



INTERIM REPORT 2012

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)

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I. IMPORTANT NOTICE

- (I) All directors of the Company attended the 23rd meeting of the fourth session of the board of directors on 21 August 2012, at which resolutions including the interim results of the Company for the six months ended 30 June 2012 were approved.
- (II) The interim financial report of the Company is unaudited. The board of directors and the audit committee of the Company have reviewed and confirmed this financial report.
- (III) Definitions

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

“Group”, “Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司)
“Articles of Association” or “Articles”	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
“Reporting Period”	the 6-month period from 1 January 2012 to 30 June 2012
“YOY”	year-on-year
“Shares”	shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
“A Shares”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“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
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“HK\$” or “HK dollars” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“PRC” or “China”	the People’s Republic of China; unless the context otherwise requires, references herein to the PRC or China exclude Hong Kong, Macau and Taiwan
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

I. IMPORTANT NOTICE

“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
“Corporate Governance Code”	the Corporate Governance Code, as set out in Appendix 14 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
“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
“SFO”	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended)
“Controlling Shareholders”	has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group)
“Shanghai SASAC”	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“SIIC”	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
“Shanghai Shangshi”	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
“Shanghai Pharmaceutical (Group)”	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
“Shanghai Guosheng”	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司)
“Shanghai Shengrui”	Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)

II. 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
Legal name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd
Legal representative of the Company	Mr. Zhou Jie
Authorised representatives of the Company	Mr. Zhou Jie, Ms. Han Min

(II) CONTACT PERSON AND CONTACT DETAILS

	Secretary of the board of directors, Joint Company Secretary
Name	Han Min
Contact address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Telephone	021-6373 0908
Facsimile	021-6328 9333
E-mail	pharm@pharm-sh.com.cn

(III) BASIC INFORMATION

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

II. BASIC CORPORATE INFORMATION

(IV) INFORMATION DISCLOSURE AND PLACE AVAILABLE FOR INSPECTION

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

(V) 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	/

(VI) 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	21 June 2012
	Pace 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, Certified Public Accountants Hong Kong
Office address of international auditor engaged by the Company		22nd Floor, Prince's Building, Central, Hong Kong

II. BASIC CORPORATE INFORMATION

(VII) MAJOR FINANCIAL DATA AND INDICATORS

1. Major Accounting Data and Financial Indicators Prepared in accordance with the Chinese Accounting Standards for Business Enterprises

Unit: RMB10 thousand

	As at the end of the Reporting Period	As at the end of the corresponding period of last year		Increase (decrease) as at the end of the Reporting Period as compared to the end of the corresponding period of last year (%)
		After adjustment	Before adjustment	
Total assets	5,069,775	4,766,782	4,766,782	6.36
Owner's equity (or equity holder's equity) attributable to equity holders of the Company	2,377,254	2,307,847	2,307,847	3.01
Net assets per share attributable to equity holders of the Company (RMB per share)	8.84	8.58	8.58	3.01
	Reporting Period (January to June)	Corresponding period last year		Increase (decrease) during the Reporting Period as compared to the corresponding period last year (%)
		After adjustment	Before adjustment	
Operating profit	162,951	185,251	179,647	-12.04
Total profit	169,767	188,766	183,198	-10.07
Net profit attributable to equity holders of the Company	114,772	134,272	130,320	-14.52
Net profit after deduction of non-recurring profit and loss attributable to equity holders of the Company	106,986	81,286	81,286	31.62
Basic earnings per share (RMB)	0.4268	0.6256	0.6072	-31.78
Basic earnings per share after deduction of non-recurring profit and loss (RMB)	0.3979	0.3787	0.3787	5.07
Diluted earnings per share (RMB)	0.4268	0.6256	0.6072	-31.78
Weighted average return on net assets (%)	4.87	10.02	10.42	Decrease of 5.15 percentage points
Net cash flows from operating activities	61,023	89,796	87,030	-32.04
Net cash flows from operating activities per share (RMB)	0.2269	0.3339	0.3237	-32.04

II. BASIC CORPORATE INFORMATION

2. Major Accounting Data and Financial Indicators Prepared in accordance with the Hong Kong Financial Reporting Standards

Unit: RMB10 thousand

	As at the end of the Reporting Period	As at the end of the corresponding period of last year	Increase (decrease) as at the end of the Reporting Period as compared to the end of the corresponding period of last year (%)
Total assets	5,069,775	4,766,782	6.35
Equity attributable to equity holders of the parent	2,377,254	2,307,847	3.01
Net assets per share attributable to equity holders of the parent (RMB per share)	8.84	8.58	3.01
	Reporting Period (January to June)	Corresponding period last year	Increase (decrease) during the Reporting Period as compared to the corresponding period last year (%)
Profit before income tax	169,767	188,766	-10.06
Net profit attributable to equity holders of the parent	114,772	134,272	-14.52
Basic and diluted earnings per share (RMB)	0.43	0.63	-31.78
Return on net assets (%)	4.87	10.02	Decrease of 5.15 percentage points

3. Notes on the Differences between the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards

There is no significant difference of net profit and net asset between the financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and the Hong Kong Financial Reporting Standards.

III. CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

(I) 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	852,489,559	31.704	0	0	0	0	0	852,489,559	31.704
1.	State-held shares	0	0.000	0	0	0	0	0	0	0.000
2.	Shares held by state-owned legal persons	852,407,959	31.701	0	0	0	0	0	852,407,959	31.701
3.	Other domestically held shares	81,600	0.003	0	0	0	0	0	81,600	0.003
	Including: Shares held by domestic non-state-owned legal persons	81,600	0.003	0	0	0	0	0	81,600	0.003
	Shares held by domestic natural persons	0	0.000	0	0	0	0	0	0	0.000
4.	Foreign-held shares	0	0.000	0	0	0	0	0	0	0.000
	Including: Shares held by foreign legal persons	0	0.000	0	0	0	0	0	0	0.000
	Shares held by foreign natural person	0	0.000	0	0	0	0	0	0	0.000
II.	Shares without trade restrictions	1,836,420,979	68.296	0	0	0	0	0	1,836,420,979	68.296
1.	RMB common shares	1,070,527,059	39.813	0	0	0	0	0	1,070,527,059	39.813
2.	Domestically listed foreign shares	0	0.000	0	0	0	0	0	0	0.000
3.	Overseas listed foreign shares	765,893,920	28.483	0	0	0	0	0	765,893,920	28.483
4.	Others	0	0.000	0	0	0	0	0	0	0.000
III.	Total number of shares	2,688,910,538	100.000	0	0	0	0	0	2,688,910,538	100.000

Note: As at the end of the Reporting Period, the total share capital of the Company comprised of 2,688,910,538 Shares, including 1,923,016,618 A Shares and 765,893,920 H Shares.

III. CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

(II) SHAREHOLDERS AND DE FACTO CONTROLLER

1. Number of shareholders and their shareholdings

Unit: share

Total number of shareholders as at the end of the Reporting Period	125,290 (A Shares); 3,485 (H Shares)
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Shareholding of top ten shareholders

Name	Nature	Shareholding percentage (%)	Total number of shares held	Increase/decrease during the Reporting Period	Number of trade restricted shares held	Number of pledged or frozen shares	Share class
HKSCC NOMINEES LIMITED	Foreign shareholder	28.42	764,234,720	3,700	0	Unknown	H Shares
Shanghai Pharmaceutical (Group)	State-owned legal person shareholder	27.89	749,923,539	0	693,006,251	13,648,772	A Shares
Shanghai Shangshi	State-owned legal person shareholder	7.02	188,894,298	5,794,538	159,401,708	Nil	A Shares
Shanghai Shengrui	State-owned legal person shareholder	6.04	162,399,040	0	0	Nil	A Shares
Shenergy (Group) Co., Ltd.	State-owned legal person shareholder	3.02	81,199,520	0	0	Nil	A Shares
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	Others	1.15	30,848,087	0	0	Unknown	A Shares
Industrial and Commercial Bank of China – Guangfa Jufeng Equity Securities Investment Fund	Others	0.51	13,600,081	/	0	Unknown	A Shares
Taiping Life Insurance Company Limited – Bonus – Team Bonus	Others	0.32	8,717,325	0	0	Unknown	A Shares
China Construction Bank – Guotai Jinma Sound Return Securities Investment Fund	Others	0.30	7,967,680	/	0	Unknown	A Shares
New China Life Insurance Company Limited – Bonus – Individual Bonus – 018L – FH002 SH	Others	0.24	6,499,843	-3,105,921	0	Unknown	A Shares

III. CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

Shareholdings of top ten shareholders holding shares without trade restrictions

Name of shareholders holding shares without trade restrictions	Number of shares without trade restrictions held	Share class
HKSCC NOMINEES LIMITED	764,234,720	H Shares
Shanghai Shengrui	162,399,040	A Shares
Shenergy (Group) Co., Ltd.	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
Shanghai Shangshi	29,492,590	A Shares
Industrial and Commercial Bank of China – Guangfa Jufeng Equity Securities Investment Fund	13,600,081	A Shares
Taiping Life Insurance Company Limited – Bonus – Team Bonus	8,717,325	A Shares
China Construction Bank – Guotai Jinma Sound Return Securities Investment Fund	7,967,680	A Shares
New China Life Insurance Company Limited – Bonus – Individual Bonus – 018L – FH002 SH	6,499,843	A Shares
Note on affiliation or concerted actions of the above shareholders	Shanghai Shangshi is a 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.	

