model: the Group will further define its new management and control model, pressing ahead business integration and optimizing management and control; (5) improving operation management on an ongoing basis: the Group will strengthen prior examination, in-progress inspection and post-evaluation on utilisation of share issue proceeds and other major investments, strictly control and trim down the sales and administration cost ratio, and ensure zero major accidents in pharmaceutical product quality, safety and environmental protection.

*(4) Preparation and disclosure of profit forecast for the coming year: None*

# (II) INVESTMENTS BY THE COMPANY

*Unit: Ten thousand Currency: RMB*

| | |
|---|---|
| Investment in the Reporting Period | 707,059.2 |
| Change in the amount of investment | 245,119.53 |
| Investment in the same period last year | 461,939.67 |
| Increase/decrease percentage in the amount of investment (%) | 53.06 |

*Particulars of major investees*

| Investee Company name | Principal operations | Percentage in the equity interest of the investee company (%) |
|---|---|---|
| Shanghai New Asiatic Pharmaceutical Co., Ltd. | Production of pharmaceuticals | 96.90 |
| Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. | Sale of pharmaceuticals | 100 |
| China Health System Ltd. | Investment Holding | 100 |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Sale of pharmaceuticals | 100 |

## 1. Asset management mandates and entrusted loans

### (1) *Asset management mandates*

The Company has no asset management mandate during the year.

### (2) *Entrusted loans*

The Company has no entrusted loan during the year.

## 2. Use of proceeds from H Share offering

*Unit: Ten thousand Currency: HK dollars*

| Year of fund raising | Method of fund raising | Total amount of proceeds | Proceeds utilised in the year | Accumulative proceeds utilised | Remaining unutilised proceeds | Usage and whereabout of unutilised proceeds |
|---|---|---|---|---|---|---|
| 2011 | Initial public offering | 1,549,230.22 | 676,713.95 | 676,713.95 | 872,516.27 | Deposit in special bank account |
| Total | / | 1,549,230.22 | 676,713.95 | 676,713.95 | 872,516.27 | / |

### 3. Projects committed

*Unit: Ten thousand Currency: HK dollars*

| Committed project names | Change in the project | Intended use of proceeds | Actual use of proceeds | Whether carried out as scheduled | Progress of the project |
|---|---|---|---|---|---|
| Expansion and enhancement of distribution network and consolidation of existing distribution network | None | 619,692.09 | 546,230.20 | Yes | 88% |
| Strategic acquisitions of pharmaceutical manufacturing businesses both within the PRC and internationally and internal integration of current pharmaceutical business | None | 464,769.07 | 122,835.03 | Yes | 26% |
| Investments in the product research and development platform to further strengthen product portfolio and products under development | None | 154,923.02 | 6,456.40 | Yes | 4% |
| Working capital requirements and for general corporate purposes | None | 154,923.02 | 1,192.31 | Yes | 1% |

### 4. Projects financed by non-raised funds

There is no material investment project financed by non-raised funds during the Reporting Period.

## (III) EXPLANATION OF THE BOARD OF DIRECTORS ON THE RESULT OF ITS DISCUSSION OF THE REASONS AND INFLUENCES OF CHANGE IN ACCOUNTING POLICIES OR ACCOUNTING ESTIMATES OF THE COMPANY

There was no material impact on the Group's financial report as a result of any change in its accounting policies or accounting estimates during the Reporting Period.

## (IV) DAILY OPERATIONS OF THE BOARD OF DIRECTORS

### 1. Board meetings and the resolutions

| Session | Date of convening | Newspapers designated for information disclosure of resolutions | Date of information disclosure of resolutions |
|---|---|---|---|
| 11th meeting of the fourth board of directors | 28 January 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 29 January 2011 |
| 12th meeting of the fourth board of directors | 7 March 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 9 March 2011 |
| 13th meeting of the fourth board of directors | 16 April 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 19 April 2011 |
| 14th meeting of the fourth board of directors | 25 April 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 26 April 2011 |

| | | | |
|---|---|---|---|
| 15th meeting of the fourth board of directors | 15 May 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 17 May 2011 |
| 16th meeting of the fourth board of directors | 7 June 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 9 June 2011 |
| 17th meeting of the fourth board of directors | 12 July 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 13 July 2011 |
| 18th meeting of the fourth board of directors | 12 August 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 15 August 2011 |
| 19th meeting of the fourth board of directors | 27 October 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 28 October 2011 |

*Note:* All of the resolutions set out above have been published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and the relevant resolutions have also been published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) pursuant to the requirements of the Hong Kong Listing Rules.

## 2. Implementation of resolutions of the shareholders' general meetings by the board of directors

The board of directors earnestly implemented resolutions of the shareholders' general meetings, and accomplished the matters resolved by the shareholders' general meetings on a timely basis. The profit distribution plan for 2010 was considered and approved at the 2010 annual shareholders' general meeting of the Group. According to the resolution of the shareholders' general meeting, the Group published the profit distribution announcement on 18 August 2011 and completed the implementation of the profit distribution plan on 30 August 2011, pursuant to which cash dividend of RMB1.40 (before tax) for every 10 A Shares was distributed to all holders of A Shares, totalling RMB278,970,067.32, on the basis of the total share capital of 1,992,643,338 shares as at 31 December 2010. There was no conversion of capital reserve fund into share capital by the Company in 2010.

## 3. Report of the audit committee of the board of directors on establishment and improvement of relevant work systems, particulars and duty performance

In strict compliance with the Company Law, Securities Law, Standards on Corporate Governance of Listed Companies, Hong Kong Listing Rules and relevant laws, regulations and rules, the audit committee earnestly reviewed financial information, regular reports and internal control system, monitored and inspected the internal audit system and the implementation, and coordinated communications between internal and external auditors with due diligence, thus ensuring the effective supervision of the board of directors on the management and facilitating the rational decision making of the board of directors.

Pursuant to the announcement ([2008] No. 48) of the China Securities Regulatory Commission and the work rules of independent directors, the audit committee held two meetings with the certified public accountants and the accounting firm for annual audit respectively before their on-site audit and after the issuance of preliminary opinions, to confirm the audit schedule and arrangements for auditing the Group's financial statements for 2011. On such basis, the audit committee is of the opinion that the Group's financial reports for 2011 are in accordance with the Accounting Standards for Business Enterprises of the PRC and the Hong Kong Financial Reporting Standards respectively, and give a true and fair view in all material aspects of the Group's business results for 2011 and its financial position as at 31 December 2011. The audit committee has considered and approved the Group's financial statements for 2011 and annual reports for 2011, and resolved to submit the same to the board of directors for consideration. In addition, the audit committee summarised the audit work in 2011, and considered and approved the proposals including internal audit plan of the Group for 2012, self-assessment report on internal control, and the proposed engagement of accounting firms to reappoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the auditors for the Group's financial report for 2012.

## 4. Report of the remuneration and assessment committee of the board of directors on duty performance

The remuneration and assessment committee strictly complied with the Company Law, Securities Law, Standards on Corporate Governance of Listed Companies, Hong Kong Listing Rules and relevant laws, regulations and rules to exercise the due diligence. During the Reporting Period, the remuneration and assessment committee considered and approved the performance assessment report on senior management for 2010 and the proposal for assessment on management responsibilities for 2011, and thus standardised the results-driven incentive and restriction mechanism which effectively motivated the initiative and creativity of the senior management to ensure the Company to effectively achieve its strategic goals.

## 5. Report of the strategy committee of the board of directors on duty performance

In accordance with requirements of the Company Law, Standards on Corporate Governance of Listed Companies, Hong Kong Listing Rules and relevant laws, regulations and rules, the strategy committee made forward-looking studies, evaluations and recommendations regarding the Group's developmental strategy and related matters with the utmost diligence and conscientiousness.

## 6. Establishment and improvement of the information disclosure and user management system

The Resolution on the management system on information disclosure of the Group was considered and approved at the 3rd meeting of the fourth board of directors on 20 April 2010, and was amended at the 19th meeting of the fourth board of directors on 27 October 2011. Based on the system, the Group strengthened the management on external submission and use of information in preparing, considering and disclosing regular reports and significant events.

## 7. Board of directors' representation on internal control responsibilities

Based on its assessment in accordance with the Basic Standards on Internal Control of Enterprises, the board of directors confirmed the effectiveness of internal control over financial reporting during the Reporting Period. The domestic auditor engaged by the Company, PricewaterhouseCoopers Zhong Tian CPAs Limited Company issued the standard unqualified auditor's report on the effectiveness of internal control over financial reporting based on its audit engagement.

## 8. Establishment and implementation of the insider registration and management system

As far as the Group is aware, there is no insider who takes advantage of inside information in dealing of the Company's Shares before the disclosure of material sensitive information which may affect stock price.

## 9. Environmental protection and safety

Neither the Group nor its subsidiaries have been included into the list of heavy polluters by environment authorities. The Group is not a subject of any material environmental issues or any other material social security problems.

## (V) FORMULATION AND IMPLEMENTATION OF CASH DIVIDEND POLICIES

Pursuant to Article 245 of the Articles of Association regarding the profit distribution policy of the Group, dividend may be distributed by the Company by way of cash or shares. With a view to reasonable capital requirements for development and uplifting corporate value, the Company adopts proactive profit distribution plans to maintain the continuity and stability of profit distribution policies. The cumulative cash dividends of the Company for the latest three years shall not be less than 30% of the average annual distributable profit for the same three-year period.

## (VI) PLAN FOR PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL

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

On the aforesaid basis, the Group's reserve fund available for distribution as at 31 December 2011 was RMB5,196,260,657.58 based on the financial statements prepared under the Chinese Accounting Standards for Business Enterprises. Details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2011 are set out in the financial statements.

According to the profit distribution plan of the Group for 2011 as resolved at the 20th meeting of the fourth board of directors, the Group intended to distribute to all shareholders a cash dividend of RMB1.60 (before tax) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares as at the end of 2011, subject to approval by the annual shareholders' general meeting for 2011.

*Note:* Pursuant *to* the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation on 28 June 2011, the dividend distributed by the Company to non-PRC resident individual shareholders of H Shares is subject to PRC individual income tax at a rate agreed by the applicable tax agreement or arrangement between China and the jurisdictions that the shareholders reside in, ranging from 5% to 20% (as the case may be). The Notice further states that the tax rate applicable to dividend income as stated in the relevant tax agreement or arrangement is 10% in general, therefore the Company may withhold 10% of the dividend for tax payment without prior approval of the competent tax authority. Shareholders who reside in a jurisdiction where the tax rate for dividend is lower than 10% (as stated in the relevant tax agreement or arrangement) are entitled to a refund of the excessive amount withheld by the Company, nonetheless it is subject to the approval of the competent tax authority. For shareholders who reside in a jurisdiction where the tax rate for dividend is over 10% but less than 20% (as stated in the relevant tax agreement or arrangement), we shall withhold the individual income tax at the actual rate in accordance with the relevant tax agreement or arrangement without the approval of the competent tax authority. For shareholders who reside in a jurisdiction where the tax rate for dividend is 20% (as stated in the relevant tax agreement or arrangement) or no tax agreement or arrangement has been entered into with China, we shall withhold the individual income tax at the rate of 20%. A brief introduction to the above arrangements has been made in the letter issued by the State Administration of Taxation to the Hong Kong Inland Revenue Department on 28 June 2011. The letter further specified that Hong Kong resident individuals shall pay a 10% individual income tax for the dividend received from the Company. Therefore the Company shall deduct 10% from the dividend to be distributed to non-PRC resident individual shareholders of H Shares as individual income tax, unless otherwise specified in the relevant requirements and procedures of the PRC tax authorities.

Pursuant to the PRC Enterprise Income Tax Law and its implementation regulations, non-PRC resident enterprises which have not established any organisations or premises in China are subject to a 10% enterprise income tax for all the income generated in China. Also, the Notice on Issues Relevant to the Withholding of Enterprise Income Tax on Dividends Paid by PRC Enterprises to Offshore Non-resident Enterprise Holders of H Shares issued by the State Administration of Taxation on 6 November 2008, PRC resident enterprises shall withhold dividend distributed to overseas non-PRC resident enterprise holders of H Shares at a uniform rate of 10% as enterprise income tax since 2008. Overseas non-PRC resident enterprise shareholders enjoying tax concessions under the relevant tax agreement or arrangement are eligible to a refund of the excessive amount withheld by the Company, nonetheless the refund is subject to the approval of the competent tax authorities.

## (VII) DIVIDENDS OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL AND BONUS FOR THE LATEST THREE YEARS OF THE COMPANY

*Unit: RMB*

| Year of dividends | Amount of cash dividends (before tax) | Net profit attributable to equity holders of the Company based on the consolidated statement for the year of dividends | Percentage in net profit attributable to equity holders of the Company based on the consolidated statement (%) |
|---|---|---|---|
| 2008 | 25,610,752.81 | 81,982,816.51 | 31.24 |
| 2009 | 139,569,209.77 | 173,332,511.58 | 80.52 |
| 2010 | 278,970,067.32 | 1,368,252,869.36 | 20.39 |

*Note:* 1. Among the dividends for the said three years, the dividends for 2008 were made by the former Shanghai Pharmaceutical Joint Stock Co., Ltd.;

2. The "Net profit attributable to equity holders of the Company based on the consolidated statement for the year of dividends" for the three years above are set out based on the data in the official statements of the year of dividends.

## (VIII) BORROWINGS

Details of the Group's borrowings are set out in Notes V (27), (37) and (38) to the consolidated financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises, and Note 25 to the consolidated financial statements prepared under the Hong Kong Financial Reporting Standards.

## (IX) PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of changes in the property, plant and equipment and investment properties of the Group during the Reporting Period are set out in Notes V (16), (17) and (18) to the consolidated financial statements prepared in accordance with the PRC Accounting Standards for consolidated Business Enterprises, and Note 7, 8, 9 to the financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

## (X) PROPERTIES (AT FAIR VALUE)

The revalued amount of the Group's investment properties as of 31 December 2011 amounted to RMB818,763,000.

## (XI) TAX RELIEF AND EXEMPTION

Details are set out in the Note III (2) to the consolidated financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises, and Notes 35 to the consolidated financial statements prepared under the Hong Kong Financial Reporting Standards.

## (XII) CHARITY AND OTHER DONATIONS

Details are set out in the Corporate Social Responsibility Report for 2011 separately disclosed by the Group.

## (XIII) OTHER DISCLOSEABLE INFORMATION

None.

# Report of the Board of Supervisors

## (I) WORK OF THE BOARD OF SUPERVISORS

| Meetings of the Board of Supervisors | Meeting topics of the Board of Supervisors |
|---|---|
| The sixth meeting of the fourth board of supervisors | Board of Supervisors Annual Report 2010, Annual Financial Statement Report 2010, Annual Profit Distribution Proposal 2010, Annual Report and Abstract of Annual Report 2010, Proposal of Critical Changes in Accounting Policy, Annual Self-evaluation Report of Internal Control of the Company 2010, Proposal of Audit Fees of Annual Financial Report 2010 |
| The seventh meeting of the fourth board of supervisors | First Quarterly Report for the Year 2011 |
| The eighth meeting of the fourth board of supervisors | Interim Report 2011 Full-text and Abstract |
| The ninth meeting of the fourth board of supervisors | Third Quarterly Report of the Year 2011 |

During the Reporting Period, members of the fourth board of supervisors have sat in 9 board meetings, have attended 1 shareholders' general meeting and have supervised the compliance of the convening, holding, discussing and voting procedure of the board meetings and the shareholders' general meeting with the relevant laws and regulations.

## (II) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON THE LAWFUL OPERATION OF THE COMPANY

According to the Company Law, the Articles of Association and other relevant laws and regulations, the board of supervisors supervised the procedure, resolutions of shareholders' general meetings and board meetings, and implementation of resolutions of shareholders' general meeting by the board of directors. The board of supervisors holds that the resolutions of shareholders' general meetings had been implemented, the governance system of the Company had been further improved, and the establishment of the modern enterprises system had been enhanced; the meetings of the board of directors were well operated with decision made rigorously. Directors and senior management were diligent, responsible, pragmatic and enterprising, who played an important role in improving the Company's governance, promoting decision effectiveness and maintaining shareholders' interest.

## (III) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON THE FINANCIAL POSITION OF THE COMPANY

During the Reporting Period, the annual financial report 2011 of the Group thoroughly and authentically reported the financial situation and operation results of the Group. The standard unqualified auditor's reports, and the analysis and evaluation of the relevant matter issued by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers are objective and fair.

## (IV) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON THE ACTUAL USAGE OF THE PROCEEDS FROM THE LATEST FUND RAISING ACTIVITY

During the major asset reorganisation, the Company carried out one fund raising activity by means of issuing additional shares and all the proceeds have been fully utilised as scheduled.

## (V) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON THE ACQUISITIONS OR DISPOSALS OF ASSETS BY THE COMPANY

During the Reporting Period, the procedures of the acquisitions or disposals of assets by the Group were standardised and prices were reasonable, with no insider dealing or asset loss of the Group being found.

## (VI) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON CONNECTED TRANSACTIONS OF THE COMPANY

During the Reporting Period, the connected transactions of the Group complied with the principles of fairness, impartiality and openness. They were priced according to market price and operated with standardised procedure, with fully disclosed information and did not harm the interest of the Company and minority shareholders.

## (VII) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON THE MODIFIED OPINION OF THE ACCOUNTING FIRMS

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have issued standard unqualified auditor's reports.

## (VIII) INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON DIFFERENCE BETWEEN PROFIT REALISATION AND FORECAST

The Company's actual profit is basically in line with the profit forecast. As disclosed in Appendix V to the Group's H Shares Prospectus, based on certain assumptions, it was estimated that the Group's consolidated profit attributable to equity holders of the Company (net of tax) in 2011 would be not less than RMB2.1 billion. Due to the deflation of Hong Kong dollars as a result of the fluctuation of the exchange rate between RMB and Hong Kong dollars in 2011 and the fact that the proceeds of the global offering of the Group's H Shares were denominated in Hong Kong dollars and deposited in a special bank account, the H Shares proceeds (after deducting certain portion for uses as disclosed in the H Shares Prospectus and this report) remaining in the special bank account for the duration of 2011 booked certain loss. This booked loss was partially offset by the interest income accrued as a result of the H Share proceeds being deposited in the special bank account. Taking this into account, the Group's actual net profit attributable to equity holders of the Group for 2011 was RMB2.042 billion, slightly lower than the profit forecast as disclosed in the H Shares, representing 97.2% of the profit forecast for the offering of H Shares for 2011. Without taking into account the net loss in relation to the H Share Prospectus proceeds as a result of the fluctuation of exchange rate, the Group's net profit attributable to equity holders would have achieved 102% of the profit forecast.

## (IX) REVIEW AND OPINION OF THE BOARD OF SUPERVISORS ON SELF-EVALUATION REPORT OF INTERNAL CONTROL

The board of supervisors has reviewed the Evaluation Report on Internal Control of Shanghai Pharmaceuticals Holding Co., Ltd. for the year 2011 and had no objection to the report.

According to the Company Law and the Articles of Association and other relevant laws and regulations, the board of supervisors supervised the procedure, resolutions of shareholders' general meetings and board meetings and the implementation of resolutions of shareholders' general meeting by the board of directors. The board of supervisors holds that the resolutions of shareholders' general meetings had been implemented, the governance system of the Company had been further improved; the board meetings were well operated; and directors and senior management were diligent and responsible.

# Significant Events

## (I) MATERIAL LITIGATION AND ARBITRATION

The Group did not have material litigation or arbitration during the Reporting Period.

## (II) RELEVANT ISSUES OF INSOLVENCY AND REORGANISATION AND SITUATIONS OF SUSPENSION OR TERMINATION OF LISTING

The Group had no relevant issues of insolvency and reorganisation or suspension or termination of listing during the Reporting Period.

## (III) EQUITY HELD BY THE COMPANY IN OTHER LISTED COMPANIES AND EQUITY INVESTMENT IN FINANCIAL INSTITUTIONS

### 1. Security investment

| No. | Securities | Security code | Short name | Initial investment cost (RMB) | Number of shares held (share) | Book value at the end of the period (RMB) | Percentage in total securities investment at the end of the period (%) | Profit or loss during the Reporting Period (RMB) |
|---|---|---|---|---|---|---|---|---|
| 1 | Share | 600329 | Zhongxin Pharmaceuticals | 91,473 | 182,946 | 1,710,545 | 64.34 | -951,319 |
| 2 | Share | 601328 | Bank of Communications | 90,825 | 104,449 | 514,725 | 19.36 | -57,656 |
| 3 | Share | 600618 | Chlor-Alkali Chemical | 186,500 | 50,820 | 433,494 | 16.30 | 20,836 |

### 2. Equity held by the Company in other listed companies

| Security code | Short name | Initial investment cost (RMB) | Book value at the end of the period (RMB) | Profit or loss during the Reporting Period (RMB) | Accounting item | Source of shares |
|---|---|---|---|---|---|---|
| 600377 | Jiangsu Expressway | 1,754,000 | 6,969,354 | 360,000 | Available-for-sale financial assets | Purchase |
| 600329 | Zhongxin Pharmaceuticals | | 855,263 | 18,295 | Available-for-sale financial assets | Debt |
| 000931 | Centek | 99,300 | 124,488 | | Available-for-sale financial assets | Purchase |
| 600675 | China Enterprise | 390,000 | 2,224,173 | 59,629 | Available-for-sale financial assets | Purchase |
| 601328 | Bank of Communications | 5,895,157 | 7,075,057 | 1,207,025 | Available-for-sale financial assets | Purchase |
| 000048 | STKondarl | 134,547 | 1,221,867 | 118,243,231 | Available-for-sale financial assets | Purchase |
| HK08231 | Fudan-Zhangjiang | 58,610,523 | 51,715,355 | 10,581,241 | Long-term equity investment | Purchase |

## 3. Equity held by the Company in other non-listed financial companies

| Name | Initial investment cost (RMB) | Number of shares held (shares) | Shareholding percentage in the company (%) | Booked value at the end of the period (RMB) | Gain/loss during the Reporting Period (RMB) | Change in equity holders interest during the Reporting Period (RMB) | Accounting item | Source of shares |
|---|---|---|---|---|---|---|---|---|
| Shenyin & Wanguo Securities Co. Ltd. | 1,250,000.00 | 1,760,000 | <1 | 1,250,000.00 | 1,455,019 | | Long-term equity investment | Subscription of legal persons shares |
| China Galaxy Securities Co. Ltd. | 50,000,000.00 | 10,000,000 | <1 | 50,000,000.00 | | | Long-term equity investment | Wealth management funds converted into equity |
| Total | 51,250,000.00 | | / | 51,250,000.00 | | | / | / |

## 4. Details of dealings in shares of other listed companies

During the Reporting Period, the Group did not deal in any shares of other listed companies.

# (IV) ASSET TRANSACTIONS

## 1. Acquisition of assets

*Unit: Ten thousand Currency: RMB*

| Counterparty or Ultimate controlling party | Assets acquired | Date of acquisition | Price of assets acquired | Contribution to the net profit of the listed company from the date of acquisition to the end of the year | Contribution to the net profit of the listed company from the beginning of the year to the end of the year (appropriate for the merge of enterprises under common control) | Connected transaction or not? (If yes, specify pricing principle) | Pricing principle of assets acquired | Are all the property rights of the concerning assets transferred to the Group? | Are all the claims and liabilities of the concerning assets transferred to the Group? | Contribution to the net profit as a percentage of total net profit of the listed company(%) | Connected party relationship |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shanghai Pharmaceutical (Group) | 96.9% equity interests in Shanghai New Asiatic Pharmaceuticals Co., Ltd. | 30 September 2011 | 113,202.45 | | 10,003.89 | Yes | Asset valuation | Yes | Yes | 4.90% | Controlling Shareholder |
| Shanghai Pharmaceutical (Group) | 100% equity interests in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. | 30 September 2011 | 35,576.01 | | 301.73 | Yes | Asset valuation | Yes | Yes | 0.15% | Controlling Shareholder |
| Northern Light Venture Capital II, Ltd. etc. | China Health System Ltd. | 1 April 2011 | 356,891.99 | 14,255.78 | | No | Asset valuation | Yes | Yes | 6.98% | |

## 2. Disposal of assets

During the Reporting Period, the Group had no major disposal of assets.

