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)

2012 ANNUAL REPORT

* *For identification purpose only*

Important Notice

(I) The board of directors and the board of supervisors of the Company and the directors, supervisors and senior management warrant that this annual report is true, accurate and complete and contains no false information, misleading statement or material omission and assume joint and several responsibilities therefor.

(II) All directors of the Company attended the meeting of the board of directors aimed at approving the 2012 annual report and convened on 26 March 2013.

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

(IV) Mr. Zhou Jie, the person in charge of the Company, Mr. Xu Guoxiong, the principal in charge of accounting and Mr. Shen Bo, Head of the Accounting Department (Chief Financial Officer), hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this annual report.

(V) The plan for profit distribution or conversion of capital reserve fund into share capital for the Reporting Period considered by the board of directors: Shanghai Pharmaceuticals intends to distribute to all shareholders a cash dividend of RMB2.40 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares as at the end of 2012, which is subject to the approval by the annual general meeting of the Company for 2012.

(VI) The forward-looking statements, such as future plans, contained in this annual report do not constitute any substantive commitment by the Company to the investors. Investors are advised to be aware of the investment risks involved.

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

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

Contents

Definitions and Warnings of Significant Risks

I. DEFINITIONS

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

Definitions of Common Terms

"Group", "Company" or "Shanghai Pharmaceuticals"	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), or Shanghai Pharmaceuticals and its subsidiaries, where applicable
"Articles of Association" or "Articles"	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
"Reporting Period"	the 12-month period from 1 January 2012 to 31 December 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 the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"H Shares"	overseas shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"HK$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"PRC" or "China"	the People's Republic of China; unless the context otherwise requires, references to the PRC or China herein do not include Hong Kong, Macau or Taiwan
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"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"	unless otherwise stated, 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)
"Shenergy Group"	Shenergy (Group) Co., Ltd. (申能(集團)有限公司)

II. WARNINGS OF SIGNIFICANT RISKS:

For the detailed description of the potential risks involved, please refer to the potential risk factors discussed in the section titled "Discussion and Analysis on the Future Development of the Company" set out in Chapter 4 Report of the Board of Directors of this annual report.

Basic Corporate Information

I. CORPORATE INFORMATION

Name of the Company in Chinese	上海醫藥集團股份有限公司
Chinese abbreviation of the name of the Company	上海醫藥
Name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd.
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	021-63730908
Facsimile	021-63289333
E-mail	pharm@pharm-sh.com.cn

III. BASIC INFORMATION

Registered address of the Company	No. 92 Zhangjiang Road, Pudong New Area, Shanghai
Postal code of the registered address of the Company	201203
Office address of the Company	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Postal code of the office address of the Company	200020
Principal place of business in Hong Kong	8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
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 Centre, 183 Queen's Road East, Wanchai, Hong Kong

IV. INFORMATION DISCLOSURE AND PLACE WHERE INFORMATION IS 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 (including annual reports)	http://www.sse.com.cn
Designated website for publishing announcements about H Shares (including annual reports)	http://www.hkexnews.hk
Place where the Company's annual report is available for inspection	Office of the board of directors

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**
A Shares	Shanghai Stock Exchange	上海醫藥	601607
H Shares	Hong Kong Stock Exchange	SH PHARMA	02607

VI. CHANGES IN REGISTRATION OF THE COMPANY DURING THE REPORTING PERIOD

(I) Basic Information

There was no change in registration of the Company during the Reporting Period.

(II) Enquiry Index Relating to Initial Registration of the Company

Details of the initial registration of the Company are available in the Basic Corporate Information section of the 2011 annual report.

(III) Changes in Major Operations since the Company was Listed

There was no change in major operations (primarily pharmaceutical manufacturing business, pharmaceutical distribution business and pharmaceutical retail business) since the Company was listed.

(IV) Changes in Controlling Shareholders since the Company was Listed

In March 1994, Shanghai No. 4 Pharmaceutical Co., Ltd., the predecessor of the Company, was listed on the Shanghai Stock Exchange, with Shanghai Pharmaceutical (Group) Corporation (now known as Shanghai Pharmaceutical (Group)) as the controlling shareholder.

In September 1998, Shanghai No. 4 Pharmaceutical Co., Ltd. was restructured as Shanghai Pharmaceutical Joint Stock Company, with the controlling shareholder remaining unchanged.

In March 2010, Shanghai Pharmaceutical Joint Stock Company completed a substantial asset restructuring and was renamed Shanghai Pharmaceuticals Holding Co., Ltd., with Shanghai Pharmaceutical (Group) as the controlling shareholder.

Note: The use of the term "controlling shareholder" above is based on the definition for A Shares.