- Notes: (1) Shanghai Shangshi and persons acting in concert with it planned to increase their shareholdings in the Company's Shares through the trading system of the Shanghai Stock Exchange for 12 months from 31 March 2011 and the aggregate of such increase would not exceed 2% of the total outstanding Shares of the Company. Shanghai Shangshi and persons acting in concert with it were in strict compliance with such plan. As at 30 March 2012, Shanghai Shangshi and persons acting in concert with it had completed their increase in the shareholding of the Company (for details, please refer to the Company's announcements Lin 2011-009, 026 and 2012-004).
- (2) HKSCC NOMINEES LIMITED holds Shares on behalf of customers. Customers are not required to declare whether Shares held by them have been pledged or frozen under the Hong Kong Listing Rules; therefore, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of Shares that have been pledged or frozen.
- (3) Shanghai Pharmaceutical (Group) undertakes to voluntarily lock up 56,917,288 Shares without trade restrictions held by it for 36 months until 10 February 2013.

(III) DISCLOSURE OF INTERESTS

1. Interests and short positions of directors and supervisors in Shares

As at 30 June 2012, Mr. Lu Shen, a non-executive director of the Company, held 6,440 A Shares of the Company, while Mr. Xu Guoxiong, an executive director and the president of the Company, held 38,900 A Shares of the Company.

III. CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

Save as disclosed in this report, as at 30 June 2012, according to the information obtained by the Company and the knowledge of the directors, none of the directors, supervisors and chief executives of the Company has any interests or short positions in the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 30 June 2012, according to the information obtained by the Company and the knowledge of the directors, the following shareholders had interests or short positions in the Shares or underlying shares of the Company which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total issued H Shares or A Shares at the shareholders' general meetings of the Company:

Name of shareholder	Share class	Nature of Interests in Shares	Number of Shares	Percentage of number of H Shares/A Shares held at the end of the Reporting Period to the entire issued H Shares/A Shares (%)	Percentage of the entire share capital of the Company at the end of the Reporting Period (%)
SIIC (Note 1(1))	A Shares, H Shares	Interests of controlled corporations	954,195,437(L)	48.82(A Shares)/ 2.01(H Shares)	35.49
Shanghai Shangshi (Note 1(2))	A Shares	Beneficial owner/ Interests of controlled corporations	938,817,837(L)	48.82	34.91
Shanghai Pharmaceutical (Group)	A Shares	Beneficial owner	749,923,539(L)	39.00	27.89
Shanghai Guosheng (Note 1(3))	A Shares	Interests of controlled corporations	162,399,040(L)	8.45	6.04
Shanghai Shengrui	A Shares	Beneficial owner	162,399,040(L)	8.45	6.04
Temasek Holdings (Private) Limited	H Shares	Interests of controlled corporations	124,023,800(L)	16.19(L)	4.61(L)
Morgan Stanley	H Shares	Interests of controlled corporations	78,323,500(L) 2,552,046(S)	10.23(L) 0.33(S)	2.91(L) 0.09(S)
JPMorgan Chase & Co.	H Shares	Investment manager/ custodian/approved lending agent	77,078,682(L) 0(S) 76,069,382(P)	10.06(L) 0.00(S) 9.93(P)	2.87(L) 0.00(S) 2.83(P)
T. Rowe Price Associates, Inc. and its affiliates	H Shares	Investment manager	75,537,500(L)	9.86(L)	2.81(L)
NSSF	H Shares	Beneficial owner	66,633,400(L)	9.12(L)	2.48(L)

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

Note 1:

- (1) SIIC is a wholly owned subsidiary of the Shanghai SASAC. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate Shanghai Overseas Companies, its Major Overseas Companies and the State-owned Assets under Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] Document No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the

III. CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC held 954,195,437 Shares of the Company in total (including A Shares and H Shares), of which 15,377,600 H Shares were held by SIIC through its subsidiary, while 938,817,837 A Shares were indirectly held by SIIC through Shanghai Shangshi.

- (2) Shanghai Shangshi is a wholly owned subsidiary of the Shanghai SASAC. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, of the 938,817,837 A Shares held by Shanghai Shangshi in the Company, 188,894,298 A Shares were directly held by Shanghai Shangshi, while 749,923,539 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).
- (3) Shanghai Guosheng is a wholly owned subsidiary of the Shanghai SASAC. Shanghai Shengrui is a wholly owned subsidiary of Shanghai Guosheng and Shanghai Guosheng is therefore deemed to hold Shares of the Company through Shanghai Shengrui.

Note 2:

- (1) Figures disclosed above are primarily based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).
- (2) In accordance with Section 336 of the SFO, if certain conditions are fulfilled, then the Company's shareholders shall submit a Disclosure of Interests Form. In case of changes in the number of Shares held by the shareholders, unless certain conditions have been fulfilled, the shareholders are not required to notify the Company or Hong Kong Stock Exchange, so the latest number of Shares held by the shareholders may be different from that as submitted to Hong Kong Stock Exchange.
- (3) Save as disclosed above, as at 30 June 2012, the Company was not aware of any other person (other than the directors, supervisors or chief executives 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 a register.

(IV) PURCHASE, REDEMPTION OR DISPOSAL OF THE COMPANY'S LISTED SECURITIES

From January to June 2012, neither the Company nor the subsidiaries of the Company purchased, sold or redeemed any listed shares of Shanghai Pharmaceuticals.

From January to June 2012, Shanghai Shangshi, one of the Controlling Shareholders of the Company, further acquired 5,794,538 A Shares of Shanghai Pharmaceuticals in total, and SIIC, one of Controlling Shareholders of the Company, further acquired 4,969,700 H Shares of Shanghai Pharmaceuticals in total through its subsidiaries.

SIIC and its persons acting in concert plan to increase their holding of the Shares of Shanghai Pharmaceuticals in their own names within 12 months starting from 24 May 2012 with an accumulated increased holding of not more than 2% of the total issued shares of Shanghai Pharmaceuticals (including the 4,576,700 H Shares acquired on 24 May 2012). The Company will follow the disclosure and filing procedures stipulated by the PRC and Hong Kong regulators.

IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

(2) APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

During the Reporting Period, Mr. Lu Mingfang, the former chairman of the Company, ceased to act as director, executive director and chairman of Shanghai Pharmaceuticals due to other work arrangements.

During the Reporting Period, Mr. Zhou Jie, the former chief supervisor of the Company, ceased to hold offices as supervisor and chief supervisor of Shanghai Pharmaceuticals due to other work arrangements.

During the Reporting Period, Mr. Zeng Yixin, a former independent non-executive director of the Company, ceased to hold the office as an independent non-executive director of Shanghai Pharmaceuticals due to personal reasons.

During the Reporting Period, Mr. Zhou Jie was elected as a director and an executive director of Shanghai Pharmaceuticals at the annual general meeting of the Company, and was elected as the chairman of the board of directors.

During the Reporting Period, Mr. Li Zhenfu was elected as an independent non-executive director of Shanghai Pharmaceuticals at the annual general meeting of the Company.

During the Reporting Period, Mr. Zhang Zhenbei was elected as a supervisor of Shanghai Pharmaceuticals at the annual general meeting of the Company, and was elected as the chief supervisor.

As at 30 June 2012, the composition of the board of directors, the board of supervisors and senior management of the Company was as follows:

The board of directors consisted of nine directors, including three executive directors, namely Mr. Zhou Jie, the chairman, Mr. Zhang Jialin, the vice chairman, and Mr. Xu Guoxiong, director; two non-executive directors, namely Mr. Lu Shen and Mr. Jiang Ming; and four independent non-executive directors, namely Mr. Bai Huiliang, Mr. Chen Naiwei, Ms. Tommei Tong and Mr. Li Zhenfu. The directors were all elected by the shareholders of the Company for a term ending 31 March 2013 which is renewable upon re-election.

The board of supervisors consisted of three members, namely Mr. Zhang Zhenbei, the chief supervisor, Mr. Wu Junhao, supervisor, and Ms. Chen Xin, the employee representative supervisor. Except for the employee representative supervisor who was elected by employees, the other supervisors were elected by the shareholders of the Company for a term ending 31 March 2013, renewable upon re-election.

Mr. Wu Junhao, a supervisor of the Company, was appointed as a non-executive director of China Pacific Insurance (Group) Co., Ltd (a company listed on the Hong Kong Stock Exchange and its stock code is 02601) with effect from 4 July 2012. Mr. Lu Shen, a non-executive director of the Company, was appointed as an executive director of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange and its stock code is 0363) with effect from 25 April 2012.

The senior management consisted of six persons, namely Mr. Xu Guoxiong, Mr. Jiang Yuanying, Mr. Ren Jian, Mr. Li Yongzhong, Mr. Shen Bo and Ms. Han Min.

(3) COMPLIANCE WITH THE MODEL CODE

The board of directors of the Company has confirmed that the Company has adopted the Model Code.

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

V. REPORT OF THE DIRECTORS

Unless otherwise specified, part of the financial figures set out in the following report of the directors were extracted from the financial statements of the Company which were prepared in accordance with the Chinese Accounting Standards for Business Enterprises.

(I) DISCUSSION AND ANALYSIS OF THE OVERALL OPERATION DURING THE REPORTING PERIOD

1. Operation and results analysis during the Reporting Period

In the first half of 2012, despite the many unfavourable factors such as the downside pressure on the Chinese economy, policy changes in the pharmaceutical industry, a decline in growth at the pharmaceutical end market, a decrease in drug prices and a drop in investors' confidence as a result of the adverse impact of a false news report over the Company, the Company made efforts to deal with the external interference and conquered the challenges in a proactive manner. While keeping the Company running smoothly, the Company, through taking benefit from manufacturing and distribution synergies, increased the number of key products, accelerated the integration of the country's three key regions, expanded the end market and channels for drugs and pushed forward the internal consolidation so that the Company reaped a fast growth and good operational quality during the Reporting Period.

During the Reporting Period, the Company's operating income was RMB33.621 billion (amount denominated in RMB, which is the same as below), up by 30.02% on a YOY basis. Net profit attributable to the equity holders of the listed Company was RMB1.148 billion, increased by 13.75% as compared with that after deducting the one-off income from TECHPOOL Bio-Pharma Co., Ltd. for the corresponding period of last year; the operating profit margin after deducting sales and administration costs was 4.33%, down by 0.33 percentage points from the corresponding period of last year, mainly due to the dilutive effect from the expansion of the distribution business; its earnings per share amounted to RMB0.4268 and earnings per share after deducting non-recurring profits and losses were RMB0.3979. During the Reporting Period, the Company's net cash flows from operating activities amounted to RMB610 million. As at 30 June 2012, the owners' equity of the Company was RMB26.890 billion, its owners' equity after deducting minority interest was RMB23.773 billion and its total assets were RMB50.698 billion.