## (V) SIGNIFICANT CONNECTED TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

### 1. Connected party transactions relating to daily operations

*Unit: Ten thousand Currency: RMB*

| Connected person | Connected relationship | Type of the connected transaction | Particulars of the connected transaction | Pricing principle of the connected transaction | Amount of the connected transaction | Percentage of transaction value to the same type of transactions(%) | Payment method of the connected transaction |
|---|---|---|---|---|---|---|---|
| Shanghai Pharmaceutical (Group) | Parent company | Purchase of goods | Pharmaceuticals | Market price | 190.81 | 0 | Cash |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Wholly-owned subsidiary of the parent company | Purchase of goods | Pharmaceuticals | Market price | 6,552.06 | 0.14 | Cash |
| Shanghai Zhenshen Pharmaceutical Imp. & Exp. Co., Ltd. | Subsidiary controlled by the parent company | Purchase of goods | Pharmaceuticals | Market price | 20.34 | 0 | Cash |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Wholly-owned subsidiary of the parent company | Sales of goods and other items | Pharmaceuticals | Market price | 2,702.77 | 0.05 | Cash |

### 2. Connected transactions relating to acquisition and sale of assets

*Unit: Ten thousand Currency: RMB*

| Connected person | Connected relationship | Type of the connected transaction | Particulars of the connected transaction | Pricing principle of the connected transaction | Book value of the transferred asset | Appraisal value of the transferred asset | Transfer price | Reason for the substantial difference between the transfer price and the book value or appraisal value | Payment method of the connected transaction |
|---|---|---|---|---|---|---|---|---|---|
| Shanghai Pharmaceutical (Group) and Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Parent company and wholly-owned subsidiary of parent company | Equity acquisition | 96.9% equity interest in Shanghai New Asiatic Pharmaceutical Co., Ltd. and 100% equity interest in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. | Asset valuation | 92,249.64 | 148,778.46 | 148,778.46 | Capital appreciation | Cash |

## 3. Connected debts and obligations

*Unit: Ten thousand Currency: RMB*

| Connected person | Connected relationship | Providing funds to connected person | | Providing funds to listed companies by connected person | |
|---|---|---|---|---|---|
| | | Amount provided | Balance | Amount provided | Balance |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | Wholly-owned subsidiary of parent company | | | 51,086.30 | 0 |
| Total | | | | 51,086.30 | 0 |
| Reason for the formation of connected debts and obligations | | Historical reasons | | | |
| Repayment of connected debts and obligations | | Fully repaid during the period | | | |
| Impact of the connected debts and obligations on the operating results and financial conditions of the Company | | None | | | |

*Appropriation and settlement of funds during the Reporting Period*

*Unit: Ten thousand Currency: RMB*

| Balance of listed company's funds appropriated by Controlling Shareholders and other connected persons for non-operating purposes | | | The total amount appropriated during the Reporting Period and repaid at the end of period | Settlement during the Reporting Period | | | |
|---|---|---|---|---|---|---|---|
| Beginning of Reporting Period | Amount appropriated during the Reporting Period | End of Reporting Period | | Total amount settled during the Reporting Period | Settlement method | Settlement amount | Time of settlement (month) |
| 51,086.30 | 51,086.30 | 0 | 51,086.30 | 51,086.30 | Settlement of debt out of capital | 51,086.30 | December 2011 |
| Reasons for additional appropriation of funds for non-operating purposes during the Reporting Period | | | No additional appropriation during the Reporting Period | | | | |
| Further note on the non-operating funds appropriation by Controlling Shareholders and other connected persons and its settlement | | | During 2011, Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. and Shanghai New Asiatic Pharmaceutical Co., Ltd. became part of the listed company by means of business combination under common control. The relationship with them changed from connected persons to subsidiaries of the listed company. On 31 December 2010, Shanghai Asia Pioneer Pharmaceutical Co., Ltd., a subsidiary of the Controlling Shareholder had balance of appropriated funds from the Controlling Shareholder. The balance of funds appropriated by the connected person at the beginning of the Reporting Period was adjusted retrospectively due to business combination under common control. The non-operating balances have been fully settled during the year. | | | | |

## 4. Other significant connected transactions

| Name of lessor | Name of lessee | Type of leased asset | Starting date of lease | Expiry day of lease | Basis for determining rental | Rental confirmed for the year (RMB'000) |
|---|---|---|---|---|---|---|
| Shanghai Pharmaceutical (Group) | The Company | Building | 1 February 2010 | 31 January 2015 | By negotiation | 4,959.44 |
| Shanghai Pharmaceutical (Group) | Shanghai Fahrenheit Pharmacy Distribution Co., Ltd. | Building | 1 September 2010 | 31 August 2018 | By negotiation | 3,799.03 |
| Shanghai Pharmaceutical (Group) | Shanghai Sine Pharmaceutical Laboratories Co., Ltd. – Headquarters | Building | 30 June 2009 | 30 June 2019 | By negotiation | 64.93 |
| Shanghai Pharmaceutical (Group) | Shipu Medical Chemical Factory of Shanghai Sunve Pharmaceutical Co., Ltd. | Building | 30 June 2009 | 30 June 2019 | By negotiation | 153.47 |
| Shanghai Pharmaceutical (Group) | Shanghai Sunve Yangtze River Biochemical Pharmaceutical Factory | Building | 30 June 2009 | 30 June 2019 | By negotiation | 515.28 |
| Shanghai Pharmaceutical (Group) | Shanghai Leiyunshang Pharmaceutical Co., Ltd. | Building | 30 June 2009 | 30 June 2019 | By negotiation | 8,168.57 |
| Shanghai Pharmaceutical (Group) | Shanghai Medical Instrument Co., Ltd. | Building | No fixed term | | By negotiation | 3,912.80 |
| Shanghai Pharmaceutical (Group) | Wholesale Department of Shanghai Medical Instrument Co., Ltd. | Building | No fixed term | | By negotiation | 1,363.01 |
| Shanghai Pharmaceutical (Group) | Shanghai Zhonghua Pharmaceutical Co., Ltd. | Building | 1 March 2009 | 28 February 2029 | By negotiation | 2,262.75 |
| Shanghai Pharmaceutical (Group) | Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. | Building | 30 June 2009 | 30 June 2019 | By negotiation | 71.56 |
| Shanghai Pharmaceutical (Group) | Shanghai Haichang Medical Plastic Plant | Building | 30 June 2009 | 30 June 2019 | By negotiation | 651.94 |
| Shanghai Pharmaceutical (Group) | Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd. | Building | 30 June 2009 | 30 June 2019 | By negotiation | 126.01 |
| Shanghai Pharmaceutical (Group) | Shanghai Pharmaceutical Imp. & Exp. Co., Ltd. | Building | 30 June 2009 | 30 June 2019 | By negotiation | 181.75 |
| Shanghai Pharmaceutical (Group) | Shanghai Traditional Chinese Medicine Co., Ltd. | Building | 30 June 2009 | 30 June 2019 | By negotiation | 116.95 |
| Total | | | | | | 26,347.49 |

## (VI) CONFIRMATION OF CONTINUING CONNECTED TRANSACTIONS

### 1. Entrustment Agreement

As disclosed in the Company's H Shares Prospectus, on 13 December 2010, Shanghai New Asiatic Pharmaceutical Co., Ltd. ("Shanghai New Asiatic") (which has become a subsidiary of the Company following completion of our acquisition of Shanghai New Asiatic, Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. and their respective subsidiaries (collectively, the "Antibiotics Business")) entered into an entrustment agreement with Shanghai Pharmaceutical (Group) (the "Entrustment Agreement"), under which Shanghai Pharmaceutical (Group) entrusted to Shanghai New Asiatic all its equity interest in Shanghai Asia Pioneer Pharmaceutical Co., Ltd. ("Shanghai Asia Pioneer", a subsidiary of Shanghai Pharmaceutical (Group)) as well as all the assets and business of Shanghai Asia Pioneer for the manufacture of antibiotics (collectively, the "Target Assets"). The Entrustment Agreement expired on 31 December 2011. By entering into this agreement, the Group was expecting to improve the operations of Shanghai Asia Pioneer through our management of the Target Assets pursuant to the Entrustment Agreement, and to have Shanghai Asia Pioneer injected into our Group when it meets the relevant requirements for such injection.

Pursuant to the customary practice of similar entrustment arrangements in China, Shanghai New Asiatic did not collect any entrustment fee from Shanghai Pharmaceutical (Group) but was entitled to be present at Shanghai Asia Pioneer's shareholders' meetings and to exercise the voting right, right to appoint directors and hire senior managers of Shanghai Asia Pioneer and run day-to-day business of Shanghai Asia Pioneer in the name of shareholder of Shanghai Asia Pioneer (although subject to the requests of the legitimate shareholder, Shanghai Pharmaceutical (Group)), except for the rights to dispose of the Target Assets, receive revenue generated from the Target Assets and lease the real properties involved in the Target Assets as the landlord thereof. In addition, under the Entrustment Agreement, Shanghai New Asiatic was entitled to, subject to prior communications with Shanghai Pharmaceutical (Group) and without prejudice to the legitimate interests of Shanghai Pharmaceutical (Group), exercise veto right with respect to the Target Assets in the event of any potential competition with the business of the Company. All products manufactured by Shanghai Asia Pioneer must be exclusively sold to third party customers through Shanghai New Asiatic or its subsidiaries, and Shanghai Asia Pioneer was not allowed to sell any products. The Entrustment Agreement enabled Shanghai New Asiatic to manage the manufacturing and sales of Shanghai Asia Pioneer's products so as to prevent Shanghai Asia Pioneer from competing with the business of our Group following completion of our acquisition of the Antibiotics Business.

The Entrustment Agreement did not constitute a de minimis continuing connected transaction exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules due to the special arrangements thereunder. We applied for and obtained a waiver from the Hong Kong Stock Exchange from compliance with the announcement requirement relating to the Entrustment Agreement under the Hong Kong Listing Rules. This waiver expired on 31 December 2011.

## 2. Framework Connected Transactions Agreement

As disclosed in the section headed "Connected Transactions" of the Company's H Shares Prospectus, Shanghai Pharmaceutical (Group), as one of the Controlling Shareholders of the Company, entered into a comprehensive framework agreement with the Company for connected transactions in the ordinary course of business (the "Framework Connected Transactions Agreement"), which became effective on 5 November 2009. The Framework Connected Transactions Agreement sets forth the scope and principles of transactions in the ordinary course of business including supply of raw materials, products, entrusted manufacturing services and other services between Shanghai Pharmaceutical (Group) and the Company (each including its subsidiaries). The initial term of the Framework Connected Transactions Agreement is three years from November 2009 to November 2012.

## 3. Amount of Continuing Connected Transactions

During the Reporting Period, the actual amount and information of the continuing connected transactions between the Group and Shanghai Pharmaceutical (Group) is set out in the table below:

*Unit: Ten thousand Currency: RMB*

| Connected parties | Year 2011 |
|---|---|
| Property rented by the Group as lessee | 2,634.75 |
| Sales by the Group (Note) | 2,702.77 |
| Purchases by the Group (Note) | 6,763.21 |

*Note:* Sale and purchase do not include the transactions between Shanghai New Asiatic and Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. and Shanghai Pharmaceutical (Group) and its subsidiaries prior to the acquisition date.

The highest applicable ratio in relation to our Group's supply of raw materials, products and sales agency services and in relation to our Group's purchases of products and entrusted manufacturing services, respectively, contemplated under the Framework Connected Transactions Agreement was, on an annual basis, more than 0.1% but less than 5%. As such, these transactions were exempt from the independent shareholders' approval requirement but were subject to the reporting, annual review and announcement requirements set out in Rules 14A.37 to 14A.40 and 14A.45 to 14A.47 of the Hong Kong Listing Rules. The Company applied for and obtained a waiver from the Hong Kong Stock Exchange from compliance with the announcement requirement relating to the continuing connected transactions under the Framework Connected Transactions Agreement. This waiver expired on 31 December 2011.

### 4. Confirmation of Continuing Connected Transactions

The directors of the Group (including independent non-executive directors) confirm that, all of the above connected transactions are undertaken in daily and ordinary course of business of the Group on normal commercial terms, complying with the relevant connected transaction agreement, being fair and reasonable and are in the interest of the shareholders of the Company as a whole. PricewaterhouseCoopers, the international auditor of the Group, has been engaged to report on the continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information) issued by the Hong Kong Institute of Chartered Public Accountants and with reference to Practice Note No.740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules). They have also confirmed that nothing has come into their notice for them to believe that any of the above continuing connected transactions is: (1) not approved by the board of directors of the Company; (2) a transaction involving the provision of products and service of the Group which were not in compliance with the pricing policies of the Group in material aspects; (3) not carried out in accordance with the relevant agreement regulating the transactions in material aspects; and (4) a transaction whose amount is beyond the total annual cap of each of the continuing connected transactions as disclosed in the H Shares Prospectus and the meeting documents of the annual shareholders' general meeting of the Company held on 30 June 2011.

## (VII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

### 1. Trusteeship, contracting and leasing that derived profit for 10% or more of the total profit of the Company in the period.

(1) *Trusteeship*

During the Reporting Period, the Group had no material trusteeship.

(2) *Contracting*

During the Reporting Period, the Group had no material contracting.

(3) *Leasing*

During the Reporting Period, the Group had no material leasing.

## 2. Guarantee

*Unit: Ten thousand Currency: RMB*

| Guarantee granted by the Company (excluding those to subsidiaries controlled by the Company) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Guarantor | Relationship between guarantor and the Company | Guarantee | Guaranteed amount | Commencement date of guarantee (Agreement execution date) | Commencement date of guarantee | Expiry date of guarantee | Type of guarantee | Guarantee fully fulfilled? | Overdue? | Overdue amount | Counter guarantee available? | Guarantee provided to the related parties? | Relationship* |
| The Company | The same entity | Shanghai Luoda Pharmaceutical Co., Ltd. | 100.00 | | 27 May 2010 | 27 May 2011 | joint and several liability | Yes | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Wholly-owned subsidiary | Shanghai Luoda Pharmaceutical Co., Ltd. | 100.00 | | 30 May 2011 | 8 April 2012 | joint and several liability | No | No | | No | No | Associate |
| The Company | The same entity | Shenzhen Kondarl (Group) Corp., Ltd. | 7,302.55 | | 16 June 2005 | 16 June 2006 | General guarantee | Yes | Yes | 7,302.55 | No | No | |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Wholly-owned subsidiary | Jiangxi Nanhua Medicines Co., Ltd. | 2,000.00 | | 10 August 2010 | 13 February 2011 | joint and several liability | Yes | No | | No | No | Jointly controlled entity |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Wholly-owned subsidiary | Jiangxi Nanhua Medicines Co., Ltd. | 2,000.00 | | 14 February 2011 | 13 February 2012 | joint and several liability | No | No | | No | No | Jointly controlled entity |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Wholly-owned subsidiary | Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | 155.81 | | 6 December 2010 | 20 April 2011 | joint and several liability | Yes | No | | No | No | Associate |
| Shanghai Pharmaceuticals Distribution Co., Ltd. | Wholly-owned subsidiary | Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | 500.00 | | 7 March 2011 | 30 November 2011 | joint and several liability | Yes | No | | No | No | Associate |
| Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Wholly-owned subsidiary | Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd. | 1,000.00 | | 20 September 2010 | 20 September 2011 | joint and several liability | Yes | No | | No | No | Associate |
| Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Wholly-owned subsidiary | Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd. | 2,000.00 | | 22 December 2011 | 21 December 2012 | joint and several liability | No | No | | No | No | Associate |
| Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd. | Wholly-owned subsidiary | Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd. | 2,000.00 | | 23 June 2011 | 22 December 2011 | joint and several liability | Yes | No | | No | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 5,500.00 | | 29 December 2011 | 28 December 2012 | joint and several liability | No | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 2,000.00 | | 14 March 2011 | 14 March 2012 | joint and several liability | No | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 1,000.00 | | 16 September 2011 | 16 September 2012 | joint and several liability | No | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 5,000.00 | | 16 September 2011 | 16 September 2012 | joint and several liability | No | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 4,000.00 | | 6 August 2010 | 6 March 2011 | joint and several liability | Yes | No | | Yes | No | Associate |

| Guarantee granted by the Company (excluding those to subsidiaries controlled by the Company) | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Guarantor | Relationship between guarantor and the Company | Guarantee | Guaranteed amount | Commencement date of guarantee (Agreement execution date) | Commencement date of guarantee | Expiry date of guarantee | Type of guarantee | Guarantee fully fulfilled? | Overdue? | Overdue amount | Counter guarantee available? | Guarantee provided to the related parties? | Relationship* |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 5,000.00 | | 1 July 2010 | 30 June 2011 | joint and several liability | Yes | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 2,000.00 | | 3 September 2010 | 3 September 2011 | joint and several liability | Yes | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 3,000.00 | | 15 October 2010 | 15 October 2011 | joint and several liability | Yes | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 3,000.00 | | 26 August 2010 | 25 August 2011 | joint and several liability | Yes | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 2,000.00 | | 6 August 2009 | 6 August 2011 | joint and several liability | Yes | No | | Yes | No | Associate |
| Shanghai New Asiatic Pharmaceuticals Co., Ltd. | Subsidiary controlled by the listed company | Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. | 4,000.00 | | 8 September 2009 | 8 September 2011 | joint and several liability | Yes | No | | Yes | No | Associate |
| Total guarantees incurred during the reporting period (excluding those provided to subsidiaries) | | | | | | | | | | | | | 19,681.50 |
| Total guarantees balance at the end of the Reporting Period (A) (excluding those provided to subsidiaries) | | | | | | | | | | | | | 17,181.50 |
| Guarantee provided by the Company to its subsidiaries | | | | | | | | | | | | | |
| Total guarantee to subsidiaries incurred during the Reporting Period | | | | | | | | | | | | | 250,990.41 |
| Total guarantee balance to subsidiaries at the end of the Reporting Period (B) | | | | | | | | | | | | | 0 |
| Aggregate guarantee granted by the Company (including those provided to subsidiaries controlled by the Company) | | | | | | | | | | | | | |
| Aggregate guarantee (A+B) | | | | | | | | | | | | | 17,181.50 |
| Percentage of aggregate guarantee to net assets of the Company (%) | | | | | | | | | | | | | 0.74 |
| In which: | | | | | | | | | | | | | |
| Amount of guarantee provided for shareholders, de facto controller and their related parties (C) | | | | | | | | | | | | | 0 |
| Amount of debts guarantee directly or indirectly provided to guaranteed parties with gearing ratio over 70% (D) | | | | | | | | | | | | | 15,181.50 |
| Excess amount of aggregate guarantee over 50% of net assets (E) | | | | | | | | | | | | | 0 |
| Aggregate amount of the above three categories (C+D+E) | | | | | | | | | | | | | 15,181.50 |

* Under the Chinese Accounting Standards for Business Enterprises.

## 3. Other material contracts

Other than those disclosed in this report, the Group had no material contract during the Reporting Period.

## (VIII) FULFILMENT STATUS OF COMMITMENTS

### 1. Commitments of the Company, its Controlling Shareholders and de facto controllers that are made or existing during the Reporting Period (commitments fulfilled by the Company before the Reporting Period are not included)

| Background of commitment | Type of commitment | Commitment making party | Content of commitment | Is there a fulfilment deadline | Whether fulfilled strictly in time | Detailed reasons for unfulfilment shall be specified if commitments are not fulfilled in time | Further steps shall be specified if commitments are not fulfilled in time |
|---|---|---|---|---|---|---|---|
| Commitments in relation to substantial assets restructuring | Share restriction | Shanghai Pharmaceutical (Group) | Shares of Shanghai Pharmaceuticals held by it will not be sold within 36 months after the completion date of the non-public offering in relation to the substantial assets restructuring, | Yes | Yes | / | / |
| | | Shanghai Shangshi | Shares of Shanghai Pharmaceuticals will not be sold within 36 months after the completion date of the non-public offering in relation to the substantial assets restructuring, | Yes | Yes | / | / |
| | | Shanghai Shengrui | Shares of Shanghai Pharmaceuticals will not be sold within 12 months after the completion date of the non-public offering in relation to the substantial assets restructuring, | Yes | Yes | This commitment was fulfilled completely during the Reporting Period | / |
| | Solution of horizontal competition, solution of connected transactions | Shanghai Pharmaceutical (Group) | Pursuant to the Report on the Merger by Share Exchange, Share Issuance, Asset Purchase and Related Transactions of Shanghai Pharmaceutical Co., Ltd: Shanghai Pharmaceutical (Group) has committed to inject into Shanghai Pharmaceuticals the total equity interests or assets it holds in Shanghai Asia Pioneer Pharmaceutical Co., Ltd., Shanghai New Asiatic Pharmaceuticals Co., Ltd., and Shanghai Huakang Pharmaceutical Co., Ltd. through transfer or subscription to the additional directional shares issued by Shanghai Pharmaceuticals before 31 December 2011 the latest. The consideration of such assets shall be determined by valuation conducted by asset valuation organisations and valuation filed with the administrative body of state-owned assets; within 60 days from the date on which Shanghai Pharmaceuticals completes the substantial assets restructuring and its shares resume trading, Shanghai Pharmaceutical (Group) and Shanghai Pharmaceuticals will enter into an entrustment agreement in relation to such assets, and to hand over the management of such assets and relevant businesses to Shanghai Pharmaceuticals. After the substantial assets restructuring, in the event that Shanghai Pharmaceutical (Group) sells shares of its controlled or participating subsidiaries, Shanghai Pharmaceuticals will be given pre-emptive rights under the same condition. | Yes | No | As approved by the 3rd extraordinary shareholders' general meeting of Shanghai Pharmaceuticals in 2010 held on 30 December 2010, Shanghai Pharmaceuticals purchased in cash 96.9% of the equity interests in Shanghai New Asiatic held by Shanghai Pharmaceutical (Group) and 100% of the equity interests in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. held by Shanghai Pharmaceutical (Group). Such activities have been completed at the end by the Reporting Period.<br><br>As entrusted by Shanghai Pharmaceutical (Group), the Group managed the asset of Shanghai Asia Pioneer during the Reporting Period, and legally exercised corresponding shareholder rights to avoid horizontal competition between the Target Assets and the Group during the consolidation period. The majority of this commitment has been fulfilled. In light of several objective factors, including the significant influence exerted upon the industry by the grading and categorising policy for antibacterial agents put forward in 2011, the uncertain outlook for future antibiotics policies, and the various material pending litigations of Shanghai Asia Pioneer and the subsequent contingent liabilities which remain unsolved during the time limit of the commitment, Shanghai Asia Pioneer can not be injected into the Company according to the planned time frame or be sold to an independent third party, or cease to operate. | The Group shall cooperate with Shanghai Pharmaceutical (Group) to inject Shanghai Asia Pioneer into the Company, or dispose it to independent third parties or to terminate its operations as soon as possible, and aim to complete the process by the end of June 2012. |
| | Solution of flaws in land and other property rights | Shanghai Pharmaceutical (Group) | Pursuant to the Report on the Merger by Share Exchange, Share Issuance for, Asset Purchase and Related Transactions of Shanghai Pharmaceutical Co., Ltd: Shanghai Pharmaceutical (Group) has committed to accelerate the process of regulating unregulated land and property, by means such as paying the grant fee, applying for a property ownership certificate, or negotiating arrangement with the government on the acquisition and reservation of land. If such procedures cannot be completed before 30 June 2011, Shanghai Pharmaceutical (Group) will, by means such as acquiring the land in cash at the valuation at that time, resolve the problems on land and property as soon as possible. Shanghai Pharmaceutical (Group) must ensure that the relevant party will use said property as it is before the ownership regulation is completed. Shanghai Pharmaceutical (Group) will compensate the relevant party for any additional cost, fee, loss due to suspension of operation (if any) incurred as a result of the unregulated ownership. | Yes | No | By merging and restructuring, the land area admitted into Shanghai Pharmaceuticals' possession totaled 2,203,800 square meters of land, and 1,097,200 square meters of property, of which 94.54% and 88.22% are regulated land and property. During the period after the completion of merging to the end of the Reporting Period, the Group had regulated 4,692.3 square meters of land and 9,719.65 square meters of property through transferring equity and asset to external parties and registered for real estate ownership certificate. The proportion of unregulated land reduced from 5.46% to 5.24%, and the proportion of unregulated property reduced from 11.78% to 10.90%. Currently some properties are still under regulation. | The board of directors of the Group shall urge on Shanghai Pharmaceutical (Group) to carry out compliance work without prejudice to the interests of the Company. |

## 2. The assets and projects of the Company contained a profit forecast, and the Reporting Period is within the profit forecast period. The Company shall explain whether the assets and projects have achieved the profit forecast and the relevant reasons.

(1) As disclosed in Appendix V to the Group's H Shares Prospectus, based on certain assumptions, it was estimated that the Group's consolidated profit attributable to equity holders of the Company (net of tax) in 2011 would be not less than RMB2.1 billion. Due to the deflation of Hong Kong dollars as a result of the fluctuation of the exchange rate between RMB and Hong Kong dollars in 2011 and the fact that the proceeds of the global offering of the Group's H Shares were denominated in Hong Kong dollars and deposited in a special bank account, the H Shares proceeds (after deducting certain portion for uses as disclosed in the H Shares Prospectus and this report) remaining in the special bank account for the duration of 2011 booked certain loss. This booked loss was partially offset by the interest income accrued as a result of the H Share proceeds being deposited in the special bank account. Taking this into account, the Group's actual net profit attributable to equity holders of the Company for 2011 was RMB2.042 billion, slightly lower than the profit forecast as disclosed in the H Shares Prospectus, representing 97.2% of the profit forecast for the offering of H Shares. Without taking into account the net loss in relation to the H Share proceeds as a result of the fluctuation of exchange rate, the Group's net profit attributable to equity holders would have achieved 102% of the profit forecast.

(2) During the major asset reorganisation in 2009, certain assets were acquired from Shanghai Pharmaceutical (Group) and Shanghai Industrial Holdings Ltd. and appraised using the income method, and the actual earnings in 2011 were in line with the forecasted earnings. The realisation ratio of assets acquired from Shanghai Pharmaceutical (Group) was 141.76% and the realisation ratio of assets acquired from Shanghai Industrial Holdings Ltd. was 103.30%. PricewaterhouseCoopers Zhong Tian CPAs Limited Company has issued the Special Examination Report Explaining the Differences Between the Actual Earnings and the Forecasted Earnings (Pu Hua Yong Dao Zhong Tian Te Shen Zi (2012) No. 766).