VII. OTHER RELEVANT INFORMATION

Name of accounting firm engaged by the Company (domestic)	Name	PricewaterhouseCoopers Zhong Tian CPAs Limited Company
	Office address	11/F, PricewaterhouseCoopers Center, No. 202 Hu Bin Road, Shanghai, the PRC
	Name of signing accountant	Qian Jin
		Liu Wei
Accounting firm engaged by the Company (overseas)	Name	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong
	Office address	22nd Floor, Prince's Building, Central, Hong Kong
	Name of signing accountant	Not applicable
		Not applicable
Compliance advisor of the Company	Name	Goldman Sachs (Asia) L.L.C.

Summary of Accounting Data and Financial Indicators

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE RECENT THREE YEARS UP TO THE END OF THE REPORTING PERIOD PREPARED UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

(I) Major Accounting Data

Unit: RMB

Major accounting data	**2012**	2011	Change compared to the corresponding period last year (%)	2010
Operating revenue	**68,078,117,819.19**	54,899,872,504.11	24.00	38,721,655,199.70
Net profit attributable to equity holders of the Company	**2,052,871,698.55**	2,042,238,482.84	0.52	1,456,194,794.72
Net profit after deduction of non-recurring profit or loss attributable to equity holders of the Company	**1,794,965,958.94**	1,424,034,687.07	26.05	1,096,766,336.00
Net cash flows from operating activities	**1,150,774,970.90**	1,772,438,011.82	-35.07	2,210,790,425.47

	End of 2012	End of 2011	Change compared to the end of the corresponding period last year (%)	End of 2010
Net assets attributable to equity holders of the Company	**24,639,299,336.20**	23,078,472,247.95	6.76	10,009,718,814.04
Total assets	**51,069,037,985.13**	47,667,822,923.30	7.14	30,163,471,580.16

(II) Major Financial Indicators

Major financial indicators	**2012**	2011	Change compared to the corresponding period last year (%)	2010
Basic earnings per share (RMB per share)	**0.7635**	0.8437	-9.51	0.7308
Diluted earnings per share (RMB per share)	**0.7635**	0.8437	-9.51	0.7308
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	**0.6675**	0.5883	13.46	0.6068
Weighted average return on net assets (%)	**8.62**	11.82	decrease of 3.2 percentage points	15.32
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	**7.53**	8.04	decrease of 0.51 percentage point	13.72

II. MAJOR DATA ON RESULTS, ASSETS AND LIABILITIES OF THE COMPANY FOR THE PAST FIVE YEARS PREPARED UNDER THE HONG KONG FINANCIAL REPORTING STANDARDS

(I) Results

Unit: RMB'000

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
Revenue	27,440,761	31,228,163	38,692,157	54,899,873	**68,078,118**
Profit before income tax	1,205,502	2,130,044	2,283,250	3,035,102	**3,087,727**
Income tax expenses	(210,193)	(464,854)	(415,885)	(589,072)	**(627,139)**
Profit for the year	995,309	1,665,190	1,867,365	2,446,030	**2,460,588**
Attributable to:					
Equity holders of the Company	696,992	1,296,789	1,456,195	2,042,239	**2,052,872**
Non-controlling interests	298,317	368,401	411,170	403,791	**407,716**

(II) Assets and Liabilities

Unit: RMB'000

	As at 31 December				
	2008	2009	2010	2011	**2012**
Total assets	19,781,049	21,874,562	30,163,469	47,667,824	**51,069,038**
Total liabilities	10,958,505	11,439,418	17,335,241	21,686,359	**23,368,164**
Total equity	8,822,544	10,435,144	12,828,228	25,981,465	**27,700,874**
Attributable to:					
Equity holders of the Company	7,062,585	8,282,010	10,009,718	23,078,471	**24,639,299**
Non-controlling interests	1,759,959	2,153,134	2,818,510	2,902,994	**3,061,575**

Note: 1. The financial information for 2010, 2011 and 2012 is extracted from the financial statements prepared under the Hong Kong Financial Reporting Standards in the annual reports.

2. The financial information for 2008 and 2009 is extracted from the accountant's report of the Company as set out in the H Shares prospectus issued on 6 May 2011. No retrospective adjustments were made.

III. DISCREPANCIES IN ACCOUNTING DATA UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES AND HONG KONG FINANCIAL REPORTING STANDARDS

(I) Note on discrepancies under the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards:

There are no substantial discrepancies in the consolidated net profit and consolidated net assets disclosed in the financial reports prepared under both the Hong Kong Financial Reporting Standards and the Chinese Accounting Standards for Business Enterprises. Unless otherwise stated, the financial data and analysis presented in this annual report are extracted from the audited financial report of the Company prepared under the Chinese Accounting Standards for Business Enterprises.