■ Position in sector

During the Reporting Period, the Company's reputation among peers was enhanced further: the Company was ranked again within the Top 500 Chinese Enterprises in 2012 published by Fortune (Chinese edition), shot up 16 places from 100 in 2011 to land in 84 this year; the Company ranked No. 2 in the Top 100 Chinese Pharmaceutical Industries 2011 published by the Southern Medicine Economic Institute of State Food and Drug Administration, up one place from last year; the Company ranked No. 2 in the top 100 Chinese Drug Distributors in 2011 published by the Ministry of Industry and Information Technology of the PRC.

■ Pharmaceutical manufacturing business

During the Reporting Period, the Company's income from sales of pharmaceutical products was RMB4.965 billion, representing a growth of 5.80% as compared with the corresponding period of last year; its gross margin was 46.55%, increased by 2.44 percentage points as compared with the corresponding period of last year and 1.65 percentage points as compared with last year. The operating profit margin after deducting sales and administration costs was 13.05%, declined by 0.98 percentage points as compared with the corresponding period of last year, basically flat as compared

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with the level of last year. By adjusting the product structure, improving the growth in relation to key products and increasing efforts in sales and marketing, the Company effectively overcame the impact of state policies last year and the lagged effect of the price increase in raw material of traditional Chinese medicine (TCM).

In the first half of the year, the sales income from chemical and biological drugs was RMB2.23217 billion, up by 3.33% on a YOY basis, sales income from sale of modern Chinese medicines was RMB1,538.45 million, up by 8.52% on a YOY basis, the sales income from other products (active pharmaceutical ingredients (APIs), TCM, healthcare products and medical devices, etc.) was RMB1.19394 billion, up by 7.14% on a YOY basis.

■ Pharmaceutical distribution

During the Reporting Period, the sales income from pharmaceutical distribution and supply chain solutions was RMB28.832 billion, up by 34.90% as compared with the corresponding period of last year, with a gross margin of 6.48%, basically flat as compared with the corresponding period of last year and down by 0.41 percentage point as compared with last year. The operating profit margin after deducting Selling, General and Administrative (SG&A) expenses was 2.82%, up by 0.51 percentage point as compared with the corresponding period of last year, basically flat as compared with last year. By focusing on covering East China, North China and South China, the Company leveraged on its strategic strengths through differential positioning and enhanced the economies of scale and manufacturing and distribution synergies. As a result, the SG&A expenses ratio decreased by 0.52 percentage point YOY and profitability was further enhanced.

■ Pharmaceutical retail

During the Reporting Period, the Company's sales income from the pharmaceutical retail business was RMB1.315 billion, representing a growth of 23.88% as compared with the corresponding period of last year, with a gross margin of 23.87%, down by 0.19 percentage points as compared with the corresponding period of last year and up by 1.43 percentage points as compared with last year.

2. Business analysis during the Reporting Period

(1) *Structural adjustment to pharmaceutical manufacturing took effect*

The Company enjoyed a satisfactory growth in sales of key products. In the first half of the year, the Company's income from the sales of key products was RMB2.745 billion, representing a YOY increase of 13.39%, accounting for 55.29% of manufacturing sales, representing an increase of 4.03 percentage points over the same period last year, achieving 64.8% of the average gross profit margin. During the period, the Company adjusted the market structure and marketing strategies, moved to reduce the production and sales of negative and low margin products and strategically exited certain markets suffered from excessively low prices due to the tender of essential drugs so that the gross profit margin of products improved and increased notably and the product portfolio was gradually optimised, with 30 out of 58 key products having a growth higher or equivalent to the growth of similar products of the IMS. As the Company attached importance on end-user promotions and the expansion of market for essential drugs at advantageous regions, sales of over 10 key products, including Aripiprazole, Yangxinshi, Chymotrypsin, Shenmai injection, Wangbi tablet, Tanshinone IIA, Tatin-type API, Compound Reserpine tablet, Hydroxychloroquine and Heparin Sodium, reported a year-on-year growth exceeding 20%. The number of products contributing sales revenue of RMB100 million or above is expected to increase to 23 this year from the 17 last year. In the first half of the year, sales of products contributing sales revenue of RMB100 million or above accounted for 44% of manufacturing sales, an increase of 4.56 percentage points over the same period of last year.

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(2) Distribution business continued to maintain the competitive edge

In the first half of the year, the business in North China developed faster than other distribution regions of the Company, with the proportion of sales surging to 20.42%. The market share in Beijing was 18%. Sales in East China accounted for 72.43% of the total distribution. The market share in East China was 18%, of which the market share in Shanghai was 51%. The market share in South China was 7%.

Sales of imported and joint venture manufactured pharmaceuticals and direct to hospitals sales continued to account for a good percentage. In the first half of the year, sales of the Company's joint venture manufactured and imported pharmaceuticals accounted for 53.65%, up 1.55 percentage points over last year; direct to hospitals sales accounted for 59.8%, down by 1.63 percentage points as compared with last year.

New businesses expanded quickly in the first half of the year. The DTP business (high value direct to patient delivery business), vaccine and high-end consumables recorded a YOY growth of 64.20%, 82.13% and 38.46% respectively. New businesses amounted to RMB1.39 billion in total for the half year.

(3) R&D projects progressed as scheduled

During the Reporting Period, the Company obtained 5 approvals for the production of new drugs, among which the approval for the production of a class 3.1 new drug, Esopiclone, made us the third manufacturer in the PRC that was permitted to produce such drug. The Company was also granted one clinical approval for new drug. During the Reporting Period, there were 32 key generic drugs under research, four of which were pending for production approval. There were seven projects under preparation before being put into production. The research and development of innovative drugs progressed as scheduled, of which the phase I project for the clinical trial of the new drug under class 1.1, LLTD-8, was completed. The clinical research of four innovative drugs including Deuteroporphyrin progressed as scheduled. The application for the import registration of the ZYDENA project in cooperation with Dong-A Pharmaceutical Co., Ltd. of Korea was pending approval.

Among the science and technology key projects for the development of major new drugs during the 11th Five-year Plan period undertaken by the Group, the first batch project – the construction of the R&D system for innovative medicine of Shanghai Pharmaceutical (Group) formally passed the acceptance tests organised by the competent ministries and commissions of the PRC in May this year.

(4) Efficient integration of Antibiotics business

In the first half of the year, the Company completed the acquisition of the intangible assets of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. Through the "100-day-action-plan" of integration, the Company managed to reinforce the execution and coordination among different teams, and efficiently completed the procedures related to the integration, including the change of drug licenses, business integration, structure adjustment and the optimization of the personnel structure. The integration, supplemented by structural adjustment and market expansion, optimised the product structure of the Company's antibiotics business in the first half of the

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year, with a significant increase in gross profit margin. The initiative also helped to minimise the adverse impact brought by the unfavourable policies in the antibiotics industry and paved the way for the Company to achieve a steadfast development in its antibiotics business and fulfill its annual budgeted target in the second half of the year.

Upon the completion of the integration, the parent company, Shanghai Pharmaceutical (Group), ceased to be engaged in pharmaceutical-related businesses, which completely eliminated horizontal competition among the subsidiaries of the Group and fulfilled the Company's undertaking made to the market during its course of reorganisation for the listing that the Company would realise the integration of its Antibiotics business.

(5) *Manufacturing mergers and acquisitions achieved significant breakthroughs*

Following the acquisition of Changzhou Kony Pharm Co., Ltd., a manufacturer specialised in the manufacturing of special APIs, in the first half of the year, the Company carried out mergers and acquisitions of Changzhou Wuxin Pharmaceutical Co., Ltd. (常州武新製藥有限公司), a key manufacturer specialised in the manufacturing of special APIs, and Nantong Zhongbao Pharmaceutical Co., Ltd. (南通中寶藥業有限公司), a manufacturer specialised in the manufacturing of "cooling" or "qingliang" series of drugs. These manufacturing mergers and acquisitions will further guarantee the safe supply of key APIs for the Company and gradually generate a supply chain advantage from upstream to downstream and encompassing pharmaceutical preparations and special APIs.

(6) *To safeguard the quality of drugs*

In the first half of the year, the State Food and Drug Administration (SFDA) published a total of two reports on drug quality inspection which involved 24 varieties under 188 batches from 17 subsidiaries of Shanghai Pharmaceuticals, all of which have passed the quality inspection.

In the first half of the year, all 194 batches of products from 21 subsidiaries of Shanghai Pharmaceuticals engaged in the manufacturing of capsules passed the special quality sampling of Chromium, a heavy metal, contained in capsules carried out by the SFDA.

(7) *To highly value investor relations and strive to improve such relations*

The Company's Share price experienced significant fluctuations as a result of the irresponsible report of several media over Shanghai Pharmaceuticals in the first half of this year, which damaged investors' interests. In response to such unexpected incident, the Company, with a high sense of responsibility to investors, tackled the problem in a careful and calm manner, and managed to mitigate the negative impact albeit many difficulties. In addition to promptly publishing two clarification announcements on 24 May and 25 May, respectively, the Company proactively enhanced its communication and contact with investors, media and the regulatory authorities. Guided by the same principle and target, the Company strived to ensure the continuing and orderly internal operation. Externally, efforts were made to obtain the support from the public in a bid to gradually reduce the negative impact of the incident and revive investors' confidence.

3. Analysis on operation integration

(1) *To promote the coordination between manufacturing and distribution segments*

With a focus on key products, the Company stepped up efforts to push forward the integration of the advantages between manufacturing and distribution segments so as to complement each other. In the first half of the year, the coordination between manufacturing and distribution segments realised an operating income of RMB900 million, representing a YOY increase of 25% and accounting for 18% of that in the manufacturing segment.