## (IX) APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

*Unit: Ten Thousand Currency: RMB*

| | | |
|---|---|---|
| Change of appointment: | Yes | |
| | **Originally engaged** | **Currently engaged** |
| Name of domestic auditor engaged by the Company | Lixin Certified Public Accountants Co., Ltd. | PricewaterhouseCoopers Zhong Tian CPAs Limited Company |
| Remuneration for domestic auditor | RMB1 million (parent company) | Charged a total of RMB3.2 million with the international auditor (parent company) |
| Maximum years of service for domestic auditor | 13 | 1 |
| Name of international auditor engaged by the Company | None | PricewaterhouseCoopers |
| Remuneration for international auditor | / | Charged a total of RMB3.2 million with the domestic auditor (parent company) |
| Maximum years of service for international auditor | / | 1 |

Change of the Company's auditor in any one year within the three years prior to the date of this report:

The Group was listed on the Main Board of the Hong Kong Stock Exchange on 20 May 2011, becoming the first major listed pharmaceutical company in China issuing both A and H Shares, under the supervision of authorities in both China and Hong Kong. PricewaterhouseCoopers, being one of the four major international accounting firms, is qualified to be engaged in securities related business. It has ample auditing experience for both A and H Shares and thorough understanding of domestic and international accounting principles, which enables it to satisfy the requirements from supervising authorities and investors from China and Hong Kong. During the listing of the Group's H Shares, PricewaterhouseCoopers performed its duty with high level of professionalism and completed various auditing work entrusted by the Group. As approved at the shareholders' general meeting of the Company held on 30 June 2011, PricewaterhouseCoopers Zhong Tian CPAs Limited Company was appointed as our domestic auditor for 2011, and PricewaterhouseCoopers as our international auditor for 2011.

The 2011 financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards respectively have been audited by the PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers respectively according to the auditing standards in China and Hong Kong. The standard unqualified auditor's reports have been issued.

## (X) PUNISHMENT AND REFORM OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS AND DE FACTO CONTROLLERS

During the Reporting Period, none of the Group nor its directors, supervisors, senior management, shareholders and de facto controllers has been inspected or received administrative penalty, nor criticised by the China Securities Regulatory Commission, and no public condemnation has been made against the Group by the Shanghai Stock Exchange or the Hong Kong Stock Exchange.

## (XI) OTHER MATERIAL EVENTS

The Company's issuing of H Shares and listing in Hong Kong:

On 20 May 2011, the Group issued 664,214,000 H Shares. The Group's relevant state-owned shareholders reduced their shareholdings by a total of 66,421,400 A Shares, which were converted into H Shares on a one-for-one basis and transferred to NSSF. A total of 730,635,400 H Shares were listed on the Main Board of the Hong Kong Stock Exchange under the short name of "SH PHARMA" with stock code 02607.

On 11 June 2011, Goldman Sachs (Asia) LLC partially exercised the Over-allotment Option stated in the H Shares Prospectus of the Group on behalf of international buyers, and 32,053,200 H Shares were issued; the state-owned shareholders with the obligations to reduce their shareholdings reduced shareholding by 3,205,320 A Shares, which were converted into H Shares on a one-for-one basis, and transferred to NSSF. On 17 June 2011, a total of 35,258,520 over-allotment and converted H Shares started to be traded on the Main Board of the Hong Kong Stock Exchange.

The issuing price of this batch of H Shares was HKD23 per H Share, and the Company raised net proceeds of HKD15,492,302,200.

## (XII) INFORMATION DISCLOSURE INDEX

| Event | Name and page of the published material | Date of publish | Website and link |
|---|---|---|---|
| Announcement on the Progress of H Shares Listing in Hong Kong | China Securities Journal, Shanghai Securities News, Securities Times | 4 January 2011 | http://www.sse.com.cn |
| Announcement on the Shares Acquisition of China Health System Ltd. and the Establishment of Beijing Office | China Securities Journal, Shanghai Securities News, Securities Times | 13 January 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 11th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 29 January 2011 | http://www.sse.com.cn |
| Announcement on Strategic R&D Agreement on Innovative Medicine with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co.,Ltd. | China Securities Journal, Shanghai Securities News, Securities Times | 24 February 2011 | http://www.sse.com.cn |
| 2010 Self-evaluation Report on Internal Control | / | 9 March 2011 | http://www.sse.com.cn |
| 2010 Audit Report for Capital Turnover with Connected Parties | / | 9 March 2011 | http://www.sse.com.cn |
| Guarantee Management System | / | 9 March 2011 | http://www.sse.com.cn |
| 2010 Social Responsibility Report | / | 9 March 2011 | http://www.sse.com.cn |
| Summary of 2010 Annual Report | China Securities Journal, Shanghai Securities News, Securities Times | 9 March 2011 | http://www.sse.com.cn |
| 2010 Annual Report | / | 9 March 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 6th Board Meeting of the 4th Session of the Board of Supervisors | China Securities Journal, Shanghai Securities News, Securities Times | 9 March 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 12th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 9 March 2011 | http://www.sse.com.cn |

| Event | Name and page of the published material | Date of publish | Website and link |
|---|---|---|---|
| Announcement on the Progress of H Shares Listing in Hong Kong | China Securities Journal, Shanghai Securities News, Securities Times | 10 March 2011 | http://www.sse.com.cn |
| Announcement on the Progress of H Shares Listing in Hong Kong | China Securities Journal, Shanghai Securities News, Securities Times | 14 March 2011 | http://www.sse.com.cn |
| Announcement on the Increase of Shares Held by Shanghai Industrial Investment (Holdings) Co., Ltd. | China Securities Journal, Shanghai Securities News, Securities Times | 6 April 2011 | http://www.sse.com.cn |
| Continuing Guidance and Opinions from Independent Financial Advisor on Material Assets Restructuring | / | 7 April 2011 | http://www.sse.com.cn |
| Announcement on the Progress of Shares Acquisition of China Health System Ltd. | China Securities Journal, Shanghai Securities News, Securities Times | 7 April 2011 | http://www.sse.com.cn |
| Announcement on the Progress of H Shares Listing in Hong Kong | China Securities Journal, Shanghai Securities News, Securities Times | 13 April 2011 | http://www.sse.com.cn |
| Announcement on Enhancing Strategic Cooperation with Multi-national Pharmaceutical Corporation | China Securities Journal, Shanghai Securities News, Securities Times | 13 April 2011 | http://www.sse.com.cn |
| Announcement on Online Publishing of H Shares Offering Information | China Securities Journal, Shanghai Securities News, Securities Times | 18 April 2011 | http://www.sse.com.cn |
| Announcement on the Review by Hong Kong Stock Exchange of the Application of the Issuance of Overseas Listed Foreign Shares by our Company | China Securities Journal, Shanghai Securities News, Securities Times | 18 April 2011 | http://www.sse.com.cn |
| Announcement on the Anticipation of Results Better Than Expected in the 1st Quarter of 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 18 April 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 13th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 19 April 2011 | http://www.sse.com.cn |
| Rules of Procedure for the President Meetings | / | 19 April 2011 | http://www.sse.com.cn |
| Management System of Relations with Investors | / | 19 April 2011 | http://www.sse.com.cn |
| Announcement on Entering into Framework Agreement for Comprehensive Strategic Cooperation with China Post Group Corporation | China Securities Journal, Shanghai Securities News, Securities Times | 21 April 2011 | http://www.sse.com.cn |
| Announcement on the Momerendum of Understanding Signed with Pfizer Inc. | China Securities Journal, Shanghai Securities News, Securities Times | 21 April 2011 | http://www.sse.com.cn |
| 2011 First Quarterly Report | China Securities Journal, Shanghai Securities News, Securities Times | 26 April 2011 | http://www.sse.com.cn |
| Announcement on Suspension of Stock Trading | China Securities Journal, Shanghai Securities News, Securities Times | 3 May 2011 | http://www.sse.com.cn |
| Announcement on the Publication of H Share Prospectus, H Share Issuing Price Range and H Share Hong Kong Public Offering | China Securities Journal, Shanghai Securities News, Securities Times | 6 May 2011 | http://www.sse.com.cn |

| Event | Name and page of the published material | Date of publish | Website and link |
|---|---|---|---|
| Announcement on the Price of Public Offering for the Overseas Listed Foreign Share (H Share) | China Securities Journal, Shanghai Securities News, Securities Times | 16 May 2011 | http://www.sse.com.cn |
| Rules of Procedures for Secretary of the Board of Directors | / | 17 May 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 15th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 17 May 2011 | http://www.sse.com.cn |
| Clarification Announcement | China Securities Journal, Shanghai Securities News, Securities Times | 19 May 2011 | http://www.sse.com.cn |
| Announcement on the Listing and Trading of the Overseas Listed Foreign Share (H share) | China Securities Journal, Shanghai Securities News, Securities Times | 20 May 2011 | http://www.sse.com.cn |
| Announcement on State-owned Share Reduction of Public Offering for the Overseas Listed Foreign Share (H share) | China Securities Journal, Shanghai Securities News, Securities Times | 20 May 2011 | http://www.sse.com.cn |
| Announcement on the Increase of Shares Held by Shanghai Industrial Investment (Holdings) Co., Ltd. | China Securities Journal, Shanghai Securities News, Securities Times | 23 May 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 16th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 9 June 2011 | http://www.sse.com.cn |
| Material of the 2010 Annual General Meeting | / | 10 June 2011 | http://www.sse.com.cn |
| Announcement on Convening Annual General Meeting of 2010 | China Securities Journal, Shanghai Securities News, Securities Times | 10 June 2011 | http://www.sse.com.cn |
| Announcement on the Partial Exercise of Over-allotment Option, Price Stabilizing and the End of Price Stabilizing Period | China Securities Journal, Shanghai Securities News, Securities Times | 13 June 2011 | http://www.sse.com.cn |
| Announcement on Change in Shareholding after the exercise of Over-allotment Option in respect of the Overseas Listed Foreign Share (H share) | China Securities Journal, Shanghai Securities News, Securities Times | 17 June 2011 | http://www.sse.com.cn |
| Second Announcement on Convening Annual General Meeting of 2010 | China Securities Journal, Shanghai Securities News, Securities Times | 24 June 2011 | http://www.sse.com.cn |
| Resolution of Annual General Meeting of 2010 and the 1st H Share Class Meeting of 2011 | China Securities Journal, Shanghai Securities News, Securities Times | 1 July 2011 | http://www.sse.com.cn |
| Legal Opinion of Annual General Meeting of 2010 and the 1st H Share Class Meeting of 2011 | / | 1 July 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 17th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 13 July 2011 | http://www.sse.com.cn |
| 2011 Interim Report | / | 15 August 2011 | http://www.sse.com.cn |
| Summary of 2011 Interim Report | China Securities Journal, Shanghai Securities News, Securities Times | 15 August 2011 | http://www.sse.com.cn |

| Event | Name and page of the published material | Date of publish | Website and link |
|---|---|---|---|
| Announcement of Resolution from the 18th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 15 August 2011 | http://www.sse.com.cn |
| Self-evaluation Report on Internal Control for First Half of 2011 | / | 15 August 2011 | http://www.sse.com.cn |
| Announcement on Implementation of Profit Distribution Plan for 2010 | China Securities Journal, Shanghai Securities News, Securities Times | 18 August 2011 | http://www.sse.com.cn |
| Announcement on Purchase of Company's A Share by Senior Management | China Securities Journal, Shanghai Securities News, Securities Times | 22 August 2011 | http://www.sse.com.cn |
| Announcement on the Progress of the Increase in shareholding of the Company by Shanghai Industrial Investment (Holdings) Co., Ltd. | China Securities Journal, Shanghai Securities News, Securities Times | 25 August 2011 | http://www.sse.com.cn |
| Rules of Procedure of Board of Directors (Revised in 2011) | / | 13 September 2011 | http://www.sse.com.cn |
| Rules of Procedure of General Meeting (Revised in 2011) | / | 13 September 2011 | http://www.sse.com.cn |
| Articles of Association (Revised in 2011) | / | 13 September 2011 | http://www.sse.com.cn |
| Rules of Procedure of the Board of Supervisors (Revised in 2011) | / | 13 September 2011 | http://www.sse.com.cn |
| Announcement on Acquisition of Antibiotic Asset and Pledged Equity Interests of Controlling Shareholders | China Securities Journal, Shanghai Securities News, Securities Times | 23 September 2011 | http://www.sse.com.cn |
| Implementing Rules of Audit Committee of the Board of Directors | / | 28 October 2011 | http://www.sse.com.cn |
| Related (connected) Transaction Management System | / | 28 October 2011 | http://www.sse.com.cn |
| Information Disclosure Management System | / | 28 October 2011 | http://www.sse.com.cn |
| Third Quarterly Report | China Securities Journal, Shanghai Securities News, Securities Times | 28 October 2011 | http://www.sse.com.cn |
| Announcement of Resolution from the 19th Board Meeting of the 4th Session of the Board of Directors | China Securities Journal, Shanghai Securities News, Securities Times | 28 October 2011 | http://www.sse.com.cn |
| Indicative Announcement on the Trading of Restricted Shares relating to Major Assets Restructuring | China Securities Journal, Shanghai Securities News, Securities Times | 28 October 2011 | http://www.sse.com.cn |
| Third Quarterly Report (Revised Version) | / | 29 October 2011 | http://www.sse.com.cn |
| Correction Announcement on the 2011 Third Quarterly Report | China Securities Journal, Shanghai Securities News, Securities Times | 29 October 2011 | http://www.sse.com.cn |
| Announcement on the Resignation of Company's Vice President Mr. Ge Jianqiu | China Securities Journal, Shanghai Securities News, Securities Times | 1 December 2011 | http://www.sse.com.cn |

*Note:* The relevant information set out above was also published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) pursuant to the requirements of the Hong Kong Listing Rules.

# Financial Summary

## RESULTS

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | **2011** |
| | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Revenue | 27,440,761 | 31,228,163 | 38,692,157 | **54,899,873** |
| Profit before income tax | 1,205,502 | 2,130,044 | 2,283,250 | **3,035,102** |
| Income tax expenses | (210,193) | (464,854) | (415,885) | **(589,072)** |
| Profit for the year | 995,309 | 1,665,190 | 1,867,365 | **2,446,030** |
| Attributable to: | | | | |
| Equity holders of the Company | 696,992 | 1,296,789 | 1,456,195 | **2,042,239** |
| Non-controlling interests | 298,317 | 368,401 | 411,170 | **403,791** |

## ASSETS AND LIABILITIES

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | **2011** |
| | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Total assets | 19,781,049 | 21,874,562 | 30,163,469 | **47,667,824** |
| Total liabilities | 10,958,505 | 11,439,418 | 17,335,241 | **21,686,359** |
| Total equity | 8,822,544 | 10,435,144 | 12,828,228 | **25,981,465** |
| Attributable to: | | | | |
| Equity holders of the Company | 7,062,585 | 8,282,010 | 10,009,718 | **23,078,471** |
| Non-controlling interests | 1,759,959 | 2,153,134 | 2,818,510 | **2,902,994** |

*Note:*

The financial figures for year 2010 and 2011 were extracted from the financial statements prepared under the Hong Kong Financial Reporting Standards in this annual report.

The financial figures for year 2008 and 2009 were extracted from the accountant's report of the Company as set out in the H Shares Prospectus. No retrospective adjustments for the business combinations under common control regarding the acquisitions of Shanghai New Asiatic and Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. were made on the financial figures for year 2008 and 2009.

# Reference Document Catalogue

(1) Financial statements signed and sealed by legal representative, person in charge of accounting matters and person in charge of the accounting department.

(2) The original copies of auditor's reports.

(3) All the original copies of the Company's documents and the announcements published on the newspapers designated by the China Securities Regulatory Commission during the Reporting Period.

Chairman: Lu Mingfang
Shanghai Pharmaceuticals Holding Co., Ltd.
29 March 2012

# Independent Auditor's Report

pwc

羅兵咸永道

**TO THE SHAREHOLDERS OF**
**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**
*(incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 93 to 220, which comprise the consolidated and Company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F:+852 2810 9888, www.pwchk.com

# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 29 March 2012

# Consolidated Balance Sheet

| | Note | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Land use rights | 7 | 818,338 | 799,025 |
| Investment properties | 8 | 384,548 | 399,163 |
| Property, plant and equipment | 9 | 4,171,765 | 4,383,480 |
| Intangible assets | 10 | 3,447,509 | 520,990 |
| Investments in jointly controlled entities | 12 | 250,109 | 204,695 |
| Investments in associates | 13 | 2,204,408 | 1,281,028 |
| Deferred income tax assets | 26 | 178,629 | 153,579 |
| Available-for-sale financial assets | 14 | 182,792 | 383,716 |
| Other long-term prepayments | 15 | 33,899 | 816,236 |
| | | 11,671,997 | 8,941,912 |
| **Current assets** | | | |
| Inventories | 16 | 8,297,483 | 5,233,322 |
| Trade and other receivables | 17 | 12,845,631 | 9,473,154 |
| Financial assets at fair value through profit or loss | 19 | 2,659 | 3,647 |
| Restricted cash | 18 | 295,345 | 300,985 |
| Cash and cash equivalents | 18 | 14,554,709 | 6,210,449 |
| | | 35,995,827 | 21,221,557 |
| **Total assets** | | 47,667,824 | 30,163,469 |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 21 | 2,688,910 | 1,992,643 |
| Share premium | 22 | 14,396,727 | 3,673,565 |
| Other reserves | 22 | 796,573 | 829,983 |
| Retained earnings | 23 | 5,196,261 | 3,513,527 |
| | | 23,078,471 | 10,009,718 |
| **Non-controlling interests** | | 2,902,994 | 2,818,510 |
| **Total equity** | | 25,981,465 | 12,828,228 |

# Consolidated Balance Sheet

| | Note | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *25* | **52,311** | 66,098 |
| Deferred income tax liabilities | *26* | **266,288** | 43,554 |
| Termination benefit obligations | *28* | **58,524** | 79,835 |
| Other non-current liabilities | *27* | **453,324** | 227,127 |
| | | **830,447** | 416,614 |
| **Current liabilities** | | | |
| Trade and other payables | *24* | **14,948,013** | 11,354,902 |
| Current income tax liabilities | | **232,440** | 221,648 |
| Borrowings | *25* | **5,675,459** | 5,342,077 |
| | | **20,855,912** | 16,918,627 |
| **Total liabilities** | | **21,686,359** | 17,335,241 |
| **Total equity and liabilities** | | **47,667,824** | 30,163,469 |
| **Net current assets** | | **15,139,915** | 4,302,930 |
| **Total assets less current liabilities** | | **26,811,912** | 13,244,842 |

The notes on pages 102 to 220 are an integral part of these consolidated financial statements.

The financial statements on pages 93 to 220 were approved by the Board of Directors on 29 March 2012 and were signed on its behalf.

**Lu Mingfang**
*Director*

**Xu Guoxiong**
*Director*

# Company Balance Sheet

| | Note | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Land use rights | *7* | **25,138** | 25,778 |
| Investment properties | *8* | **56,206** | 57,705 |
| Property, plant and equipment | *9* | **164,155** | 120,350 |
| Intangible assets | *10* | **1,574** | 903 |
| Investments in subsidiaries | *11* | **12,058,741** | 6,473,753 |
| Investments in associates | *13* | **386,927** | 234,243 |
| Available-for-sale financial assets | *14* | **54,346** | 153,492 |
| | | **12,747,087** | 7,066,224 |
| **Current assets** | | | |
| Inventories | | **–** | 2,146 |
| Trade and other receivables | *17* | **1,675,610** | 725,554 |
| Restricted cash | *18* | **–** | 24,500 |
| Cash and cash equivalents | *18* | **8,608,622** | 245,271 |
| | | **10,284,232** | 997,471 |
| **Total assets** | | **23,031,319** | 8,063,695 |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *21* | **2,688,910** | 1,992,643 |
| Share premium | *22* | **16,328,357** | 4,689,309 |
| Other reserves | *22* | **335,701** | 345,408 |
| Retained earnings | *23* | **675,542** | 512,974 |
| **Total equity** | | **20,028,510** | 7,540,334 |

# Company Balance Sheet

| | Note | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **271** | 20,693 |
| Other non-current liabilities | 27 | **28,278** | – |
| | | **28,549** | 20,693 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **2,028,260** | 459,096 |
| Current income tax liabilities | | **–** | 23,572 |
| Borrowings | 25 | **946,000** | 20,000 |
| | | **2,974,260** | 502,668 |
| **Total liabilities** | | **3,002,809** | 523,361 |
| **Total equity and liabilities** | | **23,031,319** | 8,063,695 |
| **Net current assets** | | **7,309,972** | 494,803 |
| **Total assets less current liabilities** | | **20,057,059** | 7,561,027 |

The notes on pages 102 to 220 are an integral part of these consolidated financial statements.

The financial statements on pages 93 to 220 were approved by the Board of Directors on 29 March 2012 and were signed on its behalf.

**Lu Mingfang**
*Director*

**Xu Guoxiong**
*Director*

# Consolidated Income Statement

| | Note | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Revenue | 6 | **54,899,873** | 38,692,157 |
| Cost of sales | 32 | **(47,043,403)** | (31,706,276) |
| **Gross profit** | | **7,856,470** | 6,985,881 |
| Distribution and selling expenses | 32 | **(3,288,687)** | (3,071,522) |
| General and administrative expenses | 32 | **(2,188,151)** | (1,968,685) |
| **Operating profit** | | **2,379,632** | 1,945,674 |
| Other income | 29 | **167,631** | 169,493 |
| Other (losses)/gains – net | 30 | **(84,107)** | 65,649 |
| Gains on disposal of subsidiaries and associates | 31 | **521,612** | 17,479 |
| Finance income | 34 | **262,917** | 47,717 |
| Finance costs | 34 | **(516,333)** | (245,059) |
| Share of profit of jointly controlled entities | 12 | **56,959** | 12,296 |
| Share of profit of associates | 13 | **246,791** | 270,001 |
| **Profit before income tax** | | **3,035,102** | 2,283,250 |
| Income tax expense | 35 | **(589,072)** | (415,885) |
| **Profit for the year** | | **2,446,030** | 1,867,365 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **2,042,239** | 1,456,195 |
| Non-controlling interests | | **403,791** | 411,170 |
| | | **2,446,030** | 1,867,365 |
| **Earnings per share attributable to owners of the Company during the year** (expressed in RMB per share) | | | |
| – Basic and diluted | 37 | **0.84** | 0.73 |

The notes on pages 102 to 220 are an integral part of these consolidated financial statements.

| | Note | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Dividends** | 38 | **430,226** | 314,527 |

# Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **2,446,030** | 1,867,365 |
| **Other comprehensive income:** | | | |
| Available-for-sale financial assets | | | |
| – Gross | *14* | **(86,562)** | (35,469) |
| – Tax | *26* | **21,531** | 8,780 |
| Share of other comprehensive income of associates | *13* | **–** | 2,200 |
| Currency translation differences, net | *22* | **(5,538)** | (10,299) |
| Others | | **10,550** | 4,812 |
| **Other comprehensive income for the year, net of tax** | | **(60,019)** | (29,976) |
| **Total comprehensive income for the year** | | **2,386,011** | 1,837,389 |
| **Attributable to:** | | | |
| – Owners of the Company | | **1,982,648** | 1,428,223 |
| – Non-controlling interests | | **403,363** | 409,166 |
| **Total comprehensive income for the year** | | **2,386,011** | 1,837,389 |

The notes on pages 102 to 220 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

| | Note | Attributable to owners of the Company | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Other reserves | Retained earnings | Total | | |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2010** | | 569,173 | 5,152,410 | 823,173 | 2,502,258 | 9,047,014 | 2,246,451 | 11,293,465 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | – | – | – | 1,456,195 | 1,456,195 | 411,170 | 1,867,365 |
| **Other comprehensive income** | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| – Gross | *14* | – | – | (35,410) | – | (35,410) | (59) | (35,469) |
| – Tax | *26* | – | – | 8,765 | – | 8,765 | 15 | 8,780 |
| Share of other comprehensive income of associates | *13* | – | – | 2,200 | – | 2,200 | – | 2,200 |
| Currency translation differences, net | *22* | – | – | (10,299) | – | (10,299) | – | (10,299) |
| Others | | – | – | (2,272) | 9,044 | 6,772 | (1,960) | 4,812 |
| **Total other comprehensive income** | | – | – | (37,016) | 9,044 | (27,972) | (2,004) | (29,976) |
| **Total comprehensive income** | | – | – | (37,016) | 1,465,239 | 1,428,223 | 409,166 | 1,837,389 |
| **Transactions with owners** | | | | | | | | |
| Deemed distribution to equity holders | | – | – | – | (272,108) | (272,108) | (91,252) | (363,360) |
| Issue of shares as the consideration for business combination under common control, net of expenses | *21* | 1,423,470 | 6,722,470 | – | – | 8,145,940 | – | 8,145,940 |
| Capital injections from non-controlling interests | | – | – | – | – | – | 67,904 | 67,904 |
| Acquisitions of subsidiaries | | – | – | – | – | – | 341,048 | 341,048 |
| Consideration for business combination under common control | *22* | – | (8,201,315) | – | – | (8,201,315) | – | (8,201,315) |
| Disposal of a subsidiary | | – | – | – | – | – | (12,952) | (12,952) |
| Transaction with non-controlling interests | | – | – | 4,674 | – | 4,674 | (60,354) | (55,680) |
| Dividends | | – | – | – | (139,569) | (139,569) | (76,327) | (215,896) |
| Appropriation to statutory reserves | *22, 23* | – | – | 37,141 | (37,141) | – | – | – |
| Others | | – | – | 2,011 | (5,152) | (3,141) | (5,174) | (8,315) |
| **Total transaction with owners** | | 1,423,470 | (1,478,845) | 43,826 | (453,970) | (465,519) | 162,893 | (302,626) |
| **Balance at 31 December 2010** | | 1,992,643 | 3,673,565 | 829,983 | 3,513,527 | 10,009,718 | 2,818,510 | 12,828,228 |