IV. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNT PREPARED UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Unit: RMB

Non-recurring Profit and Loss Item	**Amount in 2012**	Amount in 2011	Amount in 2010
Profit or loss on disposal of non-current assets	**52,059,379.56**	454,032.49	37,255,613.66
Government grants recognised in profit or loss for the current period excluding those closely related to the Group's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume	**278,032,184.74**	96,781,630.41	90,915,969.03
Profit or loss on debt restructuring	**10,033,519.30**	3,816,450.74	-911,648.81
Corporate restructuring expenses, including employee settlement expenses and integration expenses			-5,420,577.00
Net profit or loss of the subsidiaries acquired in business combination involving entities under common control for the period from the beginning of the period to the combination date		50,867,928.00	266,814,837.21
Except for the effective hedging activities related to the Group's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	**677,638.39**	118,813,494.58	19,424,843.78
Reversal of provisions on receivables assessed for impairment on an individual basis	**22,577,426.66**	32,879,590.75	37,668,495.70
Other non-operating income and expenses other than the aforesaid items	**76,362.53**	46,359,797.45	33,382,693.97
Other profit or loss items that meet the definition of non-recurring profit or loss		519,117,011.95	
Effect on non-controlling interests	**-20,243,277.65**	-32,877,329.36	-60,394,832.12
Effect on income tax	**-85,307,493.92**	-218,008,811.24	-59,306,936.70
Total	**257,905,739.61**	618,203,795.77	359,428,458.72

V. ITEMS MEASURED AT FAIR VALUE UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Unit: RMB

Item	Balance at beginning of period	Balance at end of period	Change during the period	Effect on the profit for the period
Financial assets at fair value with changes recognised in current profit or loss	2,658,764.00	2,920,478.96	261,714.96	261,714.96
Available-for-sale financial assets	18,470,202.06	19,812,137.59	1,341,935.53	–
Total	21,128,966.06	22,732,616.55	1,603,650.49	261,714.96

Report of the Board of Directors

I. BOARD DISCUSSION AND ANALYSIS OF THE OVERALL OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

• Analysis of the Operation and Results during the Reporting Period

Overcoming the unfavorable effects resulting from reduction of drug prices, control of medical insurance reimbursement, tendering of essential drugs, restrictions on antibiotics, hiking raw material prices, appreciation of RMB and the negative influence of the incident on 23 May 2012, Shanghai Pharmaceuticals, by transforming its development model, forging ahead in face of challenges and striving for sound governance, achieved its annual operating objectives in 2012 with rapid growth and improved business operation.

During the Reporting Period, the Group's sales revenue has reached RMB68.078 billion, increasing by 24% on a YOY basis. Net profit attributable to equity holders of the Company was RMB2.053 billion, increasing by 13.50% as compared with that for the corresponding period of last year after deducting the one-off special income from the deconsolidation of TECHPOOL Bio-Pharma Co., Ltd. and the net foreign exchange loss in respect of H share listing proceeds. The growth in profit was mainly attributable to two aspects, the increase in sector profit due to the expansion of principal businesses which contributed more than 50% of the increase in the Group's overall profit and the capital gains generated from the unutilised H share listing proceeds. The operating profit margin after deducting sales and administration costs was 3.92%, down by 0.51 percentage point from the corresponding period of last year, mainly due to the dilutive effect from the expansion of the distribution business. Earnings per share amounted to RMB0.7635 and earnings per share after deducting non-recurring profits or losses were RMB0.6675. During the Reporting Period, the Group's net cash flows from operating activities amounted to RMB1.151 billion. As at 31 December 2012, owners' equity of the Group was RMB27.701 billion, owners' equity after deducting minority interest was RMB24.639 billion and the Group's total assets were RMB51.069 billion.

(I) Pharmaceutical Manufacturing Business

During the Reporting Period, the Group's sales revenue from the pharmaceutical business was RMB9.912 billion, representing a growth of 9.06% as compared with the corresponding period of last year; gross profit margin was 46.31%, increasing by 1.41 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 11.27%, declining by 1.75 percentage point as compared with the corresponding period of last year. By optimizing the product portfolio, improving the growth of key products and increasing investments in sales and marketing, the Group effectively overcame the negative impact of government policies last year and achieved a steady growth in its pharmaceutical manufacturing business. The operating profit margin slid as a result of the increasing terminal marketing of drugs and higher strategically phased investments due to new customers, staff and regions.

During the Reporting Period, the sales income from chemical and biological drugs was RMB4,406 million, up by 8.02% on a YOY basis; sales income from modern Chinese medicines was RMB3,275 million, up by 15.89% on a YOY basis; the sales income from other industrial products (active pharmaceutical ingredients (APIs), Chinese herbal medicine, healthcare products and medical devices, etc.) was RMB2,231 million, up by 2.20% on a YOY basis.