(2) *To increase centralised procurement of major medicinal herbs*

The Company continued to carry out centralised procurement of 13 varieties of major medicinal herbs which accounted for 85% of the total demand of medicinal herbs for the production of TCM. In the first half of the year, the procurement amount reached RMB52.30 million, representing a YOY increase of 53.29%. The centralised procurement was conducive to controlling costs and safeguarding supplies, and became a model to follow for further deepening the integration.

(3) *To settle on starting layout optimisation*

In the first half of the year, the Company started the decision-making process regarding a layout optimisation and investment project on the production sites of the Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥廠有限公司) and Shanghai New Asiatic Pharmaceutical Co., Ltd. (上海新亞藥業有限公司) in Shanghai. Through adjustments, the existing 15 production sites of the two core subsidiaries in Shanghai will eventually merge into five and the integration of production resources will facilitate intensive management.

(4) *To better utilise the function of a cash pool*

The Company continued to work on the centralised management of funds and platform building, enabled an effective internal circulation of idle funds and optimised the Company's loan-deposit ratio. The balance of the Group's borrowings declined compared with the beginning of the year and operating costs were reduced. Wholly owned enterprises inside or outside the city are, at present, all on line and certain holding enterprises were included in the fund management platform. The Group will further optimise the function of the fund management platform, improve the integration of the system and strengthen the performance management of the fund management platform.

(5) *To strengthen and integrate a new R & D mechanism*

In the first half of the year, the Company strengthened and integrated a new R & D mechanism of drugs, comprising both head and branch institutions for R & D. With the Company's Central Pharmaceutical Research Institute platform as the core and key player, the Company picked six relatively mature core subsidiary R & D institutions, namely Sine Branch Institution, Changzhou Pharmaceutical Branch Institution, New Asiatic Branch Institution, Zhongxi Sunve Branch Institution, Qingdao Growful Branch Institution and Shanghai Traditional Chinese Medicine Branch Institution, as the branch establishment and formed a mechanism in which both the head and branch institutions were able to work cohesively. Moreover, through adopting the contract management of major projects for coordination and adopting measures such as building an open laboratory platform, the Company enabled a centralised and effective use of the dispersed R & D resources.

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

During the second half of 2012, the trend of the downside pressure in the domestic economy of China is unlikely to reverse in near term, with a number of policy uncertainties in the pharmaceutical industry. The existing product structure is relatively obsolete as well, putting the Company in a less-competitive position. Therefore, Shanghai Pharmaceuticals will further specify its operating targets for the second half of the year, strive to implement internal integration and external expansion, continue to improve operating quality and strictly control operating risks. Key tasks to be carried out are as follows: to formulate a new round of “three-year development plan”; to achieve growth in the scale of key manufacturing products; to push forward the development of key generic drugs and launch the consistency evaluation of quality standards; to maintain its competitive edge in distribution and strengthen the momentum of subsequent integration; to establish new specialised departments and teams and enhance their functions in manufacturing mergers and acquisitions and new business expansion; to implement the retail development strategy of the Company; to reinforce the management of cash flows and SG&A expenses; to step up efforts to carry out project renovation in compliance with the new good manufacturing practices (GMP) guidelines for production of pharmaceutical products, adjust layout of manufacturing sites as well as other key investment projects; to ensure the infallibility in safety and environmental protection; to cement the internal control of the Company and step up the maintenance of the relationships with investors and media, so as to ensure the fulfillment of the annual budgeted operating targets.

(II) PRIMARY BUSINESSES AND OPERATING STATUS OF THE COMPANY

1. Primary businesses by industry or by product

Unit: RMB

By industry or by product	Operating income	Operating cost	Operating Profit margin (%)	Increase or decrease in operating income YOY (%)	Increase or decrease in operating cost YOY (%)	Increase or decrease in operating profit margin YOY (%)
Manufacturing	4,964,556,565.50	2,606,258,852.78	47.50	5.80	1.00	Increase of 2.50 percentage points
Distribution	28,832,427,558.08	26,927,353,264.33	6.61	34.90	34.99	Decrease of 0.06 percentage points
Retail	1,315,357,031.69	995,413,265.65	24.32	23.88	24.14	Decrease of 0.16 percentage points
Other	18,328,315.05	361,554.03	98.03	-52.84	-93.70	Increase of 12.80 percentage points
Elimination	-1,664,312,531.05	-1,610,851,888.12				

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

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2. Primary businesses by region

Unit: RMB

Region	Operating income	Increase or decrease in operating income YOY (%)
Domestic	32,751,355,494.27	29.74
Overseas	715,001,445.00	43.34

3. Operation of major controlled and invested companies

Unit: RMB 10 thousand

Name of company	Nature of business	Percentage of shareholding of the Company (%)	Registered capital	Scale of assets	Owners' equity attributable to the parent	Operating income	Operating profit
Shanghai Pharmaceuticals Distribution Co., Ltd.	Sale of pharmaceuticals	100	283,686.80	1,874,353	369,859	2,091,569	55,382
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100	50,000.00	562,015	127,502	539,185	15,104
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100	82,100.00	194,849	106,713	112,436	5,139
Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100	22,500.00	91,141	68,465	44,436	13,170
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	96.9	36,997.00	164,245	79,245	36,751	3,720
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100	46,369.00	282,268	79,479	185,100	3,438
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	55	12,850.00	126,190	88,684	54,248	6,548
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	62.69	7,879.03	214,468	98,877	214,428	12,893
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100	54,580.00	187,455	109,943	63,869	15,083
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.48	9,300.00	85,737	49,732	34,347	1,896
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100	6,364.18	25,848	14,382	15,507	4,490
Xiamen Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	61	8,403.00	31,229	22,956	12,872	1,438
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	51.01	5,316.00	37,290	26,102	18,778	1,055
Sino-American Shanghai Squibb Pharmaceutical Ltd.	Production and sale of pharmaceuticals	30	USD1,844	169,851	76,654	150,780	15,632
Shanghai Roche Pharmaceuticals Ltd.	Production and sale of pharmaceuticals	30	USD6,235.71	577,646	189,524	356,312	40,158

4. Others

(1) *Liquidity and financial resources of the Company*

As at 30 June 2012, the balance of the Company's borrowings was RMB5,346 million, of which the balance of Hong Kong dollar denominated borrowings was equivalent to RMB45 million and the balance of USD denominated borrowings was equivalent to RMB108 million.

As at 30 June 2012, the Company had net account receivables and bill receivables of RMB14,663 million (31 December 2011: RMB11,578 million), representing an increase of 26.64% as compared with the beginning of the year. The increase was mainly attributed to the increase in the income of principal businesses.

As at 30 June 2012, the balance of the Company's account payables and bill payables was RMB14,260 million (31 December 2011: RMB12,659 million), representing an increase of 12.65% as compared with the beginning of the year. The increase was mainly attributed to the increase in procurement as a result of the expansion of principal businesses.

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

(2) *Mortgage of assets of the Company*

As at 30 June 2012, the Company's land use rights with a site area of 535,192.50 sq. m. (at cost of RMB75,020,118.20 and book value of RMB61,957,074.38) and houses and buildings and machinery with book value of RMB125,256,059.77 (at cost of RMB268,390,806.68) were mortgaged to secure the short-term borrowings of RMB380,090,000.00 and the long-term borrowings of RMB16,345,454.00.

As at 30 June 2012, the pledged bank loans of RMB576,801,587.77 were secured by the account receivables with book value of RMB622,009,027.93.

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(3) Contingent liabilities

- (i) During the Reporting Period, the Company did not have any material pending litigation or arbitration to be disclosed.
- (ii) Contingent liabilities arising from debt guarantees provided for third parties and guarantees provided for related parties by the Company during the Reporting Period and their financial impact are as follows:

Guarantor	Guaranteed party	Value of guarantee (RMB'000)	Commencement date of guarantee	Expiration date of guarantee
Shanghai Pharmaceuticals Distribution Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	9,000.00	10 April 2012	9 April 2013
Shanghai Pharmaceuticals Distribution Co., Ltd.	Jiangxi Nanhua Medicines Co., Ltd.	25,000.00	26 April 2012	26 April 2013
Shanghai Pharmaceuticals Distribution Co., Ltd.	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,130.00	22 March 2012	30 December 2012
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
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	25,000.00	20 February 2012	20 February 2013
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	55,000.00	29 December 2011	28 December 2012
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	10,000.00	16 September 2011	16 September 2012
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	30,000.00	14 March 2012	13 March 2013
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	20,000.00	15 March 2012	15 September 2012
Total	/	199,130.00	/	/

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

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(4) *Employees and Remuneration Policy*

As at 30 June 2012, the Company had a total of 36,791 employees.

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

In accordance with the applicable laws and regulations of the PRC, the Company contributes to the pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance for its employees. Contributions to the aforesaid social welfare schemes are made in strict compliance with the national, provincial and municipal requirements of the PRC. The Company has also established an employee housing fund in accordance with the applicable regulations in the PRC.