# Consolidated Statement of Changes in Equity

| | Note | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2011** | | 1,992,643 | 3,673,565 | 829,983 | 3,513,527 | 10,009,718 | 2,818,510 | 12,828,228 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | – | – | – | 2,042,239 | 2,042,239 | 403,791 | 2,446,030 |
| **Other comprehensive income** | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| – Gross | *14* | – | – | (86,019) | – | (86,019) | (543) | (86,562) |
| – Tax | *26* | – | – | 21,416 | – | 21,416 | 115 | 21,531 |
| Currency translation differences, net | *22* | – | – | (5,538) | – | (5,538) | – | (5,538) |
| Others | | – | – | 10,550 | – | 10,550 | – | 10,550 |
| **Total other comprehensive income** | | – | – | (59,591) | – | (59,591) | (428) | (60,019) |
| **Total comprehensive income** | | – | – | (59,591) | 2,042,239 | 1,982,648 | 403,363 | 2,386,011 |
| **Transactions with owners** | | | | | | | | |
| Deemed distribution to equity holders | | – | – | – | (1,140) | (1,140) | – | (1,140) |
| Issue of shares, net of expenses | *21, 22* | 696,267 | 12,211,184 | – | – | 12,907,451 | – | 12,907,451 |
| Capital injections from non-controlling interests | | – | – | – | – | – | 46,316 | 46,316 |
| Consideration for business combination under common control | *22* | – | (1,488,022) | – | – | (1,488,022) | – | (1,488,022) |
| Acquisitions of subsidiaries | *43* | – | – | – | – | – | 256,180 | 256,180 |
| Disposal of a subsidiary | | – | – | – | – | – | (297,094) | (297,094) |
| Transaction with non-controlling interests | *42* | – | – | (25,377) | (18,341) | (43,718) | (57,942) | (101,660) |
| Dividends | | – | – | – | (278,970) | (278,970) | (261,911) | (540,881) |
| Appropriation to statutory reserves | *22, 23* | – | – | 51,558 | (51,558) | – | – | – |
| Others | | – | – | – | (9,496) | (9,496) | (4,428) | (13,924) |
| **Total transaction with owners** | | 696,267 | 10,723,162 | 26,181 | (359,505) | 11,086,105 | (318,879) | 10,767,226 |
| **Balance at 31 December 2011** | | 2,688,910 | 14,396,727 | 796,573 | 5,196,261 | 23,078,471 | 2,902,994 | 25,981,465 |

The notes on pages 102 to 220 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

| | Note | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 39(i) | **2,044,114** | 2,646,905 |
| Interest paid | | **(453,733)** | (264,385) |
| Income tax paid | | **(501,190)** | (428,752) |
| Net cash generated from operating activities | | **1,089,191** | 1,953,768 |
| **Cash flows from investing activities** | | | |
| Business combination under common control | 39(vi) | **(1,070,452)** | (2,002,177) |
| Acquisition of subsidiaries, net of cash acquired | 43 | **(2,823,776)** | (1,063,769) |
| Cash outflow due to deemed disposal of TECHPOOL | | **(266,733)** | – |
| Increase in investments in associates | | **–** | (350,514) |
| Purchases of property, plant and equipment ("PP&E") and investment properties | | **(407,063)** | (528,261) |
| Proceeds from disposal of PP&E and investment properties | 39(ii) | **41,419** | 510,851 |
| Purchases of land use rights and intangible assets | | **(6,473)** | (46,120) |
| Repayment of loan receivables from non-controlling interests | | **143,837** | – |
| Purchases of available-for-sale financial assets | | **–** | (1,093) |
| Interest received | | **229,514** | 45,041 |
| Dividends received | | **198,260** | 219,636 |
| Proceeds from disposal of available-for-sale financial assets | 39(iv) | **231,172** | 142,521 |
| Proceeds from disposal of land use rights and intangible assets | 39(iii) | **190** | 44,058 |
| Proceeds from disposal of subsidiaries, associates and jointly controlled entities | 39(v) | **68,753** | 80,517 |
| Other cash flows generated from/(used in) investing activities | | **100,443** | (46,351) |
| Net cash used in investing activities | | **(3,560,909)** | (2,995,661) |
| **Cash flows from financing activities** | | | |
| Proceeds from non-controlling interests of certain subsidiaries | | **46,316** | 46,813 |
| Proceeds from issuance of ordinary shares of the Company | | **13,324,331** | 1,999,604 |
| Cash paid in respect of expenses related to issuance of new shares | | **(372,710)** | – |
| Proceeds from borrowings | | **11,355,279** | 6,984,032 |
| Repayments of borrowings | | **(12,753,308)** | (6,144,429) |
| Dividends paid by the Group | | **(515,962)** | (484,857) |
| Others cash flows generated/(used in) financing activities | | **12,844** | (47,442) |
| Net cash generated from financing activities | | **11,096,790** | 2,353,721 |
| **Net increase in cash and cash equivalents** | | **8,625,072** | 1,311,828 |
| Cash and cash equivalents at beginning of year | | **6,210,449** | 4,904,133 |
| Exchange losses on cash and cash equivalents | | **(280,812)** | (5,512) |
| **Cash and cash equivalents at end of year** | | **14,554,709** | 6,210,449 |

The notes on pages 102 to 220 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

### 1 History and group reorganisation

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 RMB 1 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 ("new assets") 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 new assets injection to Shanghai Pharma Group. After the new assets injection, the Company changed its name to Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司) and was then engaged in distribution of pharmaceutical products business.

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

## 1 GENERAL INFORMATION (continued)

### 1 History and group reorganisation (continued)

The subsidiaries and associates acquired in above-mentioned transactions are collectively referred to as "Acquired Businesses" in these consolidated financial statements. After the above restructuring transactions were completed in 2010, the Company changed its name to Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司). As at 31 December 2010, the Company totally had 1,992,643,338 A Shares.

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

On 30 September 2011, the Company acquired 96.9% equity interests of Shanghai New Asiatic Pharmaceuticals Co., Ltd. (Shanghai New Asiatic) and 100% equity interests of Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (Huakang) (collectively, the "Anti-biotic Businesses") from Shanghai Pharma Group (Note 43 (a)). The Anti-biotic Businesses are mainly engaged in manufacturing and distribution of anti-biotic medicine and other pharmaceutical products.

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

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

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2012.

## 2. PRINCIPAL ACTIVITIES

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

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Basis of preparation

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

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

(b) As mentioned in Note 1 of this section, the Company acquired the Anti-biotic Businesses from Shanghai Pharma Group in 2011. As the Company and the Anti-biotic Businesses are under common control of Shanghai Pharma Group, which is controlled by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("SASAC Shanghai"), the aforementioned acquisitions of the Anti-biotic Businesses from Shanghai Pharma Group 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 consolidated financial statements include the financial positions, results and cash flows of the Anti-biotic Businesses as if the acquisitions had been completed prior to the beginning of year 2010, of which the financial statements were restated.

### 3.2 Accounting policies

(a) *New and amended standards adopted by the Group*

The following new standards and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

- HKAS 24 (Revised), 'Related Party Disclosures' is effective for annual year beginning on or after 1 January 2011. It 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 individual 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 the government related entity exemption in previous years.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Accounting policies (continued)

(a) *New and amended standards adopted by the Group (continued)*

- HKAS 32 (Amendment), 'Classification of rights issues'

- HK(IFRIC) – Int 19, 'Extinguishing financial libilities with equity instruments'

- Amendment to HKFRS 1, 'Limited Exemption from comparative HKFRS 7 disclosures for first time adopters'

- Amendment to HK(IFRIC) – Int 14, 'Prepayments of a minimum funding requirement'

The adoption of the abovementioned revised standard and also those third annual improvements project (2010) to HKFRS as published by HKICPA in May 2010 did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

(b) *New and amended standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 January 2011 and have not been early adopted*

- HKAS 1, the main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to assess HKAS 1's full impact and intends to adopt HKAS 1 no later than the accounting period beginning on or after 1 July 2012.

- HKAS 12 (Amendment), 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, HK(SIC) 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC) 21, which is withdrawn. The Group is yet to assess HKAS 12's full impact and intends to adopt HKAS 12 no later than the accounting period beginning on or after 1 January 2012.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Accounting policies (continued)

(b) *New and amended standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 January 2011 and have not been early adopted (continued)*

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2013.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Subsidiaries, jointly controlled entities and associates

(a) *Consolidation*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assessed existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Except for the business combination under common control as described in (i) below, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profit and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) Business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for the purchase of the equity interests in the Anti-biotic Businesses in 2011, as if the acquisition had been occurred and the Anti-biotic Businesses had been combined from 1 January 2010, the beginning of the earliest financial year presented. The net assets of the Group and the Anti-biotic Businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of the Anti-biotic Businesses' identifiable assets, liabilities and contingent liabilities over cost of acquisition at the time of the business combinations under common control. The consolidated income statement includes the results of the Group and the Anti-biotic Businesses from 1 January 2010, the earliest date presented, regardless of the date of the business combinations under common control.

(ii) Business combination not under common control

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Subsidiaries, jointly controlled entities and associates (continued)

*(a) Consolidation (continued)*

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

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquire is remeasured to fair value at the acquisition date through profit and loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of any non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

*(b) Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Subsidiaries, jointly controlled entities and associates (continued)

*(c) Jointly controlled entities and associates*

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

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss in the investee after the date of acquisition. Other than the associates acquired as an integrated part of the Acquired Businesses which were accounted for as prescribed in Note 3.3(a)(i), the Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

Other than the associates acquired as an integrated part of the Acquired Businesses which were accounted for as prescribed in Note 1, the Group's share of its jointly controlled entities and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity or an associate equals or exceeds its interest in the jointly controlled entity or associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or associate.

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) *Jointly controlled entities and associates (continued)*

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

Dilution gains and losses arising in investments in jointly controlled entities and associates are recognised in the income statement.

### 3.4 Segment reporting

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

### 3.5 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5 Foreign currency translation (continued)

(b) *Transactions and balances (continued)*

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

(c) *Group companies*

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

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

(iii) All resulting exchange differences are recognised in other comprehensive income.

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

### 3.6 Property, plant and equipment

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

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

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

| | |
|---|---|
| – Buildings | 5-50 years |
| – Machinery | 4-20 years |
| – Motor vehicles | 4-14 years |
| – Furniture, fittings and equipment | 3-14 years |
| – Others | 2-20 years |

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Property, plant and equipment (continued)

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.10).

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

### 3.7 Investment properties

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

Investment properties, principally comprising land use right, buildings, plant and warehouses, are held for long-term rental yields and/or for capital appreciation.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 5 to 50 years. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise.

### 3.8 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The Group acquires the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Land use rights are amortised over the lease period of 10 to 50 years using the straight-line method.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.9 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and associates represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquiree.

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Business network*

Business network acquired in a business combination is recognised at fair value at the acquisition date and is amortised using the straight-line method over its estimated useful lives.

(c) *Trademarks and patent rights*

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

(d) *Know-how*

Know-how acquired is initially recognised at cost and is amortised on a straight-line method over their useful lives of 5 to 10 years.

(e) *Research and development*

Expenditure on development activities (relating to the design and testing of new or improved products for sale) is capitalised as intangible when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset and use or sell it;

(iii) there is an ability to use or sell the intangible asset;

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.9 Intangible assets (continued)

*(e) Research and development (continued)*

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other research expenditures that do not meet these criteria are recognised as an expense as incurred.

Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

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

*(f) Computer software*

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

*(g) Other intangible assets*

Other intangible assets acquired are initially recognised at cost and are amortised on a straight-line method over their useful lives.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.10 Impairment of non-financial assets

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

### 3.11 Financial assets

*(a) Classification*

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Notes 3.15 and 3.16).

(iii) Available-for-sale financial assets

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.11 Financial assets (continued)

(b) *Recognition and measurement*

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

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

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

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

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

### 3.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### 3.13 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.13 Impairment of financial assets (continued)

(a) *Assets carried at amortised cost (continued)*

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

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

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

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit and loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

### 3.14 Inventories

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.15 Trade and other receivables

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

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

### 3.16 Cash and cash equivalents

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

### 3.17 Share capital

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

### 3.18 Trade payables

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

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

### 3.19 Borrowings

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

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

### 3.20 Borrowing costs

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.20 Borrowing costs (continued)

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

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

### 3.21 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

(i) Inside basis differences

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

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

(ii) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.21 Current and deferred income tax (continued)

(c) *Offsetting*

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

### 3.22 Employee benefits

(a) *Pension obligations*

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

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

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

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

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The termination benefits are offered for a clearly defined period and once the termination plan is confirmed by the employee and the Group, there is no possibility of new participant. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.23 Provisions

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

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

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

### 3.24 Government grants

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

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

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

### 3.25 Revenue recognition

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

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

(a) *Sales of goods – wholesale*

The Group manufactures and sells a range of medicine, pharmaceutical and other products in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the wholesaler (including hospital and distributor), the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.25 Revenue recognition (continued)

(b) *Sales of goods – retail pharmacy operations*

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

(c) *Rental income*

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

(d) *Interest income*

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

(e) *Sales of services*

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

(f) *Dividend income*

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

### 3.26 Leases (as a leasee)

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

### 3.27 Dividend distribution

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

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.28 Financial guarantee contracts

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

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

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

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

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

(a) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has also certain bank deposits, trade and other receivables, trade and other payables and borrowings which are denominated in currencies other than RMB (majority in United States dollars ("USD") and Hong Kong dollars ("HKD")) and details of which have been set out in Notes 18, 17, 24 and 25.

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

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

(a) *Foreign exchange risk (continued)*

For the year ended 31 December 2011 and 2010, the Group did not use any financial instruments or derivatives to hedge against the foreign exchange risk. However, management will continue to monitor closely the foreign exchange risk exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2011, if RMB had strengthened/weakened by 5% against the USD and HKD with all other variables held constant, the Group's profit before income tax for the year would have been lower/higher by approximately RMB344,312,000 (2010: higher/lower RMB30,885,000), mainly as a result of foreign exchange losses/gains (2010: gains/losses) arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

(b) *Fair value and cash flow interest rate risk*

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

Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at fixed rates exposed the Group to fair value interest rate risk. In general, the Group raises bank borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements.

The Group currently does not use any interest rate swap contracts or other financial instruments to hedge against its interest rate risk exposure. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2011, if the interest rates on bank borrowings at floating rates had been 10% higher/lower with all other variables held constant, the Group's profit before income tax for the year would have been lower/higher by approximately RMB5,658,000 (2010: lower/higher RMB1,581,000) respectively, mainly as a result of higher/lower interest expenses on bank borrowings.

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

(c) *Credit risk*

Credit risk primarily arises from cash and cash equivalents, restricted cash, trade and other receivables (including notes receivables) and financial guarantee contacts, except for prepayment.

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

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

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

Management considers that the provisions for impairment of trade and other receivables as of respective balance sheet dates adequately cover the Group's credit risk exposures and it is not anticipated that any material liabilities will arise from the financial guarantee contracts.

(d) *Liquidity risk*

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

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

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

*(d) Liquidity risk (continued)*

| | Less than 1 year *RMB'000* | Between 1 and 2 years *RMB'000* | Between 2 and 5 years *RMB'000* | Over 5 years *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **At 31 December 2011** | | | | | |
| Borrowings *(Note 25)* | **5,675,459** | **7,710** | **23,731** | **20,870** | **5,727,770** |
| Interests payments on borrowings | **174,098** | **1,652** | **3,725** | **280** | **179,755** |
| Financial liabilities as included in trade and other payables | **14,084,696** | **–** | **–** | **–** | **14,084,696** |
| | **19,934,253** | **9,362** | **27,456** | **21,150** | **19,992,221** |
| **At 31 December 2010** | | | | | |
| Borrowings *(Note 25)* | 5,342,077 | 1,635 | 30,080 | 34,383 | 5,408,175 |
| Interests payments on borrowings | 97,689 | 2,763 | 5,367 | 737 | 106,556 |
| Financial liabilities as included in trade and other payables | 10,570,385 | – | – | – | 10,570,385 |
| | 16,010,151 | 4,398 | 35,447 | 35,120 | 16,085,116 |

Loan guarantee provided to certain parties exposes the Group to liquidity risk and could be called within one year at the respective balance sheet dates. Management monitors the possible loss of the guarantee on a regularly basis. As at 31 December 2011 and 2010, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44 (d).

### 4.2 Capital management

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

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

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Capital management (continued)

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

The gearing ratios are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Total borrowings | **5,727,770** | 5,408,175 |
| Total equity | **25,981,465** | 12,828,228 |
| Total capital | **31,709,235** | 18,236,403 |
| Gearing ratio (%) | **18%** | 30% |

The decrease of gearing ratio is mainly due to the increase of total equity arising from the issuance of H Shares.

### 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.

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.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

### (b) Useful lives of business network

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

### (c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy as stated in Note 3.10. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 10).

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (d) Net realisable value of inventories

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

### (e) Income taxes

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

### (f) Impairment of receivables

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

### (g) 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. 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.

## 6 SEGMENT INFORMATION

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

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

(a) Pharmaceutical business (Production segment) – research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;

(b) Distribution and supply chain solutions (Distribution segment) – distribution, warehousing, 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.

## 6 SEGMENT INFORMATION (continued)

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

**For the year ended 31 December 2011**

| | Production segment *RMB'000* | Distribution segment *RMB'000* | Retail segment *RMB'000* | Others *RMB'000* | Elimination *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| External revenue | 7,444,518 | 44,814,015 | 2,275,244 | 366,096 | – | 54,899,873 |
| Inter-segment revenue | 1,643,716 | 1,715,797 | 1,569 | 2,138 | (3,363,220) | – |
| **Segment revenue** | 9,088,234 | 46,529,812 | 2,276,813 | 368,234 | (3,363,220) | 54,899,873 |
| Segment operating profit | 1,177,734 | 1,305,975 | 21,242 | 13,825 | (139,144) | 2,379,632 |
| Other income | | | | | | 167,631 |
| Other losses – net | | | | | | (84,107) |
| Gains on disposal of subsidiaries and associates | | | | | | 521,612 |
| Finance costs – net | | | | | | (253,416) |
| Share of profit of jointly controlled entities | 46,582 | 10,377 | – | – | – | 56,959 |
| Share of profit of associates | 206,967 | 39,824 | – | – | – | 246,791 |
| Profit before income tax | | | | | | 3,035,102 |
| Income tax expense | | | | | | (589,072) |
| **Profit for the year** | | | | | | 2,446,030 |

## 6 SEGMENT INFORMATION (continued)

**For the year ended 31 December 2010**

| | Production segment RMB'000 | Distribution segment RMB'000 | Retail segment RMB'000 | Others RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| External revenue | 7,896,775 | 28,773,926 | 1,725,546 | 295,910 | – | 38,692,157 |
| Inter-segment revenue | 1,108,560 | 818,269 | – | 38,975 | (1,965,804) | – |
| **Segment revenue** | 9,005,335 | 29,592,195 | 1,725,546 | 334,885 | (1,965,804) | 38,692,157 |
| Segment operating profit | 1,243,368 | 653,554 | 25,904 | 106,363 | (83,515) | 1,945,674 |
| Other income | | | | | | 169,493 |
| Gains on disposal of subsidiaries and associates | | | | | | 17,479 |
| Other gains – net | | | | | | 65,649 |
| Finance costs – net | | | | | | (197,342) |
| Share of profit of jointly controlled entities | 40,942 | (28,646) | – | – | – | 12,296 |
| Share of profit of associates | 208,839 | 61,162 | – | – | – | 270,001 |
| Profit before income tax | | | | | | 2,283,250 |
| Income tax expense | | | | | | (415,885) |
| **Profit for the year** | | | | | | 1,867,365 |

Other segment items included in the consolidated financial statements for the year ended 31 December 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 | **318,158** | **88,111** | **19,761** | **17,592** | **–** | **443,622** |
| Amortisation of intangible assets and land use rights | **21,329** | **46,784** | **873** | **516** | **–** | **69,502** |
| Capital expenditure | **210,637** | **194,917** | **8,235** | **60,245** | **–** | **474,034** |

## 6 SEGMENT INFORMATION (continued)

Other segment items included in the consolidated financial statements for the year ended 31 December 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 | 321,969 | 67,650 | 8,975 | 6,155 | – | 404,749 |
| Amortisation of intangible assets and land use rights | 24,505 | 6,698 | 548 | 227 | – | 31,978 |
| Capital expenditure | 498,106 | 120,223 | 20,190 | 696 | – | 639,215 |

The segment assets and liabilities as at 31 December 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 | **144,496** | **105,613** | **–** | **–** | **–** | **250,109** |
| Investment in associates | **1,941,855** | **262,553** | **–** | **–** | **–** | **2,204,408** |
| Other assets | **11,936,693** | **28,383,829** | **854,643** | **30,208,363** | **178,629** | **71,562,157** |
| Elimination | | | | | | **(26,348,850)** |
| Total assets | | | | | | **47,667,824** |
| Segment liabilities | **4,942,226** | **18,268,539** | **479,123** | **3,826,171** | **498,728** | **28,014,787** |
| Elimination | | | | | | **(6,328,428)** |
| Total liabilities | | | | | | **21,686,359** |

## 6 SEGMENT INFORMATION (continued)

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

| | Assets RMB'000 | Liabilities RMB'000 |
|---|---|---|
| Segment assets/liabilities after elimination | **47,489,195** | **21,187,631** |
| Unallocated: | | |
| Current income tax liabilities | – | **232,440** |
| Deferred tax assets/liabilities – net | **178,629** | **266,288** |
| Total | **47,667,824** | **21,686,359** |

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 | 107,938 | 96,757 | – | – | – | 204,695 |
| Investment in associates | 1,201,798 | 79,230 | – | – | – | 1,281,028 |
| Other assets | 11,652,138 | 14,287,211 | 590,501 | 10,962,944 | 153,579 | 37,646,373 |
| Elimination | | | | | | (8,968,627) |
| Total assets | | | | | | 30,163,469 |
| Segment liabilities | 5,950,395 | 11,525,766 | 333,922 | 3,311,345 | 265,202 | 21,386,630 |
| Elimination | | | | | | (4,051,389) |
| Total liabilities | | | | | | 17,335,241 |

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

| | Assets RMB'000 | Liabilities RMB'000 |
|---|---|---|
| Segment assets/liabilities after elimination | 30,009,890 | 17,070,039 |
| Unallocated: | | |
| Current income tax liabilities | – | 221,648 |
| Deferred tax assets/liabilities – net | 153,579 | 43,554 |
| Total | 30,163,469 | 17,335,241 |

## 7 LAND USE RIGHTS

### The Group

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Opening net book amount | **799,025** | 821,652 |
| Additions | **5,336** | 59,395 |
| Transfer from PP&E *(Note 9)* | **53,599** | – |
| Amortisation charge *(Note 32)* | **(24,727)** | (23,225) |
| Transfer to investment properties | **–** | (23,389) |
| Disposals | **(519)** | (35,408) |
| Disposal of subsidiaries | **(14,376)** | – |
| Closing net book amount | **818,338** | 799,025 |

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

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost of sales | **628** | 1,366 |
| Distribution and selling expenses | **2,274** | 2,513 |
| General and administrative expenses | **21,825** | 19,346 |
| | **24,727** | 23,225 |

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Land use rights, secured | **61,979** | 47,801 |

## 7 LAND USE RIGHTS (continued)

### The Group (continued)

(c) As at 31 December 2011, the Group is still in the process of applying for land use right certificates of certain land use rights and the aggregated carrying amounts of these land use rights amounted to approximately RMB6,618,000 (2010: RMB31,757,000).