(II) Pharmaceutical R&D

During the Reporting Period, Shanghai Pharmaceuticals continued to boost investment in R&D and actively advanced R&D projects with R&D investment totaled RMB467.72 million, representing approximately 4.72% of the income from sales of pharmaceutical products. During the Reporting Period, the Group was granted 2 clinical approvals for new drugs, 12 manufacturing approvals for new drugs and 2 new drug certificates, and 8 drug products were industrialised and commercialised, among which the Group was one of the first three producers in China for each of Eszopiclone, Azelnidipine tablet and capsule, as new drugs under class 3.1. Meanwhile, the Group was the fourth manufacturer in the PRC to produce and sell Telmisartan and Hydrochlorothiazide tablets. During the Reporting Period, the Group filed 33 invention patents applications and was granted 16 invention patents.

- ✓ 2 clinical approvals for new drug: Albuterol Sulfate Inhalation Aerosol, Losartan Potassium and Hydrochlorothiazide Tablets;

- ✓ 12 manufacturing approvals for new drug: Esopiclone API and tablet (class 3.1), Paclitaxel injection (class 6), Voglibose tablet (class 6), Simvastatin tablet (class 6), Azelnidipine tablet, Azelnidipine capsule, Cefodizime Sodium, Metformin Hydrochloride tablet (500mg), Telmisartan Hydrochlorothiazide tablet, etc.;

- ✓ 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 and the Company had applied for phase II clinical trial;

- ✓ The key science and technology projects for the development of new drugs – "the construction of the R&D system for innovative medicine of Shanghai Pharmaceutical (Group)" – undertaken by the Group formally received the State acceptance.

(III) Pharmaceutical Distribution

During the Reporting Period, pharmaceutical distribution business achieved fast growth by relying on active market expansion, expansive coverage and new business development despite the lack of large scale external mergers and acquisitions activities. The sales revenue from pharmaceutical distribution business was RMB58.926 billion, up by 26.64% as compared with the corresponding period of last year, with a gross profit margin of 6.39%, representing a decrease of 0.50 percentage point as compared with the corresponding period of last year. The margin of sales and administration costs was 3.73%, representing a decrease of 0.26 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 2.66%, down by 0.24 percentage point as compared with the corresponding period of last year. By focusing on covering eastern China, northern China and southern China, the Group leveraged on its differentiated positioning strategy and enhanced the economies of scale. As a result, pharmaceutical distribution business has achieved rapid growth in both revenue and profit at the same time.

(IV) Pharmaceutical Retail

During the Reporting Period, the sales revenue from the Group's pharmaceutical retail business was RMB2.749 billion, up by 20.74% YOY; gross profit margin was 20.41%, down by 2.03 percentage points YOY; and operating profit margin after deducting sales and administration costs was 1.14%, up by 0.06 percentage point YOY.

As at the end of the Reporting Period, the Group had about 1,792 chain retail pharmacies under its brand family, including 1,270 directly operated pharmacies. During the Reporting Period, the Group gained stronger profitability in spite of the challenging situation in the market by timely adjusting product structure and operating model in accordance with the changes in the market.

• Analysis on principal business activities during the Reporting Period

(I) Continued to focus on 58 key products in pharmaceutical manufacturing with enhanced revenue contribution

During the Reporting Period, the Group continued to implement its key products strategy to adjust its product portfolio. Its 58 established key products realised sales revenue of RMB5.45 billion, representing a YOY increase of 16.43% and accounting for 55% of the manufacturing sales (up by 3.5% YOY), and the average gross margin was 65.22%. The Group adjusted its marketing strategy and terminal marketing pattern through decreasing its manufacturing and sales of products with negative gross profit or low profit margin and strategically withdrawing from some underpriced markets caused by essential drugs tenders. Therefore, the Group further improved its product gross profit margin and gradually optimised its product portfolio. 37 out of 58 key products having a growth higher than or equivalent to the growth of similar products of the IMS. As the Group attached importance to end-user promotions, enhanced its marketing investment, explored new markets and expanded the markets in advantageous regions, sales of 23 key products, including Shenmai injection, live combined bifidobacterium, hydroxychloroquine, rosuvastatin ingredients, chymotrypsin, Wangbi tablet, polyferose capsules, heparin sodium, aripiprazole and duloxetine, reported a rapid YOY growth of over 20%. The number of products with sales revenue of RMB100 million or above increased to 20 in 2012 from 17 in 2011. Sales of products with sales revenue of RMB100 million or above accounted for 40% of manufacturing sales, representing an increase of nearly 4 percentage points over the same period of last year.