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

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(III) INVESTMENTS BY THE COMPANY

1. Use of proceeds

- (1) A Shares: During the Reporting Period, the Company did not raise any proceeds or carried forward the proceeds raised in the previous period for the current period.
- (2) H Shares: In 2011, the Company issued H Shares to foreign investors for the first time and the H Shares were listed on the Hong Kong Stock Exchange on 20 May 2011. The Company raised net proceeds of HKD15,492.30 million (after deducting issue costs) through the issue of H Shares. As at 31 May 2012, upon approval by the annual general meeting of 2011, the Company made appropriate adjustments to the usage of the remaining proceeds raised as follows:

Unit: HKD10 thousand

Usage	Before adjustment		After adjustment	
	Proportion	Amount	Proportion	Amount
Expansion and enhancement of the distribution network and integration of the existing distribution network	40%	619,692	46%	712,645
Strategic acquisition of domestic and international pharmaceutical business and internal integration of existing pharmaceutical business	30%	464,769	39%	604,200
Investment in the information technology system and platform	10%	154,923	4%	61,970
Further enhancement of product portfolio and products under R&D through investment in the R&D platform of the products	10%	154,923	4%	61,970
Working capital requirements and general corporate purposes	10%	154,923	7%	108,445
Total		1,549,230		1,549,230

As at 30 June 2012, the overall use of H Share proceeds is as follows:

Unit: HKD10 thousand

Total net amount of proceeds	Total proceeds utilised during the Reporting Period	Accumulative proceeds utilised	Remaining unutilised proceeds	Usage and whereabouts of unutilised proceeds
1,549,230.22	92,766.71	769,480.66	779,749.56	Deposit in special bank account

2. Projects financed by non-raised funds

There is no material investment project financed by non-raised funds.

VI. SIGNIFICANT EVENTS

(I) CORPORATE GOVERNANCE

The Company has strictly complied with the relevant laws, regulations and rules such as the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Standards on Corporate Governance of Listed Companies and the Hong Kong Listing Rules as well as the Articles of Association to establish and improve the corporate governance structure of the legal persons. During the Reporting Period, the Company has made amendment and enhancement to the Articles of Association, the rules of procedure of the shareholders' general meeting, the board of directors and the board of supervisors, the Implementation Rules of the Audit Committee of the Board of Directors and the Implementation Rules of the Remuneration and Assessment Committee of the Board of Directors. It has also formulated the Implementation Rules of the Nomination Committee of the Board of Directors. Moreover, the Company has promulgated a series of internal rules and regulations to guarantee the compliance of operation and decision-making of the Company.

During the Reporting Period, the Company held one shareholders' general meeting, three meetings of the board of directors and three meetings of the board of supervisors. The relevant results of the resolutions of the meetings were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the relevant information disclosure media according to the requirements of the regulators. The shareholders' general meeting, the board of directors, the board of supervisors and the senior management operated independently to perform their respective rights and obligations in accordance with the Articles of Association without any breach of laws or regulations.

Under the board of directors, there are four special committees, namely the strategy committee, the nomination committee, the audit committee and the remuneration and assessment committee. During the Reporting Period, the audit committee held a total of four meetings where the 2011 annual report, the 2012 first quarterly report, the internal control situation of 2011 and the internal audit proposal of 2012 were reviewed. The audit committee also convened extraordinary meetings with the senior management to discuss contingent events.

The Company is an A+H Share listed company and shall comply with the laws and regulations of both the PRC and Hong Kong. As an A Share listed company, the Company did not breach any relevant PRC laws and regulations. Pursuant to Rule A.5.1 of the Corporate Governance Code, the Company held the relevant meeting of the board of directors and the shareholders' general meeting as soon as practicable in accordance with the relevant procedures, established the nomination committee on 26 April 2012, and stipulated the Implementation Rules of the Nomination Committee of the Board of Directors to determine the terms of reference of the nomination committee. Pursuant to Rule A.1.8 of the Corporate Governance Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company is dealing with such matter for each of its directors in a proactive manner according to the relevant procedures and will arrange insurance cover for them when it is appropriate.

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

VI. SIGNIFICANT EVENTS

(II) IMPLEMENTATION OF THE PROFIT DISTRIBUTION PLAN DURING THE REPORTING PERIOD (IN RMB)

As approved by the annual general meeting of the Company for the year 2011 held on 31 May 2012, the profit distribution plan of the Company for the year 2011 was as follows: on the basis of an aggregate of 2,688,910,538 Shares in issue as at 31 December 2011, a cash dividend of RMB1.60 (tax inclusive) per ten Shares should be distributed to all Shareholders, totaling RMB430,225,686.08, accounting for 21.07% of the profit after tax of the year 2011. After distribution, the Company's remaining undistributed profit was RMB4,766,034,971.50. There was no transfer of capital reserve fund into share capital during the year 2011. The implementation of such profit distribution plan was completed on 25 July 2012.

(III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR THE CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL DURING THE REPORTING PERIOD

The Company had no profit distribution proposal or proposal for the conversion of capital reserve fund into share capital during the Reporting Period.

(IV) ASSET TRANSACTIONS

1. Acquisition of assets

Unit: RMB10 thousand

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 Reporting Period	Contribution to the net profit of the listed company from the beginning of the year to the end of the Reporting Period (applicable to the merger 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 the net profit of the listed company (%)	Related party relationship
Zhao Zhongjun, Ma Qinxia	70% equity interests in Changzhou Kony Pharm Co., Ltd.	16 May 2012	21,000.00	266.19	/	No	Asset valuation	Yes	Yes	0.23	/
Lu Jianjun, etc.	67% equity interests in Zhejiang Xinxin Pharmaceutical Co., Ltd.	1 March 2012	10,274.00	463.82	/	No	Asset valuation	Yes	Yes	0.40	/

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Assets			
Non-current assets			
Land use rights	8	806,542	818,338
Investment properties	8	351,806	384,548
Property, plant and equipment	8	4,197,456	4,171,765
Intangible assets	8	3,671,159	3,447,509
Investments in jointly controlled entities	9	295,278	250,109
Investments in associates	10	2,376,717	2,204,408
Deferred income tax assets	15	173,542	178,629
Available-for-sale financial assets		154,657	182,792
Other long-term prepayments		45,811	33,899
		12,072,968	11,671,997
Current assets			
Inventories		8,098,908	8,297,483
Trade and other receivables	11	15,925,781	12,845,631
Financial assets at fair value through profit or loss		3,244	2,659
Restricted cash		229,769	295,345
Cash and cash equivalents		14,367,079	14,554,709
		38,624,781	35,995,827
Total assets		50,697,749	47,667,824
Equity attributable to owners of the Company			
Share capital	12	2,688,910	2,688,910
Share premium		14,401,801	14,396,727
Other reserves		778,999	796,573
Retained earnings		5,902,828	5,196,261
		23,772,538	23,078,471
Non-controlling interests		3,117,269	2,902,994
Total equity		26,889,807	25,981,465

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) CONSOLIDATED INTERIM BALANCE SHEET

	Note	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	14	41,771	52,311
Deferred income tax liabilities	15	273,110	266,288
Termination benefit obligations		54,342	58,524
Other non-current liabilities		598,809	453,324
		968,032	830,447
Current liabilities			
Trade and other payables	13	17,124,978	14,948,013
Current income tax liabilities		241,534	232,440
Borrowings	14	5,473,398	5,675,459
		22,839,910	20,855,912
Total liabilities		23,807,942	21,686,359
Total equity and liabilities		50,697,749	47,667,824
Net current assets		15,784,871	15,139,915
Total assets less current liabilities		27,857,839	26,811,912

The notes on pages 34 to 72 are an integral part of these interim consolidated financial statements.

The financial statements on pages 27 to 72 were approved by the Board of Directors on 21 August 2012 and were signed on its behalf.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Revenue	7	33,621,196	25,857,970
Cost of sales		(29,074,183)	(22,070,085)
Gross profit		4,547,013	3,787,885
Distribution and selling expenses		(1,933,383)	(1,558,969)
General and administrative expenses		(1,191,650)	(1,047,011)
Operating profit	16	1,421,980	1,181,905
Other income		77,257	25,252
Other gains – net	17	68,693	126,390
Gains on disposal of subsidiaries and associates	18	19,823	519,972
Finance income		157,220	60,127
Finance costs		(260,052)	(239,360)
Share of profit of jointly controlled entities		45,169	43,981
Share of profit of associates		167,578	169,391
Profit before income tax		1,697,668	1,887,658
Income tax expense	19	(354,925)	(350,664)
Profit for the period		1,342,743	1,536,994
Profit attributable to:			
Owners of the Company		1,147,718	1,342,718
Non-controlling interests		195,025	194,276
		1,342,743	1,536,994
Earnings per share attributable to owners of the Company during the period (expressed in RMB per share)			
– Basic and diluted	20	0.43	0.63

The notes on pages 34 to 72 are an integral part of these interim consolidated financial statements.

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Dividends	21	–	–

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Profit for the period		1,342,743	1,536,994
Other comprehensive income:			
Available-for-sale financial assets			
– Gross		1,365	(83,121)
– Tax	15	(341)	20,493
Currency translation differences, net		(18,801)	(2,849)
Other comprehensive income for the period, net of tax		(17,777)	(65,477)
Total comprehensive income for the period		1,324,966	1,471,517
Attributable to:			
– Owners of the Company		1,129,804	1,277,241
– Non-controlling interests		195,162	194,276
Total comprehensive income for the period		1,324,966	1,471,517

The notes on pages 34 to 72 are an integral part of these interim consolidated financial statements.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					Non-controlling interests	Total equity	
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000			Total 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 period		-	-	-	1,342,718	1,342,718	194,276	1,536,994
Other comprehensive income								
Available-for-sale financial assets								
– Gross		-	-	(83,121)	-	(83,121)	-	(83,121)
– Tax		-	-	20,493	-	20,493	-	20,493
Currency translation differences, net		-	-	(2,849)	-	(2,849)	-	(2,849)
Others		-	-	-	-	-	-	-
Total other comprehensive income		-	-	(65,477)	-	(65,477)	-	(65,477)
Total comprehensive income		-	-	(65,477)	1,342,718	1,277,241	194,276	1,471,517
Transactions with owners								
Deemed distribution to equity holders		-	-	-	(1,140)	(1,140)	-	(1,140)
Issue of shares, net of expenses	12	696,267	12,047,163	-	-	12,743,430	-	12,743,430
Capital injections from								
– non-controlling interests		-	-	-	-	-	152,937	152,937
Acquisitions of subsidiaries		-	-	-	-	-	16,306	16,306
Disposal of subsidiaries		-	-	-	-	-	(290,959)	(290,959)
Transaction with non-controlling interests		-	-	(112,485)	-	(112,485)	(62,154)	(174,639)
Dividends		-	-	-	(278,970)	(278,970)	(137,998)	(416,968)
Others		-	-	185	(41)	144	(990)	(846)
Total transaction with owners		696,267	12,047,163	(112,300)	(280,151)	12,350,979	(322,858)	12,028,121
Balance at 30 June 2011		2,688,910	15,720,728	652,206	4,576,094	23,637,938	2,689,928	26,327,866