### The Company

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

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Opening net book amount | **25,778** | 55,497 |
| Additions | **–** | 32,702 |
| Amortisation charge | **(640)** | (1,424) |
| Disposals | **–** | (60,997) |
| Closing net book amount | **25,138** | 25,778 |

## 8 INVESTMENT PROPERTIES

### The Group

Investment properties are located in the PRC, on land with land use rights between 5 to 50 years. The movement of investment properties is analysed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost | **531,162** | 528,906 |
| Accumulated depreciation | **(146,614)** | (129,743) |
| Net book amount | **384,548** | 399,163 |
| Opening net book amount | **399,163** | 743,641 |
| Transfer from owner-occupied PP&E *(Note 9)* | **2,219** | 19,233 |
| Transfer from land use right *(Note 7)* | **–** | 23,389 |
| Depreciation *(Note 32)* | **(15,861)** | (23,692) |
| Disposals | **(973)** | (363,408) |
| Closing net book amount | **384,548** | 399,163 |

## 8 INVESTMENT PROPERTIES (continued)

### The Group (continued)

(a) As at 31 December 2011, the fair values of the investment properties were approximately RMB818,763,000 (2010: RMB788,840,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

(b) Lease rental income relating to the lease of investment properties has been included in the consolidated income statements as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Rental income | **78,034** | 78,399 |

### The Company

Investment properties are located in the PRC, on land with land use rights of 50 years. The movement of investment properties is analysed as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost | **83,293** | 83,293 |
| Accumulated depreciation | **(27,087)** | (25,588) |
| Net book amount | **56,206** | 57,705 |
| Opening net book amount | **57,705** | 190,383 |
| Additions | **–** | 59,580 |
| Depreciation | **(1,499)** | (6,661) |
| Disposals | **–** | (185,597) |
| Closing net book amount | **56,206** | 57,705 |

## 9 PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings RMB'000 | Machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Others RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | | | | | | | |
| Cost | 3,487,172 | 2,199,326 | 259,281 | 368,457 | 425,171 | 359,091 | 7,098,498 |
| Accumulated depreciation | (910,402) | (1,120,990) | (159,132) | (251,754) | (216,450) | – | (2,658,728) |
| Impairment | (38,973) | (45,902) | (1,820) | (91) | (2,959) | (3,725) | (93,470) |
| Net book amount | 2,537,797 | 1,032,434 | 98,329 | 116,612 | 205,762 | 355,366 | 4,346,300 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net book amount | 2,537,797 | 1,032,434 | 98,329 | 116,612 | 205,762 | 355,366 | 4,346,300 |
| Acquisition of subsidiaries | 89,835 | 19,006 | 11,418 | 6,260 | 14,539 | 50,031 | 191,089 |
| Additions | 80,428 | 46,307 | 30,384 | 37,462 | 57,128 | 325,929 | 577,638 |
| Internal transfer | 125,056 | 193,445 | 8,440 | 4,534 | 46,951 | (378,426) | – |
| Transfer to investment properties *(Note 8)* | (19,233) | – | – | – | – | – | (19,233) |
| Disposals *(Note 39(ii))* | (109,044) | (37,627) | (3,792) | (3,019) | (20,425) | (17,948) | (191,855) |
| Depreciation charge *(Note 32)* | (124,339) | (151,959) | (27,431) | (33,947) | (43,381) | – | (381,057) |
| Disposal of subsidiaries | (92,485) | (19,540) | (3,773) | (3,053) | (168) | (7,532) | (126,551) |
| Provision for impairment *(Note 30)* | (2,209) | (10,218) | (3) | (421) | – | – | (12,851) |
| Closing net book amount | 2,485,806 | 1,071,848 | 113,572 | 124,428 | 260,406 | 327,420 | 4,383,480 |
| **At 31 December 2010** | | | | | | | |
| Cost | 3,555,439 | 2,241,630 | 283,484 | 398,062 | 491,545 | 331,145 | 7,301,305 |
| Accumulated depreciation | (1,028,485) | (1,116,781) | (168,457) | (273,354) | (228,748) | – | (2,815,825) |
| Impairment | (41,148) | (53,001) | (1,455) | (280) | (2,391) | (3,725) | (102,000) |
| Net book amount | 2,485,806 | 1,071,848 | 113,572 | 124,428 | 260,406 | 327,420 | 4,383,480 |
| **Year ended 31 December 2011** | | | | | | | |
| Opening net book amount | **2,485,806** | **1,071,848** | **113,572** | **124,428** | **260,406** | **327,420** | **4,383,480** |
| Acquisition of subsidiaries | **7,615** | **5,443** | **15,393** | **1,762** | **16,027** | **150** | **46,390** |
| Additions | **8,292** | **77,837** | **50,872** | **36,010** | **74,249** | **204,789** | **452,049** |
| Internal transfer | **57,583** | **42,789** | **5,621** | **15,534** | **45,999** | **(167,526)** | **–** |
| Transfer to land use rights *(Note 7)* | **(25,417)** | **–** | **–** | **–** | **–** | **(28,182)** | **(53,599)** |
| Transfer to investment properties *(Note 8)* | **(2,219)** | **–** | **–** | **–** | **–** | **–** | **(2,219)** |
| Disposals *(Note 39(ii))* | **(13,671)** | **(11,026)** | **(11,998)** | **(14,510)** | **(13,298)** | **(2,068)** | **(66,571)** |
| Depreciation charge *(Note 32)* | **(134,269)** | **(154,756)** | **(32,469)** | **(37,025)** | **(69,242)** | **–** | **(427,761)** |
| Disposal of subsidiaries | **(56,153)** | **(35,492)** | **(5,199)** | **(2,242)** | **(33,824)** | **(22,910)** | **(155,820)** |
| Provision for impairment *(Note 30)* | **–** | **(4,184)** | **–** | **–** | **–** | **–** | **(4,184)** |
| Closing net book amount | **2,327,567** | **992,459** | **135,792** | **123,957** | **280,317** | **311,673** | **4,171,765** |
| **At 31 December 2011** | | | | | | | |
| Cost | **3,491,000** | **2,242,617** | **319,618** | **421,311** | **493,681** | **314,842** | **7,283,069** |
| Accumulated depreciation | **(1,138,454)** | **(1,205,692)** | **(182,634)** | **(297,080)** | **(210,975)** | **–** | **(3,034,835)** |
| Impairment | **(24,979)** | **(44,466)** | **(1,192)** | **(274)** | **(2,389)** | **(3,169)** | **(76,469)** |
| Net book amount | **2,327,567** | **992,459** | **135,792** | **123,957** | **280,317** | **311,673** | **4,171,765** |

## 9 PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group (continued)

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

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost of sales | **238,707** | 231,464 |
| Distribution and selling expenses | **31,569** | 28,165 |
| General and administrative expenses | **157,485** | 121,428 |
| | **427,761** | 381,057 |

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment, pledged | **189,227** | 293,016 |

(c) As at 31 December 2011, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB276,673,000 (2010: RMB470,585,000).

## 9 PROPERTY, PLANT AND EQUIPMENT (continued)

### The Company

| | Buildings RMB'000 | Machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Others RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | | | | | | | |
| Cost | 308,643 | 128,915 | 25,582 | 9,035 | 7,204 | 1,450 | 480,829 |
| Accumulated depreciation | (63,270) | (42,640) | (16,440) | (3,283) | (5,015) | – | (130,648) |
| Impairment | – | (627) | – | – | – | – | (627) |
| Net book amount | 245,373 | 85,648 | 9,142 | 5,752 | 2,189 | 1,450 | 349,554 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net book amount | 245,373 | 85,648 | 9,142 | 5,752 | 2,189 | 1,450 | 349,554 |
| Additions | 95,578 | 25,920 | 6,323 | 3,149 | 20,209 | 17,983 | 169,162 |
| Internal transfer | – | – | – | – | 5,156 | (5,156) | – |
| Transfer to subsidiaries | (171,366) | (85,479) | (8,447) | (5,508) | (2,209) | (2,582) | (275,591) |
| Disposals | (91,914) | (110) | (1,346) | (290) | (57) | – | (93,717) |
| Depreciation charge | (11,662) | (10,588) | (2,226) | (1,335) | (3,247) | – | (29,058) |
| Closing net book amount | 66,009 | 15,391 | 3,446 | 1,768 | 22,041 | 11,695 | 120,350 |
| **At 31 December 2010** | | | | | | | |
| Cost | 113,454 | 15,922 | 4,673 | 2,985 | 25,218 | 11,695 | 173,947 |
| Accumulated depreciation | (47,445) | (531) | (1,227) | (1,217) | (3,177) | – | (53,597) |
| Net book amount | 66,009 | 15,391 | 3,446 | 1,768 | 22,041 | 11,695 | 120,350 |
| **Year ended 31 December 2011** | | | | | | | |
| Opening net book amount | **66,009** | **15,391** | **3,446** | **1,768** | **22,041** | **11,695** | **120,350** |
| Additions | **–** | **–** | **1,126** | **2,430** | **27,462** | **28,177** | **59,195** |
| Internal transfer | **7,883** | **457** | **(1,116)** | **1,530** | **239** | **(8,993)** | **–** |
| Disposals | **(6)** | **–** | **(32)** | **(281)** | **(295)** | **–** | **(614)** |
| Depreciation charge | **(2,709)** | **–** | **(796)** | **(989)** | **(10,282)** | **–** | **(14,776)** |
| Closing net book amount | **71,177** | **15,848** | **2,628** | **4,458** | **39,165** | **30,879** | **164,155** |
| **At 31 December 2011** | | | | | | | |
| Cost | **118,364** | **15,848** | **4,432** | **6,663** | **52,619** | **30,879** | **228,805** |
| Accumulated depreciation | **(47,187)** | **–** | **(1,804)** | **(2,205)** | **(13,454)** | **–** | **(64,650)** |
| Net book amount | **71,177** | **15,848** | **2,628** | **4,458** | **39,165** | **30,879** | **164,155** |

## 10 INTANGIBLE ASSETS

### The Group

| | Goodwill RMB'000 | Business network RMB'000 | Trademarks and patent rights RMB'000 | Know-how RMB'000 | Computer software RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | | | | | | | |
| Cost | 222,156 | – | 84,828 | 99,269 | 26,475 | 27,786 | 460,514 |
| Accumulated amortisation | – | – | (16,136) | (47,177) | (22,599) | (5,529) | (91,441) |
| Impairment | (122,202) | – | (60,000) | (26,840) | – | (19,177) | (228,219) |
| Net book amount | 99,954 | – | 8,692 | 25,252 | 3,876 | 3,080 | 140,854 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net book amount | 99,954 | – | 8,692 | 25,252 | 3,876 | 3,080 | 140,854 |
| Acquisition of subsidiaries | 334,017 | 57,714 | – | – | – | – | 391,731 |
| Additions | – | – | 4,220 | 8,526 | 5,517 | 6,888 | 25,151 |
| Disposals | (11,190) | – | – | (15,618) | (630) | (555) | (27,993) |
| Amortisation charge *(Note 32)* | – | – | (1,351) | (4,290) | (2,263) | (849) | (8,753) |
| Closing net book amount | 422,781 | 57,714 | 11,561 | 13,870 | 6,500 | 8,564 | 520,990 |
| **At 31 December 2010** | | | | | | | |
| Cost | 529,349 | 57,714 | 87,507 | 79,817 | 32,252 | 35,038 | 821,677 |
| Accumulated amortisation | – | – | (15,946) | (58,344) | (25,752) | (7,297) | (107,339) |
| Impairment | (106,568) | – | (60,000) | (7,603) | – | (19,177) | (193,348) |
| Net book amount | 422,781 | 57,714 | 11,561 | 13,870 | 6,500 | 8,564 | 520,990 |
| **Year ended 31 December 2011** | | | | | | | |
| Opening net book amount | **422,781** | **57,714** | **11,561** | **13,870** | **6,500** | **8,564** | **520,990** |
| reclassification | **–** | **–** | **3,620** | **4,656** | **(1,336)** | **(6,940)** | **–** |
| Acquisition of subsidiaries *(Note 43)* | **2,567,152** | **397,022** | **–** | **–** | **2,001** | **1,713** | **2,967,888** |
| Additions | **–** | **–** | **2,619** | **–** | **5,567** | **1,562** | **9,748** |
| Disposal of subsidiaries | **–** | **–** | **(490)** | **(4,814)** | **–** | **–** | **(5,304)** |
| Impairment Charge *(Note 30)* | **(1,038)** | **–** | **–** | **–** | **–** | **–** | **(1,038)** |
| Amortisation charge *(Note 32)* | **–** | **(35,509)** | **(3,988)** | **(1,684)** | **(3,264)** | **(330)** | **(44,775)** |
| Closing net book amount | **2,988,895** | **419,227** | **13,322** | **12,028** | **9,468** | **4,569** | **3,447,509** |
| **At 31 December 2011** | | | | | | | |
| Cost | **3,096,485** | **464,081** | **31,317** | **125,898** | **40,764** | **30,106** | **3,788,651** |
| Accumulated amortisation | **–** | **(44,854)** | **(17,995)** | **(37,777)** | **(31,296)** | **(7,769)** | **(139,691)** |
| Impairment | **(107,590)** | **–** | **–** | **(76,093)** | **–** | **(17,768)** | **(201,451)** |
| Net book amount | **2,988,895** | **419,227** | **13,322** | **12,028** | **9,468** | **4,569** | **3,447,509** |

## 10 INTANGIBLE ASSETS (continued)

### The Group (continued)

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

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost of sales | **926** | 1,061 |
| Distribution and selling expenses | **35,509** | 122 |
| General and administrative expenses | **8,340** | 7,570 |
| | **44,775** | 8,753 |

*(b)* *Impairment test for goodwill*

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment, as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Production segment | **9,374** | 72,407 |
| Distribution segment | **2,963,164** | 334,017 |
| Others | **16,357** | 16,357 |
| | **2,988,895** | 422,781 |

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

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

| | **Production segment** | **Distribution segment** | **Others** |
|---|---|---|---|
| Gross margin | 20%-30% | 4%-8% | 20%-26% |
| Growth rate to extrapolate cash flows beyond the budget period | 2%-3% | 2%-4% | 2%-3% |
| Discount rate | 10%-14% | 11%-13% | 10%-14% |

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

## 10 INTANGIBLE ASSETS (continued)

### The Company

The Company's intangible assets mainly represent the computer software.

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost | **1,873** | 903 |
| Accumulated amortisation | **(299)** | – |
| Net book amount | **1,574** | 903 |
| Opening net book amount | **903** | – |
| Additions | **970** | 903 |
| Depreciation | **(299)** | – |
| Closing net book amount | **1,574** | 903 |

## 11 INVESTMENTS IN SUBSIDIARIES

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Investment at cost | | |
| – Unlisted shares | **12,058,741** | 6,473,753 |

In 2011, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 45.

## 12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Share of net assets, unlisted | **250,109** | 204,695 |
| At 1 January | **204,695** | 197,941 |
| Share of profit for the year | **56,959** | 12,296 |
| Dividends declared | **(11,545)** | (2,742) |
| Deductions | **–** | (2,800) |
| End of the year | **250,109** | 204,695 |

The Group's share of the result of its principal investment in jointly controlled entities, all of which are unlisted, and the aggregated assets and liabilities, are as follows:

(a) *Jiangxi Nanhua Medicines Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **611,272** | 498,015 |
| Liabilities | **511,446** | 409,299 |
| Revenues | **1,239,797** | 1,015,541 |
| Profit/(loss) for the year | **8,269** | (31,502) |
| Percentage of interests held | **50%** | 50% |

## 12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

### The Group (continued)

*(b) Shanghai Hutchison Pharmaceutical Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **228,608** | 179,265 |
| Liabilities | **84,112** | 71,327 |
| Revenues | **319,661** | 241,260 |
| Profit for the year | **46,583** | 38,038 |
| Percentage of interests held | **50%** | 50% |

Particulars of the Group's principal jointly controlled entities are set out in Note 45.

## 13 INVESTMENTS IN ASSOCIATES

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Share of net assets | **2,273,552** | 1,350,172 |
| Provision for impairment | **(69,144)** | (69,144) |
| | **2,204,408** | 1,281,028 |
| At 1 January | **1,281,028** | 842,296 |
| Addition arising from deemed disposal of TECHPOOL *(Note 31)* | **742,754** | – |
| Other additions | **124,945** | 368,220 |
| Share of profit for the year | **246,791** | 270,001 |
| Share of other comprehensive income | **–** | 2,200 |
| Dividends declared | **(188,840)** | (158,848) |
| Transfer (to)/from available-for-sale financial assets | **(300)** | 5,09 |
| Deductions | **(1,970)** | (47,931) |
| End of the year | **2,204,408** | 1,281,028 |

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

The Group's share of the result of its principal associates, and the aggregated assets and liabilities, are as follows:

(a) *Shanghai Roche Pharmaceutical Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **1,370,634** | 962,771 |
| Liabilities | **887,425** | 520,802 |
| Revenues | **1,579,069** | 1,177,582 |
| Profit for the year | **97,816** | 120,374 |
| Percentage of interest held | **30.00%** | 30.00% |

(b) *Sino-American Shanghai Squibb Pharmaceutical Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **447,482** | 379,271 |
| Liabilities | **254,129** | 160,549 |
| Revenues | **754,997** | 672,858 |
| Profit for the year | **57,955** | 89,638 |
| Percentage of interest held | **30.00%** | 30.00% |

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

*(c) TECHPOOL Bio-Pharma Co., Ltd. (Note 31(a))*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **843,833** | Not applicable |
| Liabilities | **63,810** | Not applicable |
| Revenues | **332,197** | Not applicable |
| Profit for the year | **61,454** | Not applicable |
| Percentage of interest held | **40.8%** | Not applicable |

*(d) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **106,229** | 90,030 |
| Liabilities | **46,713** | 40,092 |
| Revenues | **39,631** | 27,347 |
| Profit for the year | **9,582** | 351 |
| Percentage of interest held | **29.6%** | 29.6% |

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

*(e) Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **37,282** | 32,882 |
| Liabilities | **16,442** | 14,547 |
| Revenues | **75,763** | 66,495 |
| Profit for the year | **14,959** | 13,683 |
| Percentage of interest held | **24.0%** | 24.0% |

*(f) Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **411,958** | Not applicable |
| Liabilities | **272,051** | Not applicable |
| Revenues | **876,600** | Not applicable |
| Profit for the year | **14,988** | Not applicable |
| Percentage of interest held | **50.0%** | Not applicable |

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

*(g) Shanghai Ajinomoto Amino Acid Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **82,297** | 74,554 |
| Liabilities | **8,483** | 4,044 |
| Revenues | **56,705** | 53,944 |
| Profit for the year | **4,992** | 3,972 |
| Percentage of interest held | **39.00%** | 39.00% |

*(h) Shanghai Tsumura Pharmaceutical Co., Ltd.*

| | As at and for the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets | **131,873** | 111,507 |
| Liabilities | **26,108** | 9,839 |
| Revenues | **86,086** | 78,415 |
| Profit for the year | **5,484** | 6,923 |
| Percentage of interest held | **34.00%** | 34.00% |

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Investment at cost | | |
| – Unlisted shares | **449,741** | 297,057 |
| Provision for impairment | **(62,814)** | (62,814) |
| | **386,927** | 234,243 |
| At 1 January | **234,243** | 73,408 |
| Deemed disposal of TECHPOOL | **152,684** | – |
| Additions | **–** | 212,809 |
| Deductions | **–** | (51,974) |
| End of the year | **386,927** | 234,243 |

Particulars of the Group's principal associates are set out in Note 45.

## 14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Listed equity investment, at fair value | **18,470** | 116,368 |
| Unlisted equity investment, cost | **221,345** | 317,114 |
| Provision for impairment of unlisted equity investment | **(57,023)** | (49,766) |
| Unlisted equity investment, net | **164,322** | 267,348 |
| | **182,792** | 383,716 |

## 14 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

### The Group (continued)

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **383,716** | 443,590 |
| Transfer from/(to) investments in associates *(Note 13)* | **300** | (5,090) |
| Additions | **8,310** | 97,506 |
| Net amount recognised in equity | **(86,562)** | (35,469) |
| Disposals | **(22,692)** | (116,821) |
| Transfer to investment in a subsidiary *(Note 43)* | **(93,989)** | – |
| Provision for impairment *(Note 30)* | **(6,291)** | – |
| End of the year | **182,792** | 383,716 |

The fair value of listed equity investments is based on the quoted market values as at each balance sheet date. The unlisted equity investments are measured at cost. These equity investments do not have quoted market prices in an active market and the directors consider the fair values cannot be reliably measured as the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed.

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Listed equity investment, at fair value | **1,222** | 100,368 |
| Unlisted equity investment, cost | **53,124** | 53,124 |
| | **54,346** | 153,492 |
| At 1 January | **153,492** | 71,663 |
| Additions | **–** | 143,408 |
| Net amount recognised in equity | **(81,687)** | (16,840) |
| Disposals | **(17,459)** | (44,739) |
| End of the year | **54,346** | 153,492 |

## 15 OTHER LONG-TERM PREPAYMENTS

Pursuant to the approval of the board of directors on 13 December 2010 and a series of agreements entered into by the Group with certain third parties, the Group would acquire 65.24% equity interests of China Health System Ltd. ("CHS"), which is mainly engaged in the distribution of pharmaceutical products, at a consideration of approximately RMB2,328,000,000.

Pursuant to a subsequent approval by the board of directors on 28 January 2011, the Group would acquire the remaining 34.76% equity interests of CHS from certain third parties at a consideration of approximately RMB1,241,000,000.

As at 31 December 2010, the Group had paid approximately RMB895,373,000 to certain then shareholders of CHS, out of which RMB816,236,000 had been paid as prepayment for the acquisition of equity interest of 62.61% of CHS, RMB79,137,000 had been paid for the acquisition of equity interest of 2.63% of CHS.

For the year ended 31 December 2011, the Group had paid remaining consideration of RMB2,673,547,000 to the then shareholders of CHS to obtain the right to control CHS. This acquisition of 100% equity interest in CHS was completed in early April 2011 as disclosed in Note 43(b)(i).

As at 31 December 2011, other long-term prepayments primarily represented construction cost prepaid by the Group.

## 16 INVENTORIES

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **593,581** | 539,205 |
| Work in progress | **351,682** | 352,277 |
| Finished goods | **7,522,888** | 4,508,169 |
| | **8,468,151** | 5,399,651 |
| Less: write-down to net realisable value | **(170,668)** | (166,329) |
| At the year end | **8,297,483** | 5,233,322 |

## 16 INVENTORIES (continued)

### The Group (continued)

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

| | For the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cost of sales, distribution and selling expenses and general and administrative expenses | **46,063,401** | 30,855,687 |

## 17 TRADE AND OTHER RECEIVABLES

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| **Trade receivables from third parties** | | |
| Accounts receivable | **11,264,715** | 7,651,736 |
| Less: Provision for impairment | **(747,859)** | (748,074) |
| Accounts receivable – net | **10,516,856** | 6,903,662 |
| Notes receivable | **971,206** | 579,120 |
| Trade receivables – net | **11,488,062** | 7,482,782 |
| **Other receivables from third parties** | **1,295,235** | 1,360,600 |
| Less: Provision for impairment | **(718,924)** | (736,379) |
| Other receivables – net | **576,311** | 624,221 |
| **Amount due from related parties** *(Note 44(c))* | **149,518** | 682,035 |
| Less: Provision for impairment | **(21,391)** | (51,039) |
| Amount due from related parties – net | **128,127** | 630,996 |
| **Prepayments** *(Note b)* | **478,002** | 660,735 |
| **Value-added tax recoverable** | **144,482** | 71,927 |
| **Interest receivables** | **30,647** | 2,493 |
| Trade and other receivables | **12,845,631** | 9,473,154 |

## 17 TRADE AND OTHER RECEIVABLES (continued)

### The Group (continued)

(a) The fair values of trade and other receivables approximate their carrying amounts due to the short maturities.

(b) As of 31 December 2011 and 2010, prepayments are in connection with:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Purchases of: | | |
| – Raw materials and merchandise | **402,669** | 521,586 |
| – Prepaid expenses and others | **79,113** | 106,427 |
| – Property, plant and equipment | **–** | 32,722 |
| | **481,782** | 660,735 |

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **14,314,697** | 10,979,067 |
| HKD | **412** | 192 |
| USD | **8,830** | 12,632 |
| Other currencies | **9,866** | 16,755 |
| | **14,333,805** | 11,008,646 |

(d) As of 31 December 2011, trade receivables of approximately RMB844,458,000 (2010: RMB179,849,000) have been pledged by the Group for acquiring borrowings of approximately RMB788,765,000 (2010: RMB305,934,000) (Note 25).

## 17 TRADE AND OTHER RECEIVABLES (continued)

### The Group (continued)

(e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, 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 31 December 2011 and 2010 are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Less than 3 months | **8,428,295** | 5,873,458 |
| 3 months to 6 months | **2,134,609** | 752,550 |
| 6 months to 12 months | **904,193** | 807,447 |
| 1 year to 2 years | **102,095** | 63,136 |
| Over 2 years | **666,729** | 734,265 |
| | **12,235,921** | 8,230,856 |

As of 31 December 2011, trade receivables from third parties of approximately RMB1,673,017,000 (2010: RMB1,604,848,000) were past due and impaired. It was assessed that a portion or none of the receivables is expected to be recovered. The ageing analysis of these trade receivables and expected recovery are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| 6 months to 12 months | **904,193** | 807,447 |
| 1 year to 2 years | **102,095** | 63,136 |
| Over 2 years | **666,729** | 734,265 |
| | **1,673,017** | 1,604,848 |
| Less: Expected recovery | **(971,265)** | (889,258) |
| Impairment | **701,752** | 715,590 |

## 17 TRADE AND OTHER RECEIVABLES (continued)

### The Group (continued)

(f) Movements on the provision for impairment of trade and other receivables from third parties and related parties are as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of the year | **1,535,492** | 1,570,468 |
| Provision for impairment | **11,106** | 15,927 |
| Reversal of impairment on certain long ageing receivables | **(20,684)** | – |
| Write-off against uncollectible receivables | **(37,740)** | (50,903) |
| At the end of year | **1,488,174** | 1,535,492 |

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

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

## 17 TRADE AND OTHER RECEIVABLES (continued)

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| **Trade receivables** | | |
| Accounts receivable | **119,438** | 119,438 |
| Less: Provision for impairment | **(119,438)** | (119,438) |
| Accounts receivable – net | **–** | – |
| Notes receivables | **–** | 50 |
| Trade receivables – net | **–** | 50 |
| **Other receivables** | **466,925** | 445,345 |
| Less: Provision for impairment | **(428,983)** | (428,241) |
| Other receivables – net | **37,942** | 17,104 |
| **Amount due from related parties, net** *(Note)* | **1,635,487** | 705,869 |
| **Others** | | |
| Prepayments | **–** | 2,531 |
| Prepaid tax | **2,181** | – |
| | **1,675,610** | 725,554 |

*Note:*

Amount due from related parties primarily represents other receivables and dividends due from the Company's subsidiaries.