(II) Distribution business continued to maintain rapid growth

In 2012, among the distribution regions of the Group, the proportions of sales in eastern China, northern China and southern China were 65.89%, 23.51%, and 6.41% respectively, and the market share of eastern China was 18%, with a market share of 51.3% in Shanghai, and the market share of Beijing in northern China amounted to 18.48%. Among the distribution businesses of the Group, sales of imported and joint venture manufactured pharmaceuticals and direct hospitals sales accounted for 53.03% and 59.44% respectively and the business structure remained satisfactory. SPH Keyuan Xinhai Pharmaceutical Co., Ltd. maintained rapid growth following the merger and acquisition in 2011 and achieved a sales revenue of RMB11.902 billion in 2012, a YOY growth of 39.26% and a net profit attributable to owners of the Company of RMB228 million, a YOY growth of 22.63%.

During the Reporting Period, the distribution business of the Company covered 8,038 medical institutions. In order to enrich the product line, the Company introduced 954 products, of which 260 were imported and joint venture manufactured, and 694 were domestically manufactured.

The Group positively promoted innovation in its business model, achieved strategic competitiveness through differential strategic positioning and enhanced profitability of distribution business as well as terminal control capability.

(1) Vaccines: Sales revenue amounted to RMB1.599 billion, representing a YOY growth of 73.11%. The Group introduced 8 new products, explored the collaborative promotion model with vaccine manufacturers and had comprehensive cooperation with 6 leading manufacturers of joint venture manufactured and imported vaccine. The Group expanded its network coverage with 78 newly covered centers of disease control, bringing the total number of the centers to 228. As such, the Group established a leading position for its vaccine distribution business in the PRC.

(2) DTP (high value medicines direct to patients: Sales revenue amounted to RMB1.34 billion, representing a YOY growth of 48%. The number of hospitals covered was 760 and the total number of patients reached 47,800. The Group actively expanded the multi-point direct distribution business of high-value self-financed drugs to directly serve end consumers and achieved a leading position in the PRC.

(3) High value consumables: Sales revenue amounted to RMB549 million, representing a YOY growth of 58.2%. The Group was the only company that obtained the dealer’s license for the distribution of high value consumables of various multinational companies in the PRC. The Group accelerated its pace in introducing new products and expanded its product line which originally focused on the cardiac, orthopaedic and neurological areas into a comprehensive product mix covering the distribution and services of high value consumables in coronary intervention, pacemakers, electrophysiology, the peripheral vascular system, orthopaedic trauma and spinal column. As such, the supplies distribution business achieved rapid growth.

(4) SPD (Supply Processing & Distribution, a hospital logistics management technology): The Group actively participated in medical reform to achieve a greater market share and provided support for hospital operational management and supply chain service. The Group achieved a leading position in the pilot reform of the pharmacy supply chain outsourcing service of the newly-built “5+3+1” hospitals in Shanghai and made material progress in the information technology network construction project and the pharmacy trusteeship project being carried out in various “AAA” hospitals in Beijing and other provinces and cities.

(III) R&D projects made satisfactory progress

During the Reporting Period, the Company had 201 R&D projects in progress in total.

The Group was granted 2 clinical approvals, 12 approvals for the production of new drugs and 2 certificates for new drugs, and 8 varieties were industrialised and commercialised, among which the Group was one of the first three producers in China for each of class 3.1 new drugs of Esopiclone and Azelnidipine tablets and capsules. The Group was the fourth manufacturer in the PRC to sell Telmisartan and Hydrochlorothiazide tablets. During the Reporting Period, the Group applied for 33 patents for inventions and had obtained 16 patents.

The Company's 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 and the Company had applied for the phase II clinical trial. The projects in collaboration with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. progressed as scheduled. The TNFα fusion protein project was pending clinical trial approval. The lymphotoxin project has entered into Phase II clinical trial. The deuteporfin and liposomal vincristine (LVCR) projects have entered into Phase I clinical trial. The Group also established a leading research and development platform for antibody drugs in the country which covered purification technology, research on pharmaceutics preparations and quality research. The application for the import registration of the ZYDENA project in cooperation with Dong-A Pharmaceutical Co., Ltd. of Korea was pending approval.