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company					Non-controlling	
		Share capital	Share premium	Other reserves	Retained earnings	Total	interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012		2,688,910	14,396,727	796,573	5,196,261	23,078,471	2,902,994	25,981,465
Comprehensive income								
Profit for the period		-	-	-	1,147,718	1,147,718	195,025	1,342,743
Other comprehensive income								
Available-for-sale financial assets								
– Gross		-	-	1,183	-	1,183	182	1,365
– Tax		-	-	(296)	-	(296)	(45)	(341)
Currency translation differences, net		-	-	(18,801)	-	(18,801)	-	(18,801)
Others		-	-	-	-	-	-	-
Total other comprehensive income		-	-	(17,914)	-	(17,914)	137	(17,777)
Total comprehensive income		-	-	(17,914)	1,147,718	1,129,804	195,162	1,324,966
Transactions with owners								
Capital injections from non-controlling interests		-	-	-	-	-	36,197	36,197
Acquisitions of subsidiaries	24	-	-	-	-	-	85,403	85,403
Disposal of subsidiaries		-	-	-	-	-	(8,835)	(8,835)
Transaction with non-controlling interests		-	-	75	-	75	(2,917)	(2,842)
Dividends		-	-	-	(430,226)	(430,226)	(90,239)	(520,465)
Appropriation to staff welfare		-	-	-	(2,588)	(2,588)	(2,118)	(4,706)
Others		-	-	5,339	(8,337)	(2,998)	1,622	(1,376)
Total transaction with owners		-	-	5,414	(441,151)	(435,737)	19,113	(416,624)
Balance at 30 June 2012		2,688,910	14,396,727	784,073	5,902,828	23,772,538	3,117,269	26,889,807

The notes on pages 34 to 72 are an integral part of these interim consolidated financial statements.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Cash flows from operating activities		
Cash generated from operations	987,886	1,187,754
Interest paid	(252,144)	(202,967)
Income tax paid	(377,660)	(289,793)
Net cash generated from operating activities	358,082	694,994
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(203,356)	(2,489,256)
Cash outflow due to deemed disposal of TECHPOOL	–	(266,733)
Purchases of property, plant and equipment ("PP&E") and investment properties	(242,861)	(198,519)
Proceeds from disposal of PP&E and investment properties	12,258	38,161
Purchases of land use rights and intangible assets	(285)	(3,680)
Dividends received	5,524	150,002
Proceeds from disposal of available-for-sale financial assets	41,170	137,291
Proceeds from disposal of subsidiaries, associates and jointly controlled entities	32,381	29,668
Other cash flows generated from/(used in) investing activities	(23,993)	62,014
Net cash used in investing activities	(379,162)	(2,541,052)
Cash flows from financing activities		
Proceeds from non-controlling interests of certain subsidiaries	9,000	46,316
Proceeds from issuance of ordinary shares of the Company	–	13,324,331
Proceeds from borrowings	4,237,051	5,773,249
Repayments of borrowings	(4,399,101)	(7,504,583)
Dividends paid by the Group	(58,055)	(105,924)
Others cash flows generated from financing activities	(33,450)	58,068
Net cash generated from financing activities	(244,555)	11,591,457
Net increase in cash and cash equivalents	(265,635)	9,745,399
Cash and cash equivalents at beginning of the period	14,554,709	6,210,449
Exchange losses on cash and cash equivalents	78,005	(56,631)
Cash and cash equivalents at end of the period	14,367,079	15,899,217

The notes on pages 34 to 72 are an integral part of these interim consolidated financial statements.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM 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 RMB1 each (“A Shares”) to its then shareholder and succeeded all the businesses of Shanghai No. 4 Pharmaceutical Factory (上海第四製藥廠), which was mainly engaged in the manufacturing and sale of pharmaceutical products. The Company then issued 15,000,000 new A Shares to public and all of the Company’s A Shares were listed on Shanghai Stock Exchange on 24 March 1994.

In 1998, Shanghai Pharmaceutical (Group) Corporation, the predecessor of Shanghai Pharmaceutical (Group) Co., Ltd. (“Shanghai Pharma Group”, 上海醫藥(集團)有限公司) which is the intermediate holding company of the Company, injected certain assets and wholly owned subsidiaries (“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.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 interim 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 during the six months ended 30 June 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. 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 District, Shanghai, PRC.

This condensed consolidated interim financial information is presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 21 August 2012.

These condensed consolidated interim financial statements have not been audited.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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.

3 BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six month ended 30 June 2012 have been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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 interim 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 six months ended 30 June 2011, of which the interim consolidated financial statements were restated.

3.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group’s products; and (b) the availability of bank finance for the foreseeable future. The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements of the Company for the year ended 31 December 2011, as described in those annual financial statements.

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

(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 2012 that would be expected to have a material impact on the Group.

- HKFRS 7 (Amendment), disclosures – Transfers of financial assets, this amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.
- HKFRS 1 (Amendment), severe hyperinflation and removal of fixed dates for first-time adopters, These amendments include two changes to HKFRS 1, 'First-time adoption of HKFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to HKFRSs', thus eliminating the need for entities adopting HKFRSs for the first time to restate derecognition transactions that occurred before the date of transition to HKFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with HKFRSs after a period when the entity was unable to comply with HKFRSs because its functional currency was subject to severe hyperinflation.
- 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.

4 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 2012 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.
- HKFRS 7 (Amendment) 'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities', the amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group is yet to assess HKFRS 7's full impact and intends to adopt HKFRS 7 no later than the accounting period beginning on or after 1 January 2013.
- 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.

4 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 2012 and have not been early adopted (continued)

- HKFRS 11 'Joint arrangements', this is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess HKFRS 11's full impact and intends to adopt HKFRS 11 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.
- HKAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to HKAS 19's full impact and intends to adopt HKAS 19 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.

5 ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6 FINANCIAL RISK MANAGEMENT

6.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in the risk management department since year ended 31 December 2011 or in any risk management policies.

6.2 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.

7 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.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT INFORMATION (continued)

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

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

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

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

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

For the six months ended 30 June 2012

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	4,047,623	28,098,729	1,315,357	159,487	-	33,621,196
Inter-segment revenue	916,934	733,698	-	13,681	(1,664,313)	-
Segment revenue	4,964,557	28,832,427	1,315,357	173,168	(1,664,313)	33,621,196
Segment operating profit	637,257	785,055	22,155	30,974	(53,461)	1,421,980
Other income						77,257
Other gains – net						68,693
Gains on disposal of subsidiaries and associates						19,823
Finance costs – net						(102,832)
Share of profit of jointly controlled entities	37,492	7,677	-	-	-	45,169
Share of profit of associates	150,626	16,952	-	-	-	167,578
Profit before income tax						1,697,668
Income tax expense						(354,925)
Profit for the period						1,342,743

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT INFORMATION (continued)

For the six months ended 30 June 2011

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	3,959,791	20,699,832	1,061,809	136,538	–	25,857,970
Inter-segment revenue	732,515	673,477	–	18,404	(1,424,396)	–
Segment revenue	4,692,306	21,373,309	1,061,809	154,942	(1,424,396)	25,857,970
Segment operating profit	621,755	506,523	37,662	23,368	(7,403)	1,181,905
Other income						25,252
Gains on disposal of subsidiaries and associates						519,972
Other gains – net						126,390
Finance costs – net						(179,233)
Share of profit of jointly controlled entities	31,545	12,436	–	–	–	43,981
Share of profit of associates	159,115	10,276	–	–	–	169,391
Profit before income tax						1,887,658
Income tax expense						(350,664)
Profit for the period						1,536,994

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT INFORMATION (continued)

Other segment items included in the condensed consolidated interim financial statements for the six months ended 30 June 2012 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	159,403	45,747	13,652	6,015	-	224,817
Amortisation of intangible assets and land use rights	11,157	35,677	377	1,853	-	49,064
Capital expenditure	139,293	81,384	22,492	28,948	-	272,117

Other segment items included in the condensed consolidated interim financial statements for the six months ended 30 June 2011 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	160,494	41,608	5,855	4,376	-	212,333
Amortisation of intangible assets and land use rights	12,005	7,955	4,180	709	-	24,849
Capital expenditure	138,427	35,269	4,848	19,431	-	197,975

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 30 June 2012 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	181,988	113,290	–	–	–	295,278
Investment in associates	2,090,145	286,572	–	–	–	2,376,717
Other assets	12,719,507	29,775,785	1,309,393	30,289,723	173,542	74,267,950
Elimination						(26,242,196)
Total assets						50,697,749
Segment liabilities	5,063,966	20,356,478	948,979	3,701,249	514,645	30,585,317
Elimination						(6,777,375)
Total liabilities						23,807,942

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	50,524,207	23,293,297
Unallocated:		
Current income tax liabilities	–	273,111
Deferred tax assets/liabilities – net	173,542	241,534
Total	50,697,749	23,807,942

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2011 are as follows:

	Production segment <i>RMB'000</i>	Distribution segment <i>RMB'000</i>	Retail segment <i>RMB'000</i>	Others <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Investment in jointly controlled entities	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

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

	Assets <i>RMB'000</i>	Liabilities <i>RMB'000</i>
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