## 18 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cash at bank | **14,843,951** | 6,500,965 |
| Cash on hand | **6,103** | 10,469 |
| Less: restricted cash *(Note a)* | **(295,345)** | (300,985) |
| Cash and cash equivalents | **14,554,709** | 6,210,449 |
| Denominated in: | | |
| – RMB | **6,809,611** | 6,126,618 |
| – HKD | **7,971,390** | 86,893 |
| – USD | **42,624** | 268,317 |
| – EUR | **4,643** | 4,908 |
| – Other currencies | **21,786** | 24,698 |
| | **14,850,054** | 6,511,434 |

(a) As of 31 December 2011 and 2010, certain of the Group's bank deposits have been pledged for the following purposes:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Bank deposits pledged for: | | |
| – issue of notes payable | **194,970** | 275,115 |
| – issue of bank borrowings | **–** | 24,500 |
| – others | **100,375** | 1,370 |
| | **295,345** | 300,985 |

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

(c) The conversion of the RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 18 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

### The Group (continued)

(d) The effective interest rates of cash at banks are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***% per annum*** | *% per annum* |
| Effective interest rate | **0.40% ~ 3.10%** | 0.36% ~ 1.71% |

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Cash at bank | **8,608,621** | 269,770 |
| Cash on hand | **1** | 1 |
| | **8,608,622** | 269,771 |
| Less: restricted cash | **–** | (24,500) |
| Cash and cash equivalents | **8,608,622** | 245,271 |
| Denominated in: | | |
| – RMB | **1,350,161** | 269,771 |
| – HKD | **7,258,461** | – |
| | **8,608,622** | 269,771 |

## 19 FINANCIAL INSTRUMENTS BY CATEGORY

### The Group

| | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Assets per balance sheet: | | |
| Financial assets at fair value through profit or loss | **2,659** | 3,647 |
| Available-for-sale financial assets *(Note 14)* | **182,792** | 383,716 |
| Loans and receivables | | |
| – Accounts and notes receivables *(Note 17)* | **11,488,062** | 7,482,782 |
| – Amount due from related parties *(Note 44)* | **124,347** | 630,758 |
| – Other receivables *(Note 17)* | **606,958** | 626,714 |
| – Cash and bank *(Note 18)* | **14,850,054** | 6,511,434 |
| | **27,254,872** | 15,639,051 |
| Liabilities per balance sheet: | | |
| Other financial liabilities at amortised cost | | |
| – Accounts and notes payables *(Note 24)* | **12,372,127** | 8,712,048 |
| – Amount due to related parties *(Note 44)* | **374,384** | 460,113 |
| – Accrual and other payables | **1,338,185** | 1,398,224 |
| – Borrowings *(Note 25)* | **5,727,770** | 5,408,175 |
| | **19,812,466** | 15,978,560 |

## 19 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Assets per balance sheet: | | |
| Available-for-sale financial assets | **54,346** | 153,492 |
| Loans and receivables | | |
| – Amounts due from related parties *(Note 17)* | **1,635,487** | 705,869 |
| – Other receivables *(Note 17)* | **37,942** | 16,236 |
| – Cash and bank *(Note 18)* | **8,608,622** | 269,771 |
| | **10,336,397** | 1,145,368 |
| Liabilities per balance sheet: | | |
| Other financial liabilities at amortised cost | | |
| – Accounts and notes payables *(Note 24)* | **10,785** | 24,778 |
| – Accrual and other payables *(Note 24)* | **957,529** | 412,617 |
| – Borrowings *(Note 25)* | **946,000** | 20,000 |
| | **1,914,314** | 457,395 |

## 20 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by types of the financial assets and by reference to historical information about counter party default rates.

### (a) Trade receivables

As at 31 December 2011, the Group's trade receivables due from third parties of approximately RMB8,428,295,000 (2010: RMB5,873,458,000) were within three months. Trade receivables that were within three months mainly represent those due from customers with good credit history and low default rate. Trade receivables that were either past due or impaired were disclosed in Note 17.

None of the financial assets that are fully performing has been renegotiated in year 2011.

## 20 CREDIT QUALITY OF FINANCIAL ASSETS (continued)

### (b) Cash and cash equivalents

As at 31 December 2011 and 2010, all the bank deposits are deposited in reputable financial institutions which primarily comprise reputable international banks and PRC listed banks or state-owned banks.

The management considered the credit risks in respect of cash and bank deposits with financial institutions are relatively minimum as each counter party bears a high credit rating or is a large PRC listed or state-owned banks with no history of default.

## 21 SHARE CAPITAL

### The Group and the Company

| | Number of A Shares *(thousands)* | Number of H Shares *(thousands)* | A Shares of RMB1 each *RMB'000* | H Shares of RMB1 each *RMB'000* | Total shares of RMB1 each *RMB'000* |
|---|---|---|---|---|---|
| Issued and fully paid: | | | | | |
| At 1 January and 2010 | 569,173 | – | 569,173 | – | 569,173 |
| Issue of A Shares *(Note 1)* | 1,423,470 | – | 1,423,470 | – | 1,423,470 |
| At 31 December 2010 | 1,992,643 | – | 1,992,643 | – | 1,992,643 |
| Issue of H Shares *(note a)* | **–** | **696,267** | **–** | **696,267** | **696,267** |
| Internal transfer *(note b)* | **(69,627)** | **69,627** | **(69,627)** | **69,627** | **–** |
| At 31 December 2011 | **1,923,016** | **765,894** | **1,923,016** | **765,894** | **2,688,910** |

*Note:*

(a) Pursuant to the approval 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 initially issued 664,214,000 H Shares of RMB1 each and partially exercised the Over-Allotment Option of 32,053,200 H Shares of RMB1 each to certain foreign investors at a price of HKD23 per each H Share on 20 May 2011 and 11 June 2011, respectively.

(b) Pursuant to certain regulations and agreements, 69,626,720 state-owned A Shares of the Company held by the controlling shareholders were transferred to the National Council for Social Security Fund of the PRC (the "NSSF") and converted into H Shares on a one-for-one basis.

## 22 SHARE PREMIUM AND OTHER RESERVES

### The Group

| | Share premium<br>*RMB'000* | Statutory reserves<br>*Note (a)*<br>*RMB'000* | Available-for-sale financial Assets<br>*RMB'000* | Revaluation surplus<br>*Note (b)*<br>*RMB'000* | Translation difference<br>*RMB'000* | Others<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | 5,152,410 | 624,630 | 89,411 | 28,227 | 5,688 | 75,217 | 5,975,583 |
| Appropriation to statutory reserves *(Note (a), 23)* | – | 37,141 | – | – | – | – | 37,141 |
| Issue of shares as considerations for business combination under common control *(Note (c))* | 6,722,470 | – | – | – | – | – | 6,722,470 |
| Deemed distribution to equity holders *(Note (b))* | (8,201,315) | – | – | – | – | – | (8,201,315) |
| Available-for-sale financial assets | | | | | | | |
| – Gross | – | – | (35,410) | – | – | – | (35,410) |
| – Tax | – | – | 8,765 | – | – | – | 8,765 |
| Share of other comprehensive income of associates | – | – | – | – | – | 2,200 | 2,200 |
| Transaction with non-controlling interests | – | – | – | – | – | 4,674 | 4,674 |
| Currency translation difference | – | – | – | – | (10,299) | – | (10,299) |
| Others | – | – | – | – | – | (261) | (261) |
| **At 31 December 2010** | 3,673,565 | 661,771 | 62,766 | 28,227 | (4,611) | 81,830 | 4,503,548 |

## 22 SHARE PREMIUM AND OTHER RESERVES (continued)

### The Group (continued)

| | Share premium<br>RMB'000 | Statutory reserves<br>*Note (a)*<br>RMB'000 | Available-for-sale financial Assets<br>RMB'000 | Revaluation surplus<br>*Note (b)*<br>RMB'000 | Translation difference<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2011** | 3,673,565 | 661,771 | 62,766 | 28,227 | (4,611) | 81,830 | 4,503,548 |
| Issue of shares, net of expenses *(Note (c))* | 12,211,184 | – | – | – | – | – | 12,211,184 |
| Appropriation to statutory reserves *(Note (a), 23)* | – | 51,558 | – | – | – | – | 51,558 |
| Available-for-sale financial assets | – | – | – | – | – | – | – |
| – Gross | – | – | (86,019) | – | – | – | (86,019) |
| – Tax | – | – | 21,416 | – | – | – | 21,416 |
| Deemed distribution to equity holders *(Note (b))* | (1,488,022) | – | – | – | – | – | (1,488,022) |
| Transaction with non-controlling interests | – | – | – | – | – | (25,377) | (25,377) |
| Currency translation difference | – | – | – | – | (5,538) | – | (5,538) |
| Others | – | – | – | – | – | 10,550 | 10,550 |
| **At 31 December 2011** | 14,396,727 | 713,329 | (1,837) | 28,227 | (10,149) | 67,003 | 15,193,300 |

## 22 SHARE PREMIUM AND OTHER RESERVES (continued)

### The Company

| | Share premium | Statutory reserves *Note (a)* | Available-for-sale financial Assets | Others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2010** | 544,181 | 252,065 | 1,413 | – | 797,659 |
| Issue of shares as considerations for business combination under common control *(Note (c))* | 6,722,470 | – | – | – | 6,722,470 |
| Effect of business combination under common control | (2,577,342) | – | 75,794 | – | (2,501,548) |
| Appropriation to statutory reserves *(Note (a), 23)* | – | 28,491 | – | – | 28,491 |
| Available-for-sale financial assets | | | | | |
| – Gross | – | – | (16,840) | – | (16,840) |
| – Tax | – | – | 4,485 | – | 4,485 |
| **At 31 December 2010** | 4,689,309 | 280,556 | 64,852 | – | 5,034,717 |
| Capital injection from shareholders *(Note (c))* | **12,211,184** | – | – | – | **12,211,184** |
| Effect of business combination under common control | **(565,527)** | – | – | – | **(565,527)** |
| Appropriation to statutory reserves *(Note (a), 23)* | **51,558** | – | – | **51,558** | – |
| Available-for-sale financial assets | | | | | |
| – Gross | – | – | **(81,687)** | – | **(81,687)** |
| – Tax | – | – | **20,422** | – | **20,422** |
| Others | – | – | – | **(6,609)** | **(6,609)** |
| **At 31 December 2011** | **16,334,966** | **332,114** | **3,587** | **(6,609)** | **16,664,058** |

Apart from foreign currency translation difference, share of other comprehensive income of associates, and effects of changes in available-for-sales financial assets, if any, movements in owners' equity during the years mainly comprised:

## 22 SHARE PREMIUM AND OTHER RESERVES (continued)

### The Group and the Company

(a) In accordance with the PRC Company Law and the articles of association of the PRC companies comprising the Group (the "PRC Companies"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

(b) Deemed distribution to equity holders represents consideration paid out for business combination under common control to the then shareholders of certain subsidiaries before the completion of business combination under common control as disclosed in Note 1.

In February 2010, the Company completed the restructuring with Shanghai Pharma Group, Shang Shi Pharma, Zhong Xi Pharma and Shanghai Shangshi (collectively the "Transfer Out Parties") to acquire the business from the Transfer Out Parties. This transaction was accounted for as a business combination under common control (Note 1). Total deemed and/or actual consideration amounting to approximately RMB8,201,315,000 has been debited to the share premium in the consolidated statements of changes in equity.

In September 2011, the Company completed the acquisition of the "Anti-biotic Businesses from Shanghai Pharma Group. This transaction was accounted for as a business combination under common control (Notes 1 and 43). Total consideration amounting to approximately RMB1,488,022,000 has been debited to the share premium in the consolidated statements of changes in equity.

(c) On 4 February 2010, the Company issued additional total number of 624,317,752 new A Shares to Shanghai Pharma Group and Shanghai Shangshi at a price of RMB11.83 each for acquiring certain subsidiaries, associates and other assets from them. Excess of total deemed and/or actual proceeds over the notional amount of share capital and issue costs directly related to the issuance amounting to approximately RMB6,735,855,000 has been recognised as share premium in the consolidated statements of changes in equity.

In May and June 2011, the Company issued total number of 696,267,200 new H Shares to certain foreign investors at a price of HKD23 each. Excess of total proceeds over the notional amount of share capital and issue costs directly related to the issuance amounting to approximately RMB12,211,184,000 has been recognised as share premium in the consolidated statements of changes in equity.

## 23 RETAINED EARNINGS

| | The Group *RMB'000* | The Company *RMB'000* |
|---|---|---|
| **At 1 January 2010** | 2,502,258 | 480,905 |
| Profit for the year | 1,456,195 | 200,129 |
| Deemed distribution to equity holders *(note)* | (272,108) | – |
| Dividends of the Company *(Note 38)* | (139,569) | (139,569) |
| Appropriation to statutory reserves *(Note 22)* | (37,141) | (28,491) |
| Others | 3,892 | – |
| **At 31 December 2010** | 3,513,527 | 512,974 |
| Profit for the year | **2,042,239** | **493,096** |
| Deemed distribution to equity holders *(note)* | **(1,140)** | – |
| Dividends of the Company *(Note 38)* | **(278,970)** | **(278,970)** |
| Appropriation to statutory reserves *(Note 22)* | **(51,558)** | **(51,558)** |
| Others | **(27,837)** | – |
| **At 31 December 2011** | **5,196,261** | **675,542** |

*Note:*

Deemed distribution to equity holders represents dividends paid to the then shareholders of certain subsidiaries before the completion of business combination under common control as disclosed in Note 1.

## 24 TRADE AND OTHER PAYABLES

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Accounts payable to third parties | **10,276,215** | 6,832,291 |
| Notes payable | **2,095,912** | 1,879,757 |
| Advances received from customers | **366,944** | 325,704 |
| Payables for purchase of PP&E | **106,844** | 63,202 |
| Staff welfare and salary payables | **331,376** | 340,745 |
| Tax liabilities other than income tax | **160,681** | 114,257 |
| Amounts due to related parties *(Note 44)* | **378,700** | 463,924 |
| Accrued expenses | **530,144** | 457,657 |
| Deposits | **216,825** | 142,471 |
| Dividends payable | **52,317** | 48,383 |
| Considerations payable in respect of acquisition of certain subsidiaries | – | 234,695 |
| Others | **432,055** | 451,816 |
| | **14,948,013** | 11,354,902 |

## 24 TRADE AND OTHER PAYABLES (continued)

### The Group (continued)

(a) As at 31 December 2011 and 2010, ageing analysis of the accounts payables to third parties and notes payables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Less than 3 months | **9,085,183** | 6,803,929 |
| 3 months to 6 months | **2,266,272** | 552,455 |
| 6 months to 12 months | **716,681** | 1,108,280 |
| 1 year to 2 years | **140,137** | 124,787 |
| 2 years to 3 years | **52,051** | 35,151 |
| Over 3 years | **111,803** | 87,446 |
| | **12,372,127** | 8,712,048 |

(b) The Group's trade and other payables are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **14,075,938** | 11,325,034 |
| USD | **604,618** | 10,562 |
| EUR | **23,747** | 1,088 |
| HKD | **239,804** | 18,218 |
| Other currencies | **3,906** | – |
| | **14,948,013** | 11,354,902 |

## 24 TRADE AND OTHER PAYABLES (continued)

### The Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Accounts payable | **10,785** | 24,778 |
| Dividends payable | **–** | 34,672 |
| Amounts due to related parties *(Note)* | **1,854,120** | 342,833 |
| Accrued expenses | **37,415** | 3,933 |
| Advances from customers | **4,207** | 4,207 |
| Tax liabilities other than income tax | **6,533** | 2,114 |
| Salary, bonus and staff welfare benefits payable | **14,206** | 15,380 |
| Others | **100,994** | 31,179 |
| | **2,028,260** | 459,096 |

*Note:*

Amount due to related parties primarily represents other payables and dividends payable due to the Company's subsidiaries.

## 25 BORROWINGS

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| **Non-current** | | |
| Long-term bank borrowings | | |
| – guaranteed *(Note a)* | **4,470** | 5,200 |
| – secured *(Note b)* | **31,886** | 45,042 |
| – unsecured | **11,522** | 11,423 |
| Other borrowings | **4,433** | 4,433 |
| | **52,311** | 66,098 |
| **Current** | | |
| Short-term bank borrowings | | |
| – guaranteed *(Note a)* | **212,100** | 724,350 |
| – secured *(Note b)* | **1,126,455** | 768,822 |
| – unsecured | **4,197,614** | 3,789,888 |
| Other borrowings | **138,560** | 31,287 |
| | **5,674,729** | 5,314,347 |
| Current portion of long-term bank borrowings | | |
| – guaranteed *(Note a)* | **730** | 730 |
| – secured *(Note b)* | **–** | 27,000 |
| | **5,675,459** | 5,342,077 |
| **Total borrowings** | **5,727,770** | 5,408,175 |

(a) As at 31 December 2011, the bank borrowings as guaranteed by independent third parties amounted to approximately RMB127,220,000 (2010: RMB274,670,000).

As at 31 December 2011, the bank borrowings as guaranteed by a related party amounted to approximately RMB90,080,000 (2010: RMB455,610,000) (Note 44).

## 25 BORROWINGS (continued)

### The Group (continued)

(b) Analysis of the secured borrowings are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Secured by: | | |
| – PP&E and Land use rights *(Note 7, 9)* | **369,576** | 534,930 |
| – Trade receivables and fixed deposits | **788,765** | 305,934 |
| | **1,158,341** | 840,864 |

(c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| RMB | **5,415,229** | 4,405,950 |
| USD | **285,843** | 1,002,225 |
| HKD | **26,698** | – |
| | **5,727,770** | 5,408,175 |

(d) The weighted average effective interest rates of borrowings are set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings | | |
| – RMB | **6.45%** | 4.63% |
| – USD | **4.55%** | 1.23% |
| – HKD | **4.72%** | – |

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

## 25 BORROWINGS (continued)

### The Group (continued)

(e) The maturities of the Group's total borrowings are set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **5,675,459** | 5,342,077 |
| Between 1 and 2 years | **7,710** | 1,635 |
| Between 2 and 5 years | **23,731** | 30,080 |
| Wholly repayable within 5 years | **5,706,900** | 5,373,792 |
| Over 5 years | **20,870** | 34,383 |
| | **5,727,770** | 5,408,175 |

(f) The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Within 6 months | **2,780,217** | 4,508,962 |
| Between 6 and 12 months | **2,947,553** | 899,213 |
| | **5,727,770** | 5,408,175 |

(g) The carrying amounts of short-term and current borrowings approximate their fair values.

The carrying amount and fair value of non-current borrowings are set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Carrying amounts | **52,311** | 66,098 |
| Fair value | **50,061** | 65,403 |

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

## 25 BORROWINGS (continued)

### The Company

| | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Current | | |
| Short-term borrowings | | |
| – unsecured | **946,000** | – |
| – guaranteed | **–** | 20,000 |
| | **946,000** | 20,000 |

## 26 DEFERRED INCOME TAX

### The Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Deferred income tax assets | | |
| – To be recovered after more than 12 months | **12,825** | 18,873 |
| – To be recovered within 12 months | **165,804** | 134,706 |
| | **178,629** | 153,579 |
| Deferred income tax liabilities | | |
| – To be recovered after more than 12 months | **240,419** | 33,346 |
| – To be recovered within 12 months | **25,869** | 10,208 |
| | **266,288** | 43,554 |
| Deferred income tax (liabilities)/assets – net | **(87,659)** | 110,025 |

## 26 DEFERRED INCOME TAX (continued)

### The Group (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **110,025** | 86,900 |
| Recognised in the consolidated income statements *(Note 35)* | **(113,014)** | 30,845 |
| Disposal of subsidiaries | **(11,488)** | (1,267) |
| Acquisition of subsidiaries | **(94,713)** | (15,233) |
| Recognised in equity | **21,531** | 8,780 |
| Deferred income tax (liabilities)/assets – net | **(87,659)** | 110,025 |

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

*Deferred income tax assets*

| | Provision for impairment of assets | Termination Benefit obligations | Accruals | Others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 1 January 2010** | 86,491 | 11,515 | 6,697 | 15,642 | 120,345 |
| Acquisition of a subsidiary | 631 | – | – | 95 | 726 |
| Disposal of subsidiaries | (331) | – | – | (936) | (1,267) |
| Recognised in the consolidated income statements | (1,068) | (1,155) | 29,053 | 6,945 | 33,775 |
| **At 31 December 2010** | 85,723 | 10,360 | 35,750 | 21,746 | 153,579 |
| Acquisition of subsidiaries | **8,419** | – | **6,279** | – | **14,698** |
| Disposal of subsidiaries | **(2,931)** | – | **(4,852)** | **(3,705)** | **(11,488)** |
| Recognised in the consolidated income statements | **5,436** | **(796)** | **272** | **16,928** | **21,840** |
| **At 31 December 2011** | **96,647** | **9,564** | **37,449** | **34,969** | **178,629** |

## 26 DEFERRED INCOME TAX (continued)

### The Group (continued)

*Deferred income tax liabilities*

| | Provision for impairment of assets *RMB'000* | Termination Benefit obligations *RMB'000* | Accruals *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **At 1 January 2010** | – | – | 32,161 | 1,284 | 33,445 |
| Acquisition of a subsidiary | – | – | – | 15,959 | 15,959 |
| Recognised in the consolidated income statements | – | – | – | 2,930 | 2,930 |
| Recognised in equity | – | – | (8,780) | – | (8,780) |
| **At 31 December 2010** | – | – | 23,381 | 20,173 | 43,554 |
| Acquisition of subsidiaries | **102,704** | **–** | **–** | **6,707** | **109,411** |
| Recognised in the consolidated income statements | **–** | **142,048** | **–** | **(7,194)** | **134,854** |
| Recognised in equity | **–** | **–** | **(21,531)** | **–** | **(21,531)** |
| **At 31 December 2011** | **102,704** | **142,048** | **1,850** | **19,686** | **266,288** |

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately RMB29,771,000 (2010: RMB33,693,000) in respect of tax losses amounting to approximately RMB119,085,000 (2010: RMB134,770,000) that can be carried forward against future taxable income. Tax losses amounting to RMB3,075,000, RMB116,010,000 will expire in 2015 and 2016, respectively.

## 27 OTHER NON-CURRENT LIABILITIES

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Medical reserve funds *(Note a)* | **63,014** | 62,147 |
| Project development funds *(Note b)* | **80,372** | 71,461 |
| Office and plant relocation funds *(Note c)* | **255,908** | 75,738 |
| Others | **54,030** | 17,781 |
| | **453,324** | 227,127 |

(a) During the years ended 31 December 2011 and 2010, certain medical reserve funds were received by the Group from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group will sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2011 and 2010 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

(b) Certain of the Group's subsidiaries and the Company received funds from local governments as compensation for expenses arising from research expenses on certain special projects. Upon completion of the research, such funds, after offsetting against actual expenses arising during the course of research, will be recognised as other income. As at each balance sheet date, the directors expect that such project will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

(c) Certain of the Group's subsidiaries received funds from local governments or other organisations as compensation for losses arising from office or plant relocation upon the request from the local government. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses arising from office relocation, will be recognised as other income. As at each respective balance sheet date, the directors expect that such office or plant relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

## 27 OTHER NON-CURRENT LIABILITIES (continued)

### The Group (continued)

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Project development funds | **28,278** | – |

## 28 TERMINATION BENEFIT OBLIGATIONS

### The Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Termination benefit | **58,524** | 79,835 |

The Group had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the "Early Retired Employees").

The Group recognises a liability for the present value of the obligations relating to the termination benefits payable to these Early Retired Employees.

The liability related to the benefit obligations for the Early Retired Employees existing at the respective balance sheet dates are calculated by the management using future cash flow discounting method.

Movements of the net liability recognised in the consolidated financial statements are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| At beginning of year | **79,835** | 98,064 |
| Recognised as expense *(Note 33)* | **637** | 2,377 |
| Benefits paid | **(21,948)** | (20,606) |
| At end of year | **58,524** | 79,835 |

## 29 OTHER INCOME

### The Group

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Government grants *(Note a)* | **109,846** | 110,115 |
| Subsidy for relocation *(Note 27(c))* | **51,663** | 29,814 |
| Dividend income from available-for-sale financial assets | **6,122** | 29,564 |
| | **167,631** | 169,493 |

(a) Government grants mainly represented subsidy income received from various government organisations.

## 30 OTHER (LOSSES)/GAINS – NET

### The Group

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| (Loss)/gain of financial assets at fair value through profit or loss, net | **(1,075)** | 4,892 |
| Gain/(loss) on disposals of investment properties | **4,129** | (65,268) |
| Gain on disposals of PP&E | **454** | 24,235 |
| Gain on disposals of intangible assets | **–** | 71 |
| Gain on disposals of available-for-sale financial assets | **119,412** | 114,768 |
| Loss on disposals of land use rights | **(329)** | (8,224) |
| Provision for impairment of PP&E *(Note 9)* | **(4,184)** | (12,851) |
| Provision for impairment of available-for-sale financial assets *(Note 14)* | **(6,291)** | – |
| Provision for impairment of intangible assets *(Note 10)* | **(1,038)** | – |
| Reversal for impairment of long ageing receivables | **20,684** | – |
| Foreign exchange losses | **(194,586)** | (1,938) |
| Others – net | **(21,283)** | 9,964 |
| | **(84,107)** | 65,649 |

## 31 GAINS ON DISPOSAL OF SUBSIDIARIES

### The Group

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Deemed disposal of TECHPOOL *(note (a))* | **479,195** | – |
| Disposal of Qingdao Growful Dongrui Pharmaceutical Co., Ltd. ("Dongrui") *(note (b))* | **37,803** | – |
| Others | **4,614** | 17,479 |
| | **521,612** | 17,479 |

*Note:*

(a) 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.