The 3 projects of the Company, namely "The R&D and Industrialisation of New Anti-infective Drugs", "International Recognition, R&D and Industrialisation of Oral Contraceptive Pills" and "The R&D and Industrialisation of Patents Expired Drug Telmisartan and Hydrochlorothiazide Tablets" were selected as national specialised projects for the development of generic drugs in 2012 and were granted a subsidy of RMB36 million. Among the major science and technology projects for development of major new drugs in the 11th Five-year Plan undertaken by the Group, the first batch of the projects "The Construction of the R&D System for Innovative Drugs by Shanghai Pharmaceutical (Group)" received official State acceptance. "The Construction of an Industry-University-Research Institute Alliance for Research and Development of New Drugs" as one of the third batch of the projects under the 11th Five-year Plan commenced as scheduled and the subsidies granted for carrying out the national specialised projects were received.

(IV) Preparation of a 3-year development plan commenced

Since the Company carried out reorganisation for its listing three years ago, the scale of sales and operating profit of principal businesses have doubled compared to the size before the reorganisation with the 3-year compound annual growth rate of both indicators amounting to near 30%. On this basis, based on the development trend of the industry and the opportunities and challenges faced by the Group, the Group officially commenced the preparation of a new 3-year development plan during the third quarter of the Reporting Period. The Group planned to establish 6 main themes and 12 specialised planning projects and complete the plan before the end of June, 2013.

(V) Progress made in industrial mergers and acquisitions

After completing the mergers and acquisitions of Changzhou Kony Pharmaceutical Co., Ltd. and Changzhou Wuxin Pharmaceutical Co., Ltd., manufacturers specialising in the manufacturing of special APIs, during the Reporting Period, the Group gradually established its upstream to downstream supply chain advantage on certain special APIs and pharmaceutical preparations. The Group also completed the merger and acquisition of Nantong Zhongbao Pharmaceutical Co., Ltd. (南通中寶藥業有限公司), a manufacturer specialising in the manufacturing of "cooling" or "qingliang" series of drugs, thereby establishing a cost advantage in the competition of the relevant products. The Group signed a cooperation agreement with Shandong Pingyuan Pharmaceutical Factory (山東平原藥廠) in relation to the establishment of Shandong Xinyi Pharmaceutical Company Limited (山東信誼製藥有限公司) through investment holding. By leveraging the Group's original varieties and resources of raw materials and cost advantage and transforming and expanding the scale of pharmaceutical preparations through capital investment, the Group will become the base for undertaking the industrial gradient transfer of certain essential and generic drugs of Shanghai Pharmaceuticals.

(VI) Investment in fixed assets projects and project renovation in compliance with the new good manufacturing practices (GMP) standards for pharmaceutical production

The Group's investment in fixed assets mainly focused on the adjustments to production layout and upgrading of capacity, project renovation in compliance with the new GMP standards, and the construction of pharmaceutical logistics facilities, so as to support the needs for future business development.

In 2012, the Group had in total invested RMB710 million in 25 projects.

The number of the abovementioned construction projects in the three years from 2013 to 2015 will be about 40 and it is expected that RMB3.28 billion will be invested within these three years, of which RMB1.88 billion is planned to be invested in adjustments to production layout and upgrading of capacity, accounting for 57.3% of the total investment; RMB530 million is planned to be invested in project renovation in compliance with the new GMP standards, accounting for 16.2% of the total investment; and RMB870 million is intended to be invested in the construction of pharmaceutical logistics facilities with new storage area of 98,000 sqm., accounting for 26.5% of the total investment. Among the funds provided for the above projects, 45% was from liquidising remnant assets and depreciation fund of the relevant projects, 30% was from proceeds raised and 25% was from fund raised by the Group itself and bank loans.

The Group has strictly complied with the requirements of the "Notice Regarding the Strengthening of the Implementation of Good Manufacturing Practices Guidelines for Pharmaceutical Production (as amended in 2010)" and firmly accelerated the new GMP certification process. By the end of 2013, most manufacturing enterprises adopting aseptic processing will pass the new GMP certification.

(VII) Operational integration gradually deepened

(1) Further capitalising on the efficiency of the cash pool

Through the effective operation of the cash pool, the Group further expanded the extent of fund collection and the scale of internal financing, and the finance cost was lowered by RMB46.23 million as a result. While the Group's business was experiencing more rapid growth, the Group's short-term loans decreased to RMB4.9 billion from RMB5.675 billion at the beginning of the year, thereby optimising the Group's loan-to-deposit ratio. Wholly-owned enterprises inside or outside the city are, at present, all participating in the cash pool and certain holding enterprises are included in the fund management platform.