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Land use rights RMB'000	Investment properties RMB'000	PP&E RMB'000	Intangible assets RMB'000
Six months ended 30 June 2012				
Opening net book amount 1 January 2012	818,338	384,548	4,171,765	3,447,509
Additions	11,616	–	333,693	261,980
Depreciation and amortisation charge (Note 16)	(10,788)	(7,848)	(216,969)	(38,276)
Internal transfer	–	(2,012)	2,012	–
Disposals	(12,624)	(22,882)	(93,045)	(54)
Closing net book amount 30 June 2012	806,542	351,806	4,197,456	3,671,159
Six months ended 30 June 2011				
Opening net book amount 1 January 2011	799,025	399,163	4,383,480	520,990
Additions	560	–	223,891	2,625,375
Depreciation and amortisation charge (Note 16)	(11,614)	(7,160)	(205,173)	(13,235)
Disposals	(14,779)	(931)	(165,487)	(69,482)
Closing net book amount 30 June 2011	773,192	391,072	4,236,711	3,063,648

Note:

- (1) The addition of intangible assets include the goodwill of approximately RMB109,940,000 and RMB45,712,000 which is arising from acquisition of Changzhou Kangli and Zhejiang Xinxin respectively.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	<i>RMB'000</i>
Six months ended 30 June 2012	
Opening net book amount 1 January 2012	250,109
Share of profit for the period	45,169
Closing net book amount 30 June 2012	295,278
Six months ended 30 June 2011	
Opening net book amount 1 January 2011	204,695
Additions	124,920
Share of profit for the period	43,981
Dividends	(10,025)
Deductions	–
Closing net book amount 30 June 2011	363,571

10 INVESTMENTS IN ASSOCIATES

	<i>RMB'000</i>
Six months ended 30 June 2012	
Opening net book amount 1 January 2012	2,204,408
Additions	14,532
Share of profit for the period	167,578
Dividends	(9,801)
Closing net book amount 30 June 2012	2,376,717
Six months ended 30 June 2011	
Opening net book amount 1 January 2011	1,281,028
Addition arising from deemed disposal of TECHPOOL	742,754
Share of profit for the period	168,690
Dividends	(152,746)
Closing net book amount 30 June 2011	2,039,726

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11 TRADE AND OTHER RECEIVABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables from third parties		
Accounts receivable	14,198,540	11,264,715
Less: Provision for impairment	(757,839)	(747,859)
Accounts receivable – net	13,440,701	10,516,856
Notes receivable	980,877	971,206
Trade receivables – net	14,421,578	11,488,062
Other receivables from third parties	1,356,467	1,295,235
Less: Provision for impairment	(704,345)	(718,924)
Other receivables – net	652,122	576,311
Amount due from related parties (Note 25(c))	335,925	149,518
Less: Provision for impairment	(21,022)	(21,391)
Amount due from related parties – net	314,903	128,127
Prepayments	408,291	478,002
Value-added tax recoverable	114,480	144,482
Interest receivables	14,407	30,647
Trade and other receivables	15,925,781	12,845,631

- (a) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, 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 30 June 2012 and 31 December 2011 are as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Less than 3 months	10,960,613	8,428,295
3 months to 6 months	2,710,764	2,134,609
6 months to 12 months	639,250	904,193
1 year to 2 years	189,606	102,095
Over 2 years	679,184	666,729
	15,179,417	12,235,921

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12 SHARE CAPITAL

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total shares of RMB1 each RMB'000
Issued and fully paid:					
At 1 January 2012	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of A Shares	-	-	-	-	-
At 30 June 2012	1,923,016	765,894	1,923,016	765,894	2,688,910
At 1 January 2011	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 30 June 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.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

13 TRADE AND OTHER PAYABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Accounts payable to third parties	11,602,954	10,276,215
Notes payable	2,147,547	2,095,912
Advances received from customers	301,219	366,944
Payables for purchase of PP&E	40,840	106,844
Staff welfare and salary payables	355,050	331,376
Tax liabilities other than income tax	150,468	160,681
Amounts due to related parties (Note 25(c))	731,239	378,700
Accrued expenses	617,019	530,144
Deposits	292,829	216,825
Dividends payable	382,306	52,317
Others	503,507	432,055
	17,124,978	14,948,013

As at 30 June 2012 and 31 December 2011, ageing analysis of the accounts payables to third parties and notes payables is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Less than 3 months	10,004,632	9,085,183
3 months to 6 months	2,685,518	2,266,272
6 months to 12 months	758,179	716,681
1 year to 2 years	148,543	140,137
2 years to 3 years	25,098	52,051
Over 3 years	128,531	111,803
	13,750,501	12,372,127

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14 BORROWINGS

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Non-current	41,771	52,311
Current	5,473,398	5,675,459
Total borrowings	5,515,169	5,727,770

Movement in borrowings is analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2012	
Opening net book amount 1 January 2012	5,727,770
Additions	4,145,220
Acquisition of subsidiaries	71,820
Deduction	(4,404,100)
Disposal of subsidiaries	(25,541)
Closing net book amount 30 June 2012	5,515,169
Six months ended 30 June 2011	
Opening net book amount 1 January 2011	5,408,175
Additions	5,763,229
Acquisition of subsidiaries	1,460,161
Deduction	(7,462,480)
Disposal of subsidiaries	(37,000)
Closing net book amount 30 June 2011	5,132,085

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

15 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Deferred income tax assets	173,542	178,629
Deferred income tax liabilities	273,110	266,288
Deferred income tax (liabilities)/assets – net	(99,568)	(87,659)

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

	As at 30 June 2012 RMB'000	2011 RMB'000
At 1 January	(87,659)	110,025
Recognised in the consolidated income statements (<i>Note 19</i>)	4,142	(124,262)
Disposal of subsidiaries	(72)	(7,786)
Acquisition of subsidiaries	(15,638)	(105,068)
Recognised in equity	(341)	20,493
Deferred income tax (liabilities)/assets – net	(99,568)	(106,598)

16 OPERATING PROFIT

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Depreciation of PP&E	216,969	205,173
Depreciation of investment properties	7,848	7,160
Amortisation of		
– land use rights	10,788	11,614
– intangible assets	38,276	13,235
Employee benefit expenses	1,172,408	1,009,881
Provision for impairment of trade and other receivables	20,313	4,511
Write-down/(Reversal of) of inventories to net realisable value	553	5,571

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17 OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Gains/(losses) of financial assets at fair value through profit or loss, net	585	(288)
(Losses)/gains on disposals of PP&E	(3,961)	14,004
Gain on disposals of available-for-sale financial assets	–	119,542
Loss on disposals of land use rights	–	(332)
Reversal for impairment of long ageing receivables	7,462	–
Foreign exchange gains/(losses)	65,989	(6,161)
Others – net	(1,382)	(375)
	68,693	126,390

18 GAINS ON DISPOSAL OF SUBSIDIARIES

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Deemed disposal of TECHPOOL (note (a))	–	479,195
Disposal of Qingdao Growful Dongrui Pharmaceutical Co., Ltd. (“Dongrui”) (note (b))	–	37,803
Others	19,823	2,974
	19,823	519,972

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.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18 GAINS ON DISPOSAL OF SUBSIDIARIES (continued)

Note: (continued)

(a) (continued)

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:

	Six months ended 30 June 2011 RMB'000
Fair value of the 40.8% equity investment in TECHPOOL	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
<u>Gain on deemed disposal of TECHPOOL</u>	<u>479,195</u>

(b) On 9 May 2011, the Group disposed 100% of the share capital of Dongrui for approximately RMB24,500,000.

	Six months ended 30 June 2011 RMB'000
Fair value of the 100% equity investment in Dongrui	19,391
<u>Add: Carrying amount of net liabilities of Dongrui as at 9 May 2011</u>	<u>18,412</u>
<u>Gain on disposal of Dongrui</u>	<u>37,803</u>

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current income tax, PRC enterprise income tax	359,067	226,402
Deferred income tax	(4,142)	124,262
	354,925	350,664

20 EARNINGS PER SHARE

For the six months ended 30 June 2012 and 2011, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	1,147,718	1,342,718
Number of ordinary shares (thousands)	2,688,910	2,146,251
Basic earnings per share (RMB)	0.43	0.63

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during for the six months ended 30 June 2012 and 2011.

21 DIVIDENDS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Dividends declared by the Company	–	–

No interim dividend was proposed by the directors of the Company for the six months ended 30 June 2012 and 2011.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

22 CONTINGENCIES AND GUARANTEES

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

(b) Outstanding loan guarantees

	30 June 2012 RMB'000	31 December 2011 RMB'000
Outstanding loan guarantees provided to related parties	199,130	176,000

As of 30 June 2012, outstanding loan guarantees represented loan guarantees of approximately RMB199,130,000 (2011: RMB176,000,000) provided by the Group to certain related parties of the Group (Note 25(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.

23 COMMITMENTS

(a) Capital commitments

(i) Constructions

Capital expenditure contracted for at the end of 30 June 2012 and 31 December 2011 but not yet incurred is as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
PP&E	16,021	21,556

(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. Up to 30 June 2012, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB35,065,000.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

23 COMMITMENTS (continued)

(b) Operating lease commitments

- (i) The Group is the lessee:

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
No later than 1 year	46,571	40,562
Later than 1 year and no later than 2 years	33,134	35,016
Later than 2 years and no later than 5 years	33,623	34,810
Later than 5 years	10,195	10,829
	123,523	121,217

- (ii) The Group is the lessor:

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
No later than 1 year	31,021	32,668
Later than 1 year and no later than 2 years	23,357	28,205
Later than 2 years and no later than 5 years	36,672	41,852
Later than 5 years	7,694	10,395
	98,744	113,120

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24 BUSINESS COMBINATION

Significant business combinations not under common control

- (i) During the period ended 30 June 2012, the Group acquired 70% equity interests in Changzhou Kangli Pharmaceutical Co., Ltd. (常州康麗製藥有限公司, "Changzhou Kangli") from certain independent third parties (the "Acquisition"). At the beginning of year 2012, the Group obtained the substantial control over Changzhou Kangli and the related return on equity. Hence, Changzhou Kangli was consolidated in the Group when the Group prepared its consolidated financial statements for the first quarter of year 2012 in accordance with the applicable accounting standards. The revenue and net profit attributable to the Group of Changzhou Kangli for the first quarter of year 2012 were RMB28,013,886 and RMB6,585,210, respectively, representing 0.17% and 1.14% of the Group's consolidated revenue and net profit attributable to the Company for the same period. At the beginning of May 2012, there had been some disputes over the ownerships of certain know-how and intellectual property of Changzhou Kangli's products (the "Disputes"), which had been unknown to the Group before and had impact on the execution of the Acquisition and Changzhou Kangli's operation. On 16 May 2012, the Disputes were properly solved upon entering into a series of certain agreements by certain interested parties. Solely for the purpose of prudence, when preparing these consolidated financial statements for the six months ended 30 June 2012, Changzhou Kangli was consolidated into the Group's consolidated financial statements since the date the Disputes solved. The revenue and net profit attributable to the Group of Changzhou Kangli were RMB47,698,476 and RMB11,302,960 for the five months ended 31 May 2012, respectively, representing 0.14% and 0.98% of the Group's consolidated revenue and net profit attributable to the Company for the six months ended 30 June 2012.