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 is analysed as below:

| | **2011** |
|---|---|
| | *RMB'000* |
| Fair value of the 40.8% equity investment in TECHPOOL *(Note 13)* | 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 deemed disposal of TECHPOOL | 479,195 |

The deferred tax impact on the above gain is recorded under deferred income tax liabilities in Note 26.

## 31 GAINS ON DISPOSAL OF SUBSIDIARIES (continued)

### The Group (continued)

*Note: (continued)*

(b) On 9 May 2011, the Group disposed 100% of the share capital of Dongrui for approximately RMB24,500,000.

| | 2011 *RMB'000* |
|---|---|
| Fair value of the 100% equity investment in Dongrui | 19,391 |
| Add: Carrying amount of net liabilities of Dongrui as at 9 May2011 | 18,412 |
| Gain on disposal of Dongrui | 37,803 |

## 32 EXPENSES BY NATURE

### The Group

| | Year ended 31 December 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Raw materials, merchandise and consumables used | **49,077,744** | 32,078,324 |
| Changes in inventories of finished goods and work in progress | **(3,014,344)** | (1,222,637) |
| Employee benefit expenses *(Note 33)* | **2,035,075** | 1,722,379 |
| Travelling and meeting expenses | **739,438** | 746,644 |
| Promotion and advertising costs | **431,804** | 384,813 |
| Depreciation of PP&E *(Note 9)* | **427,761** | 381,057 |
| Transportation costs | **240,325** | 167,263 |
| Operating lease rentals | **214,017** | 159,582 |
| Real estate tax, stamp duties and other taxes | **207,476** | 148,443 |
| Office expenditures | **193,793** | 226,578 |
| Energy and utilities | **124,559** | 103,872 |
| Repair and maintenance fee | **100,755** | 131,663 |
| Amortisation of intangible assets *(Note 10)* | **44,775** | 8,753 |
| Amortisation of land use rights *(Note 7)* | **24,727** | 23,225 |
| Depreciation of investment properties *(Note 8)* | **15,861** | 23,692 |
| Provision for impairment of trade and other receivables *(Note 17)* | **11,106** | 15,927 |
| Auditor's remuneration | **9,389** | 9,686 |
| Write-down/(reversal of write-down) of inventories to net realisable value | **4,338** | (20,595) |
| Others | **1,631,642** | 1,657,814 |
| Total cost of sales, distribution and selling expenses and general and administrative expenses | **52,520,241** | 36,746,483 |

## 33 EMPLOYEE BENEFIT EXPENSES

### The Group

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Salaries, wages and bonuses | **1,428,140** | 1,222,230 |
| Contributions to pension plans *(Note (a))* | **239,690** | 173,474 |
| Housing fund, medical insurance and other social insurance *(Note (b))* | **220,037** | 181,950 |
| Termination benefit obligations *(Note 28)* | **637** | 2,377 |
| Others | **146,571** | 142,348 |
| | **2,035,075** | 1,722,379 |

*(a)* As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

*(b)* Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

## 33 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

### The Group (continued)

*(c) Emoluments of directors and senior management*

The remuneration of each director of the Company for the year is set out below:

**Year ended 31 December 2011**

| Name of director | Salaries and fee *RMB'000* | Bonuses *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| Mr. Lu Mingfang | – | – | – | – |
| Mr. Zhang Jialin | – | – | – | – |
| Mr. Xu Guoxiong | 451 | 2,540 | 71 | 3,062 |
| Mr. Lu Shen | – | – | – | – |
| Mr. Jiang Ming | – | – | – | – |
| Mr. Zeng Yixin | 115 | – | – | 115 |
| Mr. Bai Huiliang | 115 | – | – | 115 |
| Mr. Chen Naiwei | 115 | – | – | 115 |
| Ms. Tommei Tong | 115 | – | – | 115 |
| | 911 | 2,540 | 71 | 3,522 |

**Year ended 31 December 2010**

| Name of director | Salaries and fee *RMB'000* | Bonuses *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| Mr. Lu Mingfang | – | – | – | – |
| Mr. Zhang Jialin | – | – | – | – |
| Mr. Xu Guoxiong | 396 | 781 | 65 | 1,242 |
| Mr. Lu Shen | – | – | – | – |
| Mr. Jiang Ming | – | – | – | – |
| Mr. Zeng Yixin | 60 | – | – | 60 |
| Mr. Bai Huiliang | 60 | – | – | 60 |
| Mr. Chen Naiwei | 60 | – | – | 60 |
| Ms. Tommei Tong | 60 | – | – | 60 |
| | 636 | 781 | 65 | 1,482 |

*Note:*

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments (the "Emoluments") from Shanghai Pharma Group or Shanghai Industrial Group, the immediate holding company and ultimate parent company respectively. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Group and their service rendered to the immediate holding company and ultimate parent company.

## 33 EMPLOYEE BENEFIT EXPENSES (continued)

### The Group (continued)

(d) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group during the year include one director whose emoluments during the year have been included in note (c) above. The emoluments payable to the five highest individuals during the year are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and fee | **3,103** | 1,465 |
| Bonuses | **11,191** | 2,399 |
| Employer's contribution to pension scheme | **320** | 325 |
| | **14,614** | 4,189 |

The emoluments fell within the following bands:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***Number*** | *Number* |
| Emolument bands (in HK dollars) | | |
| HKD500,001 – HKD1,000,000 | **–** | 3 |
| HKD1,000,001 – HKD1,500,000 | **–** | 2 |
| HKD2,500,001 – HKD3,000,000 | **1** | – |
| HKD3,000,001 – HKD3,500,000 | **1** | – |
| HKD3,500,001 – HKD4,000,000 | **1** | – |
| HKD4,000,001 – HKD4,500,000 | **2** | – |

(e) In 2011 and 2010, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

## 34 FINANCE INCOME AND COSTS

### The Group

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Interest income on bank deposits | **259,283** | 47,717 |
| Others | **3,634** | – |
| Total finance income | **262,917** | 47,717 |
| Interest expenses on borrowings | **(326,621)** | (197,490) |
| Interest expenses on notes discounted | **(135,175)** | (39,681) |
| Other costs | **(54,537)** | (7,888) |
| Total finance cost | **(516,333)** | (245,059) |
| Net finance costs | **(253,416)** | (197,342) |

## 35 TAXATION

### The Group

(a) *Income tax expense*

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

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Current income tax, PRC enterprise income tax | **476,058** | 446,730 |
| Deferred income tax | **113,014** | (30,845) |
| | **589,072** | 415,885 |

(i) The Group was not subject to Hong Kong profits tax during the years presented as there was no assessable income arising in or derived from Hong Kong.

## 35 TAXATION (continued)

### The Group (continued)

(a) *Income tax expense (continued)*

(ii) 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 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 22% for 2010 and 24% for 2011 and will be 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 Hua Cheng Property 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 New CIT Law 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 2010 and 2011, respectively.

- Shanghai Sine Jiahua Pharmaceutical Co., Ltd., Shanghai New Asiatic Pharmaceutical Co., Ltd., Shanghai Dehua Traditional Chinese Medicines Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co.,Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Shanghai Xing Ling SCI&TECH Pharmaceutical Co., Ltd., Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co.,Ltd., Shanghai Fuda Pharmacy Co., Ltd., Hangzhou HuQingYuTang Pharmaceuatical Co., Ltd., Liaoning Herbapex Pharmaceutical (group) 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., 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% for 2010 and 2011.

## 35 TAXATION (continued)

### The Group (continued)

(a) *Income tax expense (continued)*

(iii) The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates of 25% applicable to the years as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **3,035,102** | 2,283,250 |
| Tax calculated at the domestic CIT rate applicable | **758,776** | 570,813 |
| Income not subject to taxation | **(115,709)** | (83,940) |
| Cost not deductible for taxation purposes | **77,798** | 90,521 |
| Preferential tax rate of certain subsidiaries | **(117,097)** | (153,574) |
| Additional deduction on research and development expenses | **(17,584)** | (19,615) |
| Utilisation of tax losses for which no deferred income tax asset was recognised | **(26,114)** | (15,202) |
| Tax losses for which no deferred income tax asset was recognised | **29,002** | 26,882 |
| Income tax expenses | **589,072** | 415,885 |
| Effective tax rate | **19.4%** | 18.2% |

(b) *Business tax ("BT") and related taxes*

Certain of the Group's revenues are subject to BT at rate of 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1%, 5% or 7% and 1% to 5% of the amount of BT payable.

(c) *Value-added tax ("VAT") and related taxes*

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 3%, 6%, 13% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 5% of the net VAT payable.

## 36 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year 2011 has been dealt with in the financial statements of the Company to the extent of approximately RMB493,096,000 (2010: RMB200,129,000).

## 37 EARNINGS PER SHARE

For year ended 31 December 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.

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| Profit attributable to equity holders of the Company (RMB'000) | **2,042,239** | 1,456,195 |
| Number of ordinary shares (thousands) | **2,420,563** | 1,992,643 |
| Basic earnings per share (RMB) | **0.84** | 0.73 |

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during the years presented.

## 38 DIVIDENDS

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Dividends declared by the Company | **430,226** | 314,527 |

In March 2012, the directors of the Company proposed a final dividend for 2011. Net amount of the dividend for 2011 was approximately RMB430,226,000, representing RMB0.16 per share. This proposal was subject to the shareholders' approval.

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, 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.

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### (i) Cash generated from operations

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Profit before income tax | **3,035,102** | 2,283,250 |
| Adjustments for: | | |
| – Share of profit from associates | **(246,791)** | (270,001) |
| – Share of profit from jointly controlled entities | **(56,959)** | (12,296) |
| – Depreciation of PP&E and investment properties | **443,622** | 404,749 |
| – Amortisation of land use rights and intangible assets | **69,502** | 31,978 |
| – Financial assets at fair value through profit or loss | **1,075** | (769) |
| – (Gain)/Loss on disposals of | | |
| – investment property | **(4,129)** | 65,268 |
| – PP&E | **(454)** | (24,235) |
| – land use rights and intangible assets | **329** | 8,153 |
| – investment in subsidiaries and associates | **(521,612)** | (21,741) |
| – available-for-sale financial assets | **(119,412)** | (114,768) |
| – Reversal for impairment of long-term receivables | **(20,684)** | – |
| – Provisions for impairment of | | |
| – trade and other receivables | **11,106** | 15,927 |
| – inventories | **4,339** | (20,595) |
| – PP&E | **4,184** | 12,851 |
| – available-for-sale financial assets | **6,291** | – |
| – intangible assets | **1,038** | – |
| – Dividend income on available-for-sale financial assets | **(6,122)** | (29,564) |
| – Financial cost – net | **198,879** | 199,213 |
| – Foreign exchange gain and loss – net | **210,616** | – |
| – Other gains – others, net | **23,121** | (7,655) |
| | **3,033,041** | 2,519,765 |
| Changes in working capital: | | |
| – Inventories | **(1,565,903)** | (879,424) |
| – Trade and other receivables | **(1,210,110)** | (822,110) |
| – Trade and other payables | **1,808,863** | 1,819,445 |
| – Restricted cash | **(21,777)** | 9,229 |
| Cash generated from operations | **2,044,114** | 2,646,905 |

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(ii) In the cash flow statements, proceeds from disposals of PP&E and investment properties comprise:

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Net book amount | **67,544** | 555,263 |
| Gain/(Loss) on disposal *(Note 30)* | **4,583** | (41,033) |
| Cash receipt in respect of disposal of PP&E in prior year | **3,379** | – |
| Receivables in respect of disposal of investment properties | **(34,087)** | (3,379) |
| Proceeds from disposal | **41,419** | 510,851 |

(iii) In the cash flow statements, proceeds from disposals of land use rights and intangible assets (excluding goodwill) comprise:

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Net book amount | **519** | 52,211 |
| Loss on disposal *(Note 30)* | **(329)** | (8,153) |
| Proceeds from disposal | **190** | 44,058 |

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(iv) In the cash flow statements, proceeds from disposals of available-for-sale financial assets comprise:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Net book amount | **22,692** | 116,821 |
| Gain on disposal *(Note 30)* | **119,412** | 114,768 |
| | **142,104** | 231,589 |
| Cash receipt in respect of disposal of available-for-sale financial assets in prior year | **89,068** | – |
| Receivables in respect of disposal of available-for-sale financial assets | **–** | (89,068) |
| Proceeds from disposal | **231,172** | 142,521 |

(v) In the cash flow statements, proceeds from disposals of subsidiaries, associates and jointly controlled entities comprise:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Net book amount | **871** | 157,365 |
| Gain on disposal | **42,417** | 21,741 |
| | **43,288** | 179,106 |
| Cash receipt in respect of disposal of associate in prior year | **44,072** | – |
| Cash and cash equivalents in subsidiaries disposed | **(18,607)** | (54,517) |
| Receivables in respect of disposal of a associate | **–** | (44,072) |
| Proceeds from disposal | **68,753** | 80,517 |

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(vi) In 2010, the principal non-cash transactions are the issue of shares as consideration for the acquisition of certain entities from Shanghai Pharma Group and Shanghai Industrial Group as described in Note 1.

In 2011, the Group has entered into certain assignments with Shanghai Pharma Group and Shanghai Asia Pioneer Pharmaceutical Co., Ltd., pursuant to which, part of the total consideration (approximately RMB1,488,022,000) in respect of acquisition of Anti-biotic Businesses (as disclosed in Note 1) amounting to RMB417,570,000 due to Shanghai Pharma was settled by the Group through the current receivable account with Shanghai Asia Pioneer Pharmaceutical Co., Ltd..

In 2011, the Group has entered into certain assignments with Shanghai Pharma Group, pursuant to which, trade payables amounting to RMB100,000,000 due to Shanghai Pharma Group was settled by the Group through the current receivable account.

## 40 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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Outstanding loan guarantees provided to related parties | **176,000** | 351,384 |

As of 31 December 2011, outstanding loan guarantees represented loan guarantees of approximately RMB176,000,000 (2010: RMB351,384,000) provided by the Group to certain related parties of the Group (Note 44(d)).

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.

## 41 COMMITMENTS

### (a) Capital commitments

*(i) Constructions*

Capital expenditure contracted for at the end of year but not yet incurred is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| PP&E | **21,556** | 9,696 |

*(ii) Other commitments*

On 23 February 2011, the Company has entered into certain agreements (the "Agreements") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to which the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. In 2011, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB35,065,000.

### (b) Operating lease commitments

(i) The Group is the lessee:

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| No later than 1 year | **40,562** | 24,228 |
| Later than 1 year and no later than 2 years | **35,016** | 17,213 |
| Later than 2 years and no later than 5 years | **34,810** | 39,983 |
| Later than 5 years | **10,829** | 23,693 |
| | **121,217** | 105,117 |

## 41 COMMITMENTS (continued)

### (b) Operating lease commitments (continued)

(ii) The Group is the lessor:

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| No later than 1 year | **32,668** | 21,769 |
| Later than 1 year and no later than 2 years | **28,205** | 7,877 |
| Later than 2 years and no later than 5 years | **41,852** | **17,323** |
| Later than 5 years | **10,395** | 8,245 |
| | **113,120** | 55,214 |

## 42 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Significant transactions with non-controlling shareholders of certain subsidiaries relate to acquisition of additional interest in subsidiaries as follows:

(i) Transaction with non-controlling interests of Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青島華氏國風醫藥有限責任公司, "Huashi Growful")
On 1 January 2011, the Group acquired 34.78% equity interests of Huashi Growful for a purchase consideration of approximately RMB35,000,000. The carrying amount of the non-controlling interests in Huashi Growful on the date of acquisition was approximately RMB17,593,000. The Group recognised a decrease in non-controlling interests of approximately RMB17,593,000 and a decrease in equity attributable to owners of the Company of approximately RMB17,407,000. The effect of changes in the ownership interest of Huashi Growful on the equity attributable to owners of the company during the year is summarised as follows:

| | **2011** |
|---|---|
| | *RMB'000* |
| Carrying amount of non-controlling interests acquired | 17,593 |
| Consideration paid to non-controlling interests | (35,000) |
| Excess of consideration paid recognised within equity | (17,407) |

## 42 TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(ii) Transaction with non-controlling interests of Shanghai Shanglian Pharmaceutical Co., Ltd. (上海上聯藥業有限公司, "Shanghai Shanglian")

On 31 May 2011, the Group acquired 49% equity interests of Shanghai Shanglian for a purchase consideration of approximately RMB29,560,700. The carrying amount of the non-controlling interests in Shanghai Shanglian on the date of acquisition was approximately RMB7,531,000. The Group recognised a decrease in non-controlling interests of approximately RMB7,531,000 and a decrease in equity attributable to owners of the Company of approximately RMB22,029,000. The effect of changes in the ownership interest of Shanghai Shanglian on the equity attributable to owners of the Company during the year is summarised as follows:

| | **2011** *RMB'000* |
|---|---|
| Carrying amount of non-controlling interests acquired | 7,531 |
| Consideration paid to non-controlling interests | (29,560) |
| Excess of consideration paid recognised within equity | (22,029) |

(iii) Transaction with non-controlling interests of Qingdao Growful Pharmaceutical Co., Ltd. (青島國風藥業股份有限公司, "Qingdao Growful")

On 21 May 2011, the Group acquired 3.59% equity interests of Qingdao Growful for a purchase consideration of approximately RMB23,865,000. The carrying amount of the non-controlling interests in Qingdao Growful on the date of acquisition was approximately RMB17,256,000. The Group recognised a decrease in non-controlling interests of approximately RMB17,256,000 and a decrease in equity attributable to owners of the Company of approximately RMB6,609,000. The effect of changes in the ownership interest of Qingdao Growful on the equity attributable to owners of the Company during the year is summarised as follows:

| | **2011** *RMB'000* |
|---|---|
| Carrying amount of non-controlling interests acquired | 17,256 |
| Consideration paid to non-controlling interests | (23,865) |
| Excess of consideration paid recognised within equity | (6,609) |

## 43 BUSINESS COMBINATION

### (a) Business combinations under common control

The following is a reconciliation of the effect arising from the common control combination (Note 1) in respect of the acquisition of Anti-biotic Businesses on the consolidated reserves.

The consolidated balance sheet as at 31 December 2011:

| | The Group excluding Anti-biotic Businesses *RMB'000* | Anti-biotic Businesses *RMB'000* | Adjustments Note *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| Investment in Anti-biotic Businesses | **922,496** | **–** | **(922,496)** | **–** |
| Other non-current assets | **11,084,491** | **587,506** | **–** | **11,671,997** |
| Current assets | **34,977,763** | **1,457,819** | **(439,755)** | **35,995,827** |
| Non-current liabilities | **830,411** | **36** | **–** | **830,447** |
| Current liabilities | **20,293,758** | **1,001,909** | **(439,755)** | **20,855,912** |
| Net Assets | **25,860,581** | **1,043,380** | **(922,496)** | **25,981,465** |
| Share capital | **2,688,910** | **381,418** | **(381,418)** | **2,688,910** |
| Share premium | **14,916,937** | **36,684** | **(556,894)** | **14,396,727** |
| Other reserves | **706,035** | **78,158** | **12,380** | **796,573** |
| Retained earnings | **4,703,596** | **508,940** | **(16,275)** | **5,196,261** |
| Non-controlling interests | **2,845,103** | **38,180** | **19,711** | **2,902,994** |
| | **25,860,581** | **1,043,380** | **(922,496)** | **25,981,465** |

The consolidated balance sheet as at 31 December 2010:

| | The Group excluding Anti-biotic Businesses *RMB'000* | Anti-biotic Businesses *RMB'000* | Adjustments Note *RMB'000* | Consolidated *RMB'000* |
|---|---|---|---|---|
| Non-current assets | 8,278,028 | 663,884 | – | 8,941,912 |
| Current assets | 19,962,916 | 1,271,468 | (12,827) | 21,221,557 |
| Non-current liabilities | 414,170 | 2,444 | – | 416,614 |
| Current liabilities | 15,942,511 | 988,943 | (12,827) | 16,918,627 |
| Net Assets | 11,884,263 | 943,965 | – | 12,828,228 |
| Share capital | 1,992,643 | 381,418 | (381,418) | 1,992,643 |
| Share premium | 3,282,151 | 36,684 | 354,730 | 3,673,565 |
| Other reserves | 742,742 | 75,125 | 12,116 | 829,983 |
| Retained earnings | 3,117,023 | 402,011 | (5,507) | 3,513,527 |
| Non-controlling interests | 2,749,704 | 48,727 | 20,079 | 2,818,510 |
| | 11,884,263 | 943,965 | – | 12,828,228 |

## 43 BUSINESS COMBINATION (continued)

### (a) Business combinations under common control (continued)

*Note:*

The above adjustments mainly represent adjustments to (i) eliminate the share capital and reserves of the Anti-biotic Businesses against the investment costs; and (ii) eliminate inter-company balances and unrealised profit between the Group excluding the Anti-biotic Businesses.

No significant accounting adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common combination to achieve consistency of accounting policies.

### (b) Significant business combinations not under common control

(i) On 1 April 2011, the Group acquired 100% equity interests in China Health System Ltd. ("CHS") from an independent third party for a cash consideration of approximately RMB3,568,920,000. The acquisition date of this transaction was 1 April 2011, on which the Group effectively obtained the right to control CHS.

The following table summarizes the consideration paid for acquisition of RMB3,568,920,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

| **Consideration** | **CHS** *RMB'000* |
|---|---|
| At 1 April 2011 | |
| Acquisition consideration *(note)* | 3,568,920 |
| Total consideration | 3,568,920 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 296,830 |
| PP&E | 25,433 |
| Intangible assets | 364,961 |
| Investment in an associate | 125,546 |
| Deferred income tax assets | 10,690 |
| Inventories | 1,445,718 |
| Trade and other receivables | 2,548,866 |
| Deferred income tax liabilities | (98,828) |
| Trade and other payables | (1,931,990) |
| Borrowings | (1,460,161) |
| **Total identifiable net assets** | 1,327,065 |
| Non-controlling interests | (16,142) |
| Goodwill | 2,257,997 |
| | 3,568,920 |

## 43 BUSINESS COMBINATION (continued)

### (b) Significant business combinations not under common control (continued)

*Note:*

Total consideration for acquisition of CHS was approximately RMB3,568,920,000, out of which approximately RMB816,236,000 and RMB79,137,000 was prepaid by the Group in 2010 and recognized as other long-term prepayments and available-for-sale financial assets as at 31 December 2010 respectively, approximately RMB2,673,547,000 was paid by the Group in cash in 2011.

Had CHS been consolidated from 1 January 2011, the consolidated revenue and profit of the Group would be increased by approximately RMB1,900,588,000 and RMB43,945,000, respectively.

(ii) On 1 July 2011, the Group acquired 80% equity interests in Shanghai Shanhe Wuxi Pharmaceutical Co., Ltd. (上藥山禾無錫醫藥股份有限公司, "Shanhe Wuxi") from an independent third party for a cash consideration of approximately RMB344,000,000. The acquisition date of this transaction was 1 July 2011, on which the Group effectively obtained the right to control Shanhe Wuxi.

The following table summarizes the consideration paid for acquisition of RMB344,000,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

| Consideration | Shanhe Wuxi<br>*RMB'000* |
|---|---|
| At 1 July 2011 | |
| Acquisition consideration – Cash | 344,000 |
| Total consideration | 344,000 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 35,594 |
| PP&E | 14,877 |
| Intangible assets | 23,911 |
| Deferred income tax assets | 4,238 |
| Available-for-sale financial assets | 6,484 |
| Other non-current assets | 2,000 |
| Inventories | 93,111 |
| Trade and other receivables | 372,851 |
| Other non-current liabilities | (28,081) |
| Deferred income tax liabilities | (7,116) |
| Trade and other payables | (286,058) |
| Borrowings | (119,000) |
| **Total identifiable net assets** | 112,811 |
| Non-controlling interests | (22,562) |
| Goodwill | 253,751 |
| | 344,000 |

## 43 BUSINESS COMBINATION (continued)

### (b) Significant business combinations not under common control (continued)

Had Shanhe Wuxi been consolidated from 1 January 2011, the consolidated revenue and profit of the Group would be increased by approximately RMB639,193,000 and RMB972,000, respectively.

(iii) On 1 January 2011, the Group had established a subsidiary named SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司, "Zhongxie Pharma"). On 31 May 2011, Zhongxie Pharma acquired certain pharmaceutical business ("Zhongxie Pharma Business") from an independent third party for a cash consideration of approximately RMB119,000,000. The acquisition date of this transaction was 31 May 2011, on which the Group effectively obtained the right to control its pharmaceutical business.

The following table summarizes the consideration paid for acquisition of RMB 119,000,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

| Consideration | Zhongxie Pharma Business *RMB'000* |
|---|---|
| At 31 May 2011 | |
| Acquisition consideration – Cash | 119,000 |
| Total consideration | 119,000 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 119,000 |
| Intangible assets | 14,000 |
| Deferred tax liabilities | (3,500) |
| **Total identifiable net assets** | 129,500 |
| Non-controlling interests | (64,750) |
| Goodwill | 54,250 |
| | 119,000 |

Had Zhongxie Pharma Business been consolidated from 1 January 2011, the consolidated profit of the Group would not be affected significantly.