(2) Increase the shareholding in Changzhou Pharmaceutical Co., Ltd. and Chiatai Qingchunbao Pharmaceutical Co., Ltd., both core subsidiaries of the Company

In order to deepen the integration of internal operation, optimise the allocation of resources and increase the contribution by the pharmaceutical segment to the profit of the Group, the Company increased its shareholding in Changzhou Pharmaceutical Co., Ltd. by an additional 8,878,700 shares in 2012, representing an increase in shareholding to 73.96% from the previous 62.69%. As considered and approved by the board of directors of the Company on 12 March 2013, the Company agreed to acquire 20% equity interests in Chiatai Qingchunbao Pharmaceutical Co., Ltd. held by the Employee Share Ownership Committee of Hangzhou Chiatai Qingchunbao at a consideration of RMB444 million. Upon completion of this acquisition, the Group's shareholding in Chiatai Qingchunbao Pharmaceutical Co., Ltd. will increase from 55% to 75%.

(3) Promoting 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 of manufacturing and distribution segments so as to complement each other. During the Reporting Period, the coordination between manufacturing and distribution segments of the Company realised an operating income of RMB1.772 billion, representing a YOY increase of 8% and accounting for 18% of manufacturing sales.

(4) Enhancing centralised procurement of major medicinal herbs

The Group continued to carry out centralised procurement of 13 varieties of major medicinal herbs. During the Reporting Period, the procurement amount reached RMB82.33 million, representing a YOY increase of 27.58%. The centralised procurement was conducive to controlling costs and safeguarding supplies.

(5) Optimising the allocation of R & D resources

The Group strengthened and integrated a new R & D mechanism of drugs, comprising both head and branch institutions for R & D. With the Company's Central Research Institute platform as the core and key player and through adopting contract management of major R & D projects for industrialisation and coordinating major R & D resources, the Company built a shared laboratory platform. The Group also chose the R&D department in six core subsidiary R & D institutions, namely Sine, Changzhou Pharmaceutical, New Asiatic, Zhongxi Sunve, Qingdao Growful and Shanghai Traditional Chinese Medicine, as branches of the Central Research Institute and formed a mechanism in which the head and branch institutions were able to work cohesively. As such, the optimised allocation of R & D resources throughout the Group and the implementation of major R & D projects were enhanced.

(VIII) Completing the integration of the antibiotics business

During the Reporting Period, the Group completed the acquisition of the intangible assets of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. and the change of drug licenses, business integration, and structure adjustment. Through the acquisition and integration, the Group's resources on antiinfectives were enriched and its competitive position in the industry was enhanced. The Company's subsidiary New Asiatic Pharmaceutical owned 75 varieties of drugs in 10 major categories, and its product line basically covered the whole antiinfectives field. It owned two individually priced varieties, cefotiam and cefotaxime, and some exclusive varieties, such as liposomal amphotericin B and carbenicillin sodium, therefore, the Group's ability to resist risks was strengthened.

Upon the completion of the integration, the parent company, Shanghai Pharmaceutical (Group), ceased to be engaged in pharmaceutical-related businesses, which 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.

The implementation of the restrictions on antibiotic prescribing posed relatively significant adverse impact on the development of the entire antibiotics industry. In 2012, Shanghai New Asiatic Pharmaceuticals Co., Ltd. and Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. realised operating income of RMB1.5 billion, among which manufacturing sales amounted to RMB876 million, representing a YOY increase of 5.21%. Net profit attributable to owners of the parent Company reached RMB46.95 million, representing a YOY decrease of 55.8%. In addition to the impact caused by the restrictions on antibiotic prescribing, the YOY decrease in profits of the antibiotic business was also attributed to a gross profit loss of approximately RMB34 million caused by a relatively big discrepancy between the sales amount actually executed by the chief distributor of a major drug variety, cefotaxime, and the contract amount. Up to now, the above two factors causing adverse impact have basically been resolved. Furthermore, in order to ensure that the antibiotic business pass the new GMP in 2013, certain production lines were stopped to carry out renovation in the second half of 2012, as such, the production capability decreased and the cost for suspension of operation during that period increased.

During the Reporting Period, Shanghai New Asiatic Pharmaceuticals Co., Ltd. had put to open tender for the disposal of the 42% equity interests in Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. The tender process has been successfully completed and the transaction is in normal progress. The disposal of the equity interests is conducive to mitigating investment risks and reducing investment losses.

(IX) Safeguarding the quality of drugs

During the Reporting Period, the Group further established and improved the production and quality management system covering the whole industrial chain, including R&D, production, wholesale and retail of drugs and passed all the sampling inspection in the pharmaceutical manufacturing process carried out by the State Food and Drug Administration in 2012. In respect of sales services, the Group established a comprehensive sales service system and set up a strict monitoring system for adverse drug reactions that may be caused by the drugs sold. The Group established a standardised product recall system according to the Administrative Measures on Drug Recall and there were no incidents caused by product quality that the Company was held liable for during the Reporting Period.