The following table summarises the consideration paid for acquisition of RMB210,000,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration	Changzhou Kangli RMB'000
At 16 May 2012	
Acquisition consideration	210,000
Total consideration	210,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	11,737
PP&E	69,101
Intangible assets	48,971
Inventories	20,022
Trade and other receivables	30,823
Deferred income tax liabilities	(15,639)
Trade and other payables	(22,073)
Total identifiable net assets	142,942
Non-controlling interests	(42,882)
Goodwill	109,940
	210,000

Note:

Had Changzhou Kangli been consolidated from 1 January 2012, the consolidated revenue and profit of the Group would be increased by approximately RMB47,698,000 and RMB16,144,000 respectively.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

- (ii) In March 2012, the Group acquired 67% equity interests in Zhejiang Xinxin Pharmaceutical Co., Ltd. (浙江上藥新欣醫藥有限公司, "Zhejiang Xinxin") from an independent third party, on which the Group effectively obtained the right to control its Pharmaceutical business and consolidated it into the consolidated financial statements.

The following table summarizes the consideration paid for acquisition of RMB102,740,000 the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	Zhejiang Xinxin RMB'000
At 1 March 2012	
Acquisition consideration	102,740
Total consideration	102,740
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	85,083
PP&E	16,156
Intangible assets	10,108
Investment in associates and jointly controlled entities	245
Inventories	41,977
Trade and other receivables	144,456
Deferred income tax liabilities	(2,527)
Trade and other payables	(147,062)
Borrowings	(63,320)
Total identifiable net assets	85,116
Non-controlling interests	(28,088)
Goodwill	45,712
	102,740

Note:

Had Zhejiang Xinxin been consolidated from 1 January 2012, the consolidated revenue and profit of the Group would be increased by approximately RMB98,105,000 and RMB2,067,000 respectively.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 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 Antibiotics Pioneer Pharmaceutical Co., Ltd. (上海安替比奧先鋒製藥有限公司)	Controlled by Shanghai Industrial Group
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

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Sino-American Shanghai Squibb Pharmaceuticals Ltd (中美上海施貴寶製藥有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	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 Yitai Fahrenheit Medicine Co., Ltd. (吉林亞泰華氏醫藥有限公司)	Associate
Shanghai Ivyuan 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
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
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶余堂國藥號有限公司)	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 Xin Hai Feng Yuan Biomedical Development Co., Ltd. (北京信海豐園生物醫藥科技發展有限公司)	Associate

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

For the six months ended 30 June 2012 and 2011, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Six month ended 30 June	
	2012 RMB'000	2011 RMB'000
Sales of goods and render of service		
Jiangxi Nanhua Medicines Co., Ltd.	152,244	105,473
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	48,749	47,679
Shanghai Hutchison Pharmaceutical Co., Ltd.	36,252	33,865
Shanghai Luoda Pharmaceutical Co., Ltd.	17,199	20,791
Shanghai Deyi Pharmaceutical Co., Ltd.	16,627	31,082
Shanghai Ivyuan Pharmacy Co., Ltd.	12,074	6,621
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	10,829	37,385
Shanghai Roche Pharmaceutical Co., Ltd.	10,090	13,105
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	7,105	32,016
Shanghai Jianer Pharmacy Co., Ltd.	2,312	2,230
Sino-American Shanghai Squibb Pharmaceuticals Ltd	1,750	1,705
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	1,030	901
Jilin Yaitai Fahrenheit Medicine Co., Ltd.	1,010	–
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	493	1,825
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	–	4,019
Others	2,572	2,618
	320,336	341,315

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	680,648	523,878
Sino-American Shanghai Squibb Pharmaceuticals Ltd	358,431	260,293
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	143,930	27,527
TECHPOOL	66,277	51,139
Shanghai Hutchison Pharmaceutical Co., Ltd.	63,728	53,594
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	15,709	7,040
Shanghai Luoda Pharmaceutical Co., Ltd.	13,930	3,271
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	10,185	28,418
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	4,498	3,557
Shanghai Deyi Pharmaceutical Co., Ltd.	4,419	8,313
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	–	7,906
Shanghai Tongyong Pharmaceutical Corp., Ltd	–	3,965
Hengren Manchu Municipality Grain Packaging Co., Ltd.	681	1,209
Others	3,245	7,214
	1,365,681	987,324

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	4,227	4,038

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	13,174	7,570
Others	–	276
	13,174	7,846

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	14,262	–

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Purchase of intangible assets		
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	23,147	–

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Interest income		
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	9,500	–
Others	1,046	–
	10,546	–

The Company acquired 100% equity interest in SPH Laboratory Inc. from Shanghai Pharma Group at a consideration of approximately RMB 6,720,000.

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(b) Key management compensation

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Salaries and fee	856	1,013
Bonuses	1,295	1,351
Retirement plans contributions	190	210
	2,341	2,574

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

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

Amount due from related parties:

	30 June 2012 RMB'000	31 December 2011 RMB'000
	Trade receivables	246,264
Other receivables	73,136	36,421
Prepayments	1,483	3,780
Dividends receivables	15,042	15,991
	335,925	149,518

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	107,788	18,157
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	35,306	–
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	18,068	27,015
Shanghai Luoda Pharmaceutical Co., Ltd.	16,914	12,962
Shanghai Hutchison Pharmaceutical Co., Ltd.	15,037	12,049
Shanghai Deyi Pharmaceutical Co., Ltd.	13,786	6,376
Shanghai Roche Pharmaceutical Co., Ltd.	9,777	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	8,058	4,452
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	3,437	2,765
Shanghai Ivyuan Pharmacy Co., Ltd.	2,318	3,126
Others	15,775	6,424
	246,264	93,326
Less: Provision for impairment	(4,824)	(3,817)
	241,440	89,509

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Other receivables due from		
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	35,679	16,542
Jiangxi Nanhua Medicines Co., Ltd.	15,000	–
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd.	10,000	10,000
Shanghai Beisiou Pharmaceutical Co., Ltd.	5,800	5,800
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	4,738	3,052
Others	1,919	1,027
	73,136	36,421
Less: Provision for impairment	(16,198)	(17,574)
	56,938	18,847

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:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Less than 3 months	199,898	70,072
3 months to 6 months	75,161	16,772
6 months to 12 months	8,573	20,610
1 year to 2 years	15,950	268
Over 2 years	19,818	22,025
	319,400	129,747

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	1,000	3,349
Shanghai Wuzhou Pharmaceutical Co., Ltd.	238	238
Others	245	193
	1,483	3,780

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Dividends receivable		
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	863	863
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	878	8,107
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	12,632	6,351
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	500	500
Others	169	170
	15,042	15,991

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties:

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Trade Payables	478,105	263,634
Other Payables	79,502	90,131
Advances	4,792	4,316
Dividends Payable	168,840	20,619
	731,239	378,700

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	234,643	144,390
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	107,163	6,397
Sino-American Shanghai Squibb Pharmaceuticals Ltd	90,151	54,122
TECHPOOL	18,608	26,470
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	8,627	3,242
Shanghai Deyi Pharmaceutical Co., Ltd.	3,720	582
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	3,016	2,560
Shanghai Hutchison Pharmaceutical Co., Ltd.	2,472	16,608
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,469	1,469
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	362	618
Others	7,874	7,176
	478,105	263,634

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Other payables due to		
Shanghai Pharmaceutical (Group) Co., Ltd.	25,492	65,315
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	23,147	–
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	14,262	–
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,066	9,103
Shanghai Baohua Industrial Co., Ltd.	4,000	4,500
Shanghai Hutchison Pharmaceutical Co., Ltd.	36	3,440
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd.	–	2,974
Shanghai Roche Pharmaceutical Co., Ltd.	–	2,000
Others	3,499	2,799
	79,502	90,131

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:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Less than 3 months	521,387	341,638
3 months to 6 months	3,450	1,096
6 months to 12 months	25,738	6,249
1 year to 2 years	4,558	1,249
Over 2 years	2,474	3,533
	557,607	353,765

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Advances due to		
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	2,427	–
Shanghai Baohua Industrial Co., Ltd.	2,064	2,064
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	–	1,530
Others	301	722
	4,792	4,316

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	138,527	20,540
Shanghai Shangshi	30,233	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	168,839	20,619

VII. FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2012 <i>RMB'000</i>	31 December 2011 <i>RMB'000</i>
Outstanding loan guarantees provided by the Group to		
Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd.	115,000	135,000
Jiangxi Nanhua Medicines Co., Ltd.	25,000	20,000
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	45,000	20,000
Shanghai Luoda Pharmaceutical Co., Ltd.	9,000	1,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,130	–
	199,130	176,000
Outstanding loan guarantees given to the Group by		
Shanghai Pharmaceutical (Group) Co., Ltd.	5,080	90,080



Shanghai Pharmaceuticals Holding Co., Ltd.*

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