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS

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

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

| 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 Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司) | Controlled by Shanghai Pharma 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 Wuzhou Pharmaceutical Co., Ltd. (上海五洲藥業股份有限公司) | Controlled by Shanghai Pharma Group |
| Shanghai Pharmaceutical Advertisement Company (上海醫藥廣告公司) | Controlled by Shanghai Pharma Group |
| Shanghai Pharmaceutical Technology Development Co., Ltd. (上海醫藥科技發展有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai International Pharmaceutical Trade Co., Ltd. (上海國際醫藥貿易有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai Xinyun Chemical Co., Ltd. (上海新雲化工有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai Antibioticos Pioneer Pharmaceutical Co., Ltd. (上海安替比奥先鋒制藥有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai SIICINV Consulting Co., Ltd. (上海上實投資管理咨詢有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai Xinshidai Pharmaceutical Co., Ltd. (上海新時代藥業有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai Siyaogu Trading Co., Ltd. (上海思耀穀貿易有限公司) | Controlled by Shanghai Industrial Group |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

| Name of related party | Nature of relationship |
|---|---|
| Shanghai Shen Wei Pharmaceutical Co., Ltd. (上海申威醫藥有限公司) | Controlled by Shanghai Industrial Group |
| Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd. (滬港新亞藥業 揚州 有限公司) *(note)* | Controlled by Shanghai Industrial Group |
| Shanghai Pudong New Area Caolu Investment And Management Co., Ltd. (上海浦東新區曹路投資管理有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai New Asiatic – Maclean Chemical Co., Ltd. (上海新亞－麥克林化學有限公司) | Controlled by Shanghai Industrial Group |
| Shanghai Yafei Industry Co., Ltd. (上海亞飛實業有限公司) | 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 Haoya Investment Co., Ltd. (上海浩亞投資有限公司) | Controlled by Shanghai Industrial Group |
| Ningbo United Medical Instruments Chemical Experimental Glass Apparatus Co., Ltd. (寧波聯合醫療器械化試玻儀有限公司) | 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 Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司) | Jointly controlled entity |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶制藥有限公司) | Associate |
| Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏制藥有限公司) | Associate |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司) | Associate |
| Shanghai Bracco Sine Pharmaceutical Corp. Ltd. (上海信誼博萊科藥業有限公司) | Associate |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司) | Associate |
| Shanghai Beisiou Pharmaceutical Co., Ltd. (上海貝斯歐藥業有限公司) | Associate |
| Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司) | Associate |
| Jilin Yaitai Fahrenheit Medicine Co., Ltd. (吉林亞泰華氏醫藥有限公司) | Associate |
| Shanghai lvyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司) | Associate |
| Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司) | Associate |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

| Name of related party | Nature of relationship |
|---|---|
| Shanghai Draeger Medical Instrument Co., Ltd. (上海德爾格醫療器械有限公司) | Associate |
| Shanghai Tongyong Pharmaceutical Corp., Ltd. (上海通用藥業股份有限公司) | Associate |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司) | Associate |
| Shanghai Baohua Industrial Co., Ltd. (上海保華實業公司) | 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 Sanhe Biotechnology Co., Ltd. (上海三合生物技術有限公司) | Associate |
| Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司) | Associate |
| Hengren Manchu Municipality Grain Packaging Co., Ltd. (桓仁滿族自治縣格瑞恩包裝有限公司) | Associate |
| TECHPOOL (廣東天普生化醫藥股份有限公司) | Associate |
| Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. (北京信海豐園生物醫藥科技發展有限公司) | Associate |

*Note:*

In 2011, Shanghai Pharma Group disposed equity interest in Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd. ("Hugang Xinya"). Therefore, Hugang Xinya is not considered to be related to the Group anymore.

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 years and balances arising from related party transactions.

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

In 2011 and 2010, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parities.

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Sales of goods and render of service | | |
| Jiangxi Nanhua Medicines Co., Ltd. | **191,187** | 179,410 |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **72,948** | 98,537 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **67,401** | 49,583 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | **59,113** | 41,198 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | **56,812** | 53,631 |
| Shanghai Deyi Pharmaceutical Co., Ltd. | **52,437** | 50,227 |
| Shanghai lvyuan Pharmacy Co., Ltd. | **26,305** | 20,529 |
| Shanghai Jianer Pharmacy Co., Ltd. | **5,588** | 1,956 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | **4,085** | 7,261 |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | **3,080** | 8,522 |
| Shanghai Roche Pharmaceutical Co., Ltd. | **2,843** | 49 |
| Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. | **2,508** | 2,665 |
| Jilin Yaitai Fahrenheit Medicine Co., Ltd. | **584** | 3,141 |
| Others | **2,596** | 2,392 |
| | **547,487** | 519,101 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | Year end 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Purchase of goods and services | | |
| Shanghai Roche Pharmaceutical Co., Ltd. | **1,052,900** | 706,755 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | **603,913** | 433,664 |
| TECHPOOL | **149,180** | – |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **108,618** | 94,931 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | **118,378** | 109,777 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **30,139** | 25,756 |
| Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. | **26,482** | – |
| Shanghai Luoda Pharmaceutical Co., Ltd. | **21,112** | 17,465 |
| Shanghai Bracco Sine Pharmaceutical Corp. Ltd. | **19,438** | – |
| Shanghai Deyi Pharmaceutical Co., Ltd. | **12,477** | 13,939 |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. | **7,764** | 5,789 |
| Hengren Manchu Municipality Grain Packaging Co., Ltd. | **2,808** | 3,229 |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **1,908** | 53,531 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | **1,378** | 13,111 |
| Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd. | **203** | 22,615 |
| Shanghai Tongyong Pharmaceutical Corp., Ltd | **–** | 10,715 |
| Shanghai Xinyun Chemical Co., Ltd. | **–** | 5,815 |
| Others | **3,830** | 4,852 |
| | **2,160,528** | 1,521,944 |

| | Year end 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Rental income | | |
| Shanghai Bracco Sine Pharmaceutical Corp. Ltd. | **7,575** | 8,076 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Rental expense | | |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **26,347** | 15,338 |
| Others | **–** | 552 |
| | **26,347** | 15,890 |

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| R&D expenditure | | |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. | **35,065** | – |

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Sales of PP&E and land use rights | | |
| Shanghai SIICINV Consulting Co., Ltd. | **–** | 74,256 |

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | | |
| Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. | **1,885** | – |
| Others | **71** | – |
| | **1,956** | – |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Interest cost | | |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **8,396** | – |
| Others | **146** | – |
| | **8,542** | – |

*Transfer of investment in an associate*

Pursuant to the agreement entered into by the Group and Shanghai Shangshi International Trade (Group) Co., Ltd. ("Shangshi Guomao") dated 31 May 2010, the Group transferred its entire 49% equity interest in the then associate, Shanghai Kangjian Import and Export Co., Ltd. to Shangshi Guomao at the consideration of approximately RMB21,740,000.

*Borrowings*

Pursuant to the agreement entered into by the Group and a subsidiary of Shanghai Industrial Group, the Group obtained borrowings of USD12,000,000, bearing 1.5% interest rate per annum, from a subsidiary of Shanghai Industrial Group for the purpose of acquisition of equity interest in CHS. The balance in relation to this borrowings was equivalent to approximately RMB79,647,000 as at 31 December 2010 and were all settled by the Group in January 2011.

### (b) Key management compensation

| | Year end 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Salaries and fee | **2,480** | 1,883 |
| Bonuses | **9,368** | 2,399 |
| Retirement plans contributions | **420** | 348 |
| | **12,268** | 4,630 |

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.

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

**Amount due from related parties:**

| | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Trade receivables | **93,326** | 100,048 |
| Other receivables | **36,421** | 574,832 |
| Prepayments | **3,780** | 238 |
| Dividends receivables | **15,991** | 6,917 |
| | **149,518** | 682,035 |

| | As at 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Trade receivables due from | | |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **27,015** | 11,327 |
| Jiangxi Nanhua Medicines Co., Ltd. | **18,157** | 41,468 |
| Shanghai Luoda Pharmaceutical Co., Ltd. | **12,962** | 15,204 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | **12,049** | 6,773 |
| Shanghai Deyi Pharmaceutical Co., Ltd. | **6,376** | 6,513 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **4,452** | 7,029 |
| Shanghai lvyuan Pharmacy Co., Ltd. | **3,126** | 1,488 |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | **2,765** | 3,045 |
| Others | **6,424** | 7,201 |
| | **93,326** | 100,048 |
| Less: Provision for impairment | **(3,817)** | (4,662) |
| | **89,509** | 95,386 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Other receivables due from | | |
| Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. | **16,542** | – |
| Shanghai Antibioticos Pioneer Pharmaceutical Co., Ltd. | **10,000** | 10,000 |
| Shanghai Beisiou Pharmaceutical Co., Ltd. | **5,800** | 5,800 |
| Shanghai Bracco Sine Pharmaceutical Corp. Ltd. | **3,052** | 3,252 |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **–** | 510,863 |
| Shanghai Sanhe Biotechnology Co., Ltd. | **–** | 7,209 |
| Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd. | **–** | 30,000 |
| Shanghai Pudong New Area Caolu Investment And Management Co., Ltd. | **–** | 6,340 |
| Others | **1,027** | 1,368 |
| | **36,421** | 574,832 |
| Less: Provision for impairment | **(17,574)** | (46,377) |
| | **18,847** | 528,455 |

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

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Less than 3 months | **70,072** | 41,388 |
| 3 months to 6 months | **16,772** | 520,603 |
| 6 months to 12 months | **20,610** | 13,704 |
| 1 year to 2 years | **268** | 15,151 |
| Over 2 years | **22,025** | 84,034 |
| | **129,747** | 674,880 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Prepayments due from | | |
| Shanghai Bracco Sine Pharmaceutical Corp. Ltd. | **3,349** | – |
| Shanghai Wuzhou Pharmaceutical Co., Ltd. | **238** | 238 |
| Others | **193** | – |
| | **3,780** | 238 |

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Dividends receivable | | |
| Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. | **8,107** | – |
| Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. | **6,351** | – |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | **863** | 863 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **500** | 2,212 |
| Shanghai Draeger Medical Instrument Co., Ltd. | **–** | 2,518 |
| Shanghai Roche Pharmaceutical Co., Ltd. | **–** | 982 |
| Others | **170** | 342 |
| | **15,991** | 6,917 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

**Amount due to related parties:**

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Trade Payables | **263,634** | 173,529 |
| Other Payables | **90,131** | 195,269 |
| Advances | **4,316** | 3,811 |
| Dividends Payable | **20,619** | 91,315 |
| | **378,700** | 463,924 |

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Trade payables due to | | |
| Shanghai Roche Pharmaceutical Co., Ltd. | **144,390** | 77,401 |
| Sino-American Shanghai Squibb Pharmaceuticals Ltd. | **54,122** | 25,490 |
| TECHPOOL | **26,470** | – |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | **16,608** | 14,187 |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **6,397** | 10,429 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **3,242** | 8,061 |
| Shanghai Bracco Sine Pharmaceutical Corp. Ltd. | **2,560** | – |
| Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. | **1,469** | 3,397 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | **618** | 2,551 |
| Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd. | **124** | 2,911 |
| Shanghai Xinyun Chemical Co., Ltd. | **–** | 2,288 |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **–** | 19,337 |
| Others | **7,634** | 7,477 |
| | **263,634** | 173,529 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Other payables due to | | |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **65,315** | 104,064 |
| Shanghai Sine Promod Pharmaceutical Corp., Ltd. | **9,103** | – |
| Shanghai Baohua Industrial Co., Ltd. | **4,500** | 500 |
| Shanghai Hutchison Pharmaceutical Co., Ltd. | **3,440** | – |
| Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd. | **2,974** | 543 |
| Shanghai Roche Pharmaceutical Co., Ltd. | **2,000** | – |
| Shanghai Industrial Trade Co., Ltd. | **–** | 79,647 |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **–** | 5,150 |
| Shanghai Haoya Investment Co., Ltd. | **–** | 2,802 |
| Others | **2,799** | 2,563 |
| | **90,131** | 195,269 |

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

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Less than 3 months | **341,638** | 219,274 |
| 3 months to 6 months | **1,096** | 119,729 |
| 6 months to 12 months | **6,249** | 24,505 |
| 1 year to 2 years | **1,249** | 1,567 |
| Over 2 years | **3,533** | 3,724 |
| | **353,765** | 368,799 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Advances due to | | |
| Shanghai Baohua Industrial Co., Ltd. | **2,064** | 2,064 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **1,530** | – |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **–** | 1,500 |
| Others | **722** | 247 |
| | **4,316** | 3,811 |

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Dividends payable | | |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **20,540** | 91,236 |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. | **79** | 79 |
| | **20,619** | 91,315 |

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Outstanding loan guarantees provided by the Group to | | |
| Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd. | **135,000** | 229,800 |
| Jiangxi Nanhua Medicines Co., Ltd. | **20,000** | 20,000 |
| Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. | **20,000** | – |
| Shanghai Luoda Pharmaceutical Co., Ltd. | **1,000** | 1,000 |
| Shenzhen Kondarl (Group) Corp., Ltd. | **–** | 73,026 |
| Shanghai Baihong Industry Co., Ltd. | **–** | 20,000 |
| Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd. | **–** | 6,000 |
| Chongqing Medicines Shanghai Pharma Sales Co., Ltd. | **–** | 1,558 |
| | **176,000** | 351,384 |

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Outstanding loan guarantees given to the Group by | | |
| Shanghai Pharmaceutical (Group) Co., Ltd. | **90,080** | 255,610 |
| Shanghai Asia Pioneer Pharmaceutical Co., Ltd. | **–** | 200,000 |
| | **90,080** | 455,610 |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2011, the Company has direct and indirect interests in the following subsidiaries:

### Principal subsidiaries

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital *RMB'000* | Share percentage held by the Company *Direct %* | Share percentage held by the Company *Indirect %* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Shanghai Pharmaceutical Distribution Co., Ltd. (上海醫藥分銷控股有限公司) | PRC, 26 April 2010 | 2,836,868 | 100 | – | Distribution of pharmaceutical products in the PRC |
| Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥廠有限公司) | PRC, 23 October 1993 | 821,000 | 100 | – | Pharmaceutical products manufacture and trading in the PRC |
| Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. (上海第一生化藥業有限公司) | PRC, 30 July 1994 | 225,000 | 100 | – | Medicine and medical equipment manufacture and trading in the PRC |
| Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司) | PRC, 28 April 1992 | 463,690 | 100 | – | Manufature and distribution of Chinese medicine and property rental in the PRC |
| Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司) | PRC, 6 November 1992 | 128,500 | – | 55 | Medicine manufacture and trading in the PRC |
| Changzhou Pharmaceutical Co., Ltd. (常州藥業股份有限公司) | PRC, 1 November 1993 | 78,790 | 62.69 | – | Medicine Distribution in the PRC |
| Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司) | PRC, 3 November 1995 | 545,800 | 65.13 | 44.87 | Medicines development and manufacture in the PRC |
| Qingdao Growful Pharmaceutical Co., Ltd. (青島國風藥業股份有限公司) | PRC, 30 June 1994 | 93,000 | 67.52 | – | Traditional Chinese medicine manufacture and trading in the PRC |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital *RMB'000* | Share percentage held by the Company *Direct %* | Share percentage held by the Company *Indirect %* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司) | PRC, 10 Mar 2009 | 63,642 | 100 | – | Medicine manufacture and trading in the PRC |
| Shanghai Fahrenheit Pharmacy Co., Ltd. (上海華氏大藥房有限公司) | PRC, 27 October 1994 | 99,570 | – | 100 | Retail pharmacy operations |
| Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司) | PRC, 11 September 2002 | 84,030 | – | 61 | Medicine manufacture and trading in the PRC |
| Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司) | PRC, 1 January 1999 | 53,160 | – | 51.01 | Medicine manufacture and trading in the PRC |
| Liaoning Herbapex Pharmaceutical (group) Co., Ltd. (遼寧好護士藥業(集團)有限公司) | PRC, 12 December 1999 | 51,000 | – | 55 | Medicine manufacture and trading in the PRC |
| Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司) | PRC, 10 September 1998 | 127,000 | 99.21 | 0.79 | Medical instruments manufacture and trading in the PRC |
| Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司) | PRC, 12 May 1982 | 71,390 | 100 | – | Distribution of pharmaceutical products in the PRC |
| Shanghai Pharmaceutical Import and Export Co., Ltd. (上海醫藥進出口有限公司) | PRC, 1 October 1986 | 90,140 | 100 | – | Imports and exports business on medical equipment, medicine and chemical raw materials in the PRC |
| Shanghai New Asiatic | PRC, 11 August 1993 | 36,997 | 96.9 | – | Medicine manufacture and trading in the PRC |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital *RMB'000* | Share percentage held by the Company *Direct %* | Share percentage held by the Company *Indirect %* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Huakang | PRC, 10 January 1994 | 1,145 | 100 | – | Distribution of pharmaceutical products in the PRC |
| Shanghai Sine Tianyi Pharmaceutical Co., Ltd. (上海信誼天一藥業有限公司) | PRC, 29 December 2000 | 3,500 | – | 100 | Distribution of pharmaceutical products in the PRC |
| Shanghai Sine Yellow River Pharmaceutical Co., Ltd. (上海信誼黃河制藥有限公司) | PRC, 2 August 1992 | 6,624 (USD1,200,000) | – | 66 | Medicine manufacture and trading in the PRC |
| Shanghai Yichuang Chinese Medicine Research and Development Center Co., Ltd. (上海醫創中醫藥科研開發中心有限公司) | PRC, 25 May 2000 | 3,000 | – | 55 | Medicines development in the PRC |
| Shanghai Sunve Co., Ltd. (上海三維有限公司) | PRC, 10 February 1990 | 99,033 | 100 | – | Investment holding practices in the PRC |
| SIIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司) | Cayman Island, 17 September 1999 | HKD4,250,893 | 100 | – | Investment holding practices in the PRC |
| Mergen Biotech Ltd. | British Virgin Island, 22 December 1998 | HKD106,470 | 70.41 | – | Investment holding practices in the PRC |
| Shanghai United International Limited (香港上聯國際有限公司) | Hongkong, 2 June 1999 | HKD:50,000 | 100 | – | International trading in Hongkong |
| Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. (上海實業聯合集團藥業有限公司) | PRC, 19 Jan 2000 | 257,130 | 100 | – | Investment holding practices in the PRC |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital *RMB'000* | Share percentage held by the Company *Direct %* | Share percentage held by the Company *Indirect %* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Huarui Shanghai Investment Co., Ltd. (上海華瑞投資有限公司) | PRC, 15 November 2000 | 200,000 | 90 | 10 | Assets management and investment consultation within pharmaceutical system in the PRC |
| Shanghai Industrial United Holdings Pharmaceutical Research Center Co., Ltd. (上海實業聯合集團藥物研究所有限公司) | PRC 18 December 2002 | 50,600 | 100 | – | Medicine and medical equipment research and development in the PRC |
| Ningbo Pharmaceutical Co., Ltd. (寧波醫藥股份有限公司) | PRC, 5 July 1994 | 140,000 | – | 63.61 | Distribution of pharmaceutical products in the PRC |
| Shanghai Suzuken Chinese Medicine Co., Ltd. (上海鈴謙滬中醫藥有限公司) (a) | PRC, 10 November 1999 | 84,460 | – | 50 | Distribution of pharmaceutical products in the PRC |
| Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高橋醫藥分銷中心有限公司) | RPC, 9 August 2001 | 20,000 | – | 65 | Distribution of pharmaceutical products in the PRC |
| Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司) | PRC, 27 May 1994 | 12,000 | – | 60 | Distribution of pharmaceutical products in the PRC |
| Shangqiu Xin Xian Feng Pharmaceutical Co., Ltd. (商丘市新先鋒藥業有限公司) | PRC, 5 April 2005 | 50,000 | – | 52 | Distribution of pharmaceutical products in the PRC |
| Shanghai Hujiao Pharmaceutical Co., Ltd. (上海滬郊醫藥有限公司) | PRC, 24 August 2005 | 50,000 | – | 100 | Distribution of pharmaceutical products in the PRC |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital *RMB'000* | Share percentage held by the Company *Direct %* | Share percentage held by the Company *Indirect %* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Shanghai Jinguichao Pharmaceutical Co., Ltd. (上海金龜華超醫藥有限公司) | PRC, 17 June 1992 | 30,000 | – | 100 | Distribution of pharmaceutical products in the PRC |
| Shanghai Sine United Medical Material Co., Ltd. (上海信誼聯合醫藥藥材有限公司) | PRC, 28 January 1994 | 20,653 | – | 81.60 | Pharmaceutical products trading in the PRC |
| Shanghai Pharmaceutical Group Sine Yangpu Co., Ltd. (上海醫藥集團信誼洋浦有限公司) | PRC, 24 November 2004 | 1,000 | – | 100 | Imports and exports business on medicine and chemical raw materials in the PRC |
| Shanghai Sine Pharmaceutical Co., Ltd. (上海信誼醫藥有限公司) | PRC, 21 May 2001 | 5,000 | – | 100 | Pharmaceutical products manufacture and trading in the PRC |
| Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司) | PRC, 21 May 1998 | 335,070 | – | 97.58 | Pharmaceutical products manufacture and trading in the PRC |
| Shanghai Huayu Pharmaceutical Co., Ltd. (上海華宇藥業有限公司) | PRC, 17 December 1998 | 60,600 | – | 65.22 | Manufature and distribution of Chinese medicine in the PRC |
| Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司) | PRC, 14 December 2001 | 108,000 | – | 77.78 | Medicine manufacture in the PRC |
| Shanghai Fahrenheit Pharmacy Distribution Co., Ltd. (上海華氏大藥房配送中心有限公司) | PRC, 7 November 2002 | 5,000 | – | 100 | Distribution of pharmaceutical products in the PRC |
| Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青島華氏國風醫藥有限責任公司) | PRC, 27 September 2003 | 46,000 | – | 100 | Distribution of pharmaceutical products in the PRC |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### Principal jointly controlled entities

As at 31 December 2011, the Company has indirect interests in the following principal jointly controlled entities:

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital RMB'000 | Share percentage held by the Company Direct % | Share percentage held by the Company Indirect % | Principal activities and place of operations |
|---|---|---|---|---|---|
| Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司) | PRC, 31 December 2001 | 180,000 | – | 50 | Distribution of pharmaceutical products in the PRC |
| Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司) | PRC, 30 April 2001 | 88,000 | – | 50 | Chinese medicine manufacture and trading in the PRC |

### Principal associates

As at 31 December 2011, the Company has indirect interests in the following principal jointly controlled entities:

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital RMB'000 | Share percentage held by the Company Direct % | Share percentage held by the Company Indirect % | Principal activities and place of operations |
|---|---|---|---|---|---|
| Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司) | PRC, 6 May 1994 | 460,079 (USD62,357,143) | – | 30 | Pharmaceutical products manufacture and trading in the PRC |
| Sino-American Shanghai Squibb Pharmaceutical Ltd. (中美上海施貴寶製藥有限公司) | PRC, 14 October 1982 | 126,814 (USD18,440,000) | 30 | – | Pharmaceutical products manufacture and trading in the PRC |
| TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司) (b) | PRC, 25 March 1993 | 100,000 | 39.28 | 1.52 | Development, manufacture and distribution of chemical medicine in the PRC |
| Shanghai Ajinomoto Amino Acid Co., Ltd. (上海味之素氨基酸有限公司) | PRC, 24 February 1998 | 99,352 (USD12,000,000) | 39 | – | Amino acids in bulk drugs manufacture in the PRC |

## 45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

### Principal associates (continued)

| Company Name | Country and date of incorporation | Issued and paid up capital/ registered capital *RMB'000* | Share percentage held by the Company *Direct %* | Share percentage held by the Company *Indirect %* | Principal activities and place of operations |
|---|---|---|---|---|---|
| Shanghai Tsumura Pharmaceutical Co., Ltd. (上海津村製藥有限公司) | PRC, 26 July 2001 | 171,336 (USD36,200,000) | – | 34 | Chinese medicine manufacture and trading in the PRC |
| Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司) | PRC, 28 August 1997 | 50,000 | – | 44.24 | Distribution of pharmaceutical products in the PRC |

(a) The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of Shanghai Suzuken Chinese Medicine Co., Ltd. although it held 50% of its equity interests, after considering the facts that the majority of the executive directors of Shanghai Suzuken Chinese Medicine Co., Ltd. were representatives of the Group.

(b) In 2010, the Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of TECHPOOL Bio-Pharma Co., Ltd. ("TECHPOOL") 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, because of the expiration of the relevant agreement, the Group cannot control over TECHPOOL and it is not a subsidiary of the Group but accounted for as an associated company from then on (Note 31 (a)).

## 46 SUBSEQUENT EVENT

### (a) Acquisition of Shanghai Jinhe Bio-technology Co., Ltd. ("Jinhe Bio-tech")

In early 2012, the Group has entered into an agreement with certain third parties to acquire 33.5% equity interest in Jinhe Bio-tech followed by capital injection to obtain 51.1% equity interest in Jinhe Bio-tech.

### (b) Acquisition of Changzhou Kony Pharm Co., Ltd. ("Changzhou Kony")

As approved by the executive committee of board of directors in early 2012, the Group would first acquire certain equity interests of Changzhou Kony to obtain control over it, and then acquire the rest of remaining equity interests of it in the future (the "Acquisition"). Consideration of the Acquisition will be determined on the basis of the valuation result of 100% equity interest of Changzhou Kony which should be filed by SASAC Shanghai for approval.

### (c) Proposed dividend of the Company

As approved by the board of directors on 29 March 2012, the Company proposed a final dividend for 2011 of approximately RMB430,226,000 to its shareholders, representing RMB0.16 per share. This proposal is subject to the shareholders' approval.

Shanghai Pharmaceuticals Holding Co., Ltd.*

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