(X) Valuing and striving to improve investor 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 2012, which damaged investors' interests. In response to such unexpected incident, the Company, with a high sense of responsibility to investors, promptly published two clarification announcements on 24 May and 25 May 2012, respectively. The Company also proactively enhanced its communication and contact with investors, the media and the regulatory authorities. Internally, the Company strived to ensure the continuing and orderly operation. Externally, efforts were made to obtain the support from the public. The Company launched interim results roadshows, arranged reverse roadshows and held 63 investors symposiums within and outside China. The information disclosure of the Company was more open and transparent and the relations with investors were greatly improved, as such, the negative impact of the incident was gradually reduced and investors' confidence was gradually revived. At the end of 2012, Shanghai Pharmaceuticals won the "China Securities Golden Bauhinia Award-Best Investors' Relations Management Listing Company".

(I) PRINCIPAL BUSINESS ANALYSIS

1. Analysis on changes in relevant items of consolidated income statement and statement of cash flow

Unit: RMB

Items of consolidated income statement	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Operating income	68,078,117,819.19	54,899,872,504.11	24.00%	Increase of sales income during the Reporting Period
Operating costs	58,792,600,853.73	46,882,191,570.13	25.40%	Increase of sales income during the Reporting Period
Sales costs	3,972,605,303.62	3,288,686,883.74	20.80%	Increase of sales income during the Reporting Period
Administration costs	2,457,312,075.06	2,134,386,491.43	15.13%	Increase of administration costs due to expansion of scale of operations during the Reporting Period
Finance costs – net	198,864,103.21	472,927,482.07	–57.95%	Foreign exchange loss reduced during the Reporting Period

Items of consolidated statement of cash flow	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Net cash flows generated from operating activities	1,150,774,970.90	1,772,438,011.82	–35.07	Increase in the demand of liquidity due to business growth during the Reporting Period
Net cash flow generated from investing activities	–401,270,935.38	–3,790,423,474.66	89.41	Decrease in payment of consideration for the acquisition of subsidiaries during the Reporting Period
Net cash flow generated from financing activities	–2,026,028,370.65	10,643,056,917.87		Increase in funds raising due to overseas issuance of Shares during the same period last year

Unit: RMB10,000

Others	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Research and development expenses	41,970	40,411	3.86	Increase of R&D investment during the Reporting Period

2. Revenue

(1) Analysis on the factors driving the changes in business income

During the Reporting Period, the Group's operating income was RMB68.078 billion, up by 24% on a YOY basis, among which, the operating income generated from distribution business was RMB58.926 billion, up by 26.64%. The sales increase was mainly due to the increase in the sales volume to existing and new customers. After the adjustment of the consolidated statements to the same calculating basis, which was triggered by acquisition, the operating income from distribution business was up by 18.95% YOY. The operating income generated from manufacturing business was RMB9.912 billion, up by 9.06% YOY. The increase was mainly driven by the increase in the sales of key products. After adjusting the consolidated statements due to previous acquisitions to the same calculating basis, the operating income generated from manufacturing business was up by 8.07% YOY.

(2) Major customers

1) The largest customer of pharmaceutical distribution accounted for 1.28% of the sales of the distribution section; the sales to the top 5 customers in aggregate accounted for 4.64% of the total sales of the distribution section of the Group;

2) The largest customer of pharmaceutical manufacturing accounted for 3.13% of the sales of the manufacturing section; the sales to the top 5 customers in aggregate accounted for 6.21% of the total sales of the manufacturing section of the Group;

3) Information on any interests in customers disclosed in 1)-2) above held by any directors or their respective associates or any shareholder: none.

3. Cost

(1) Table of Analysis of Cost

Unit: RMB10,000

		By industry				
By industry	Breakdown	**For the Reporting Period**	Percentage to the total cost of the Reporting Period (%)	For the corresponding period of last year	Percentage of the cost to the total cost of the corresponding period of last year (%)	Change from the corresponding period of last year (%)
Industrial	Raw materials, ancillary materials and packaging materials	**376,884.30**	72.18%	354,392.80	72.03%	6.35%
	Utilities and power expenses	**21,388.84**	4.10%	20,262.10	4.12%	5.56%
	Depreciation charges	**23,332.71**	4.47%	23,331.24	4.74%	0.01%
	Salaries	**45,332.71**	8.68%	42,055.67	8.55%	7.79%
	Other manufacturing fee	**55,239.30**	10.57%	51,973.30	10.56%	6.28%
	Total industrial cost	**522,177.86**	100%	492,015.11	100%	6.13%
Commercial and others	Cost	**5,745,362.53**	100%	4,518,611.61	100%	27.15%
Offsetting total cost		**–388,280.30**		–322,407.56		
Total operating cost		**5,879,260.09**		4,688,219.16		

(2) Major suppliers

1) For distribution of pharmaceutical products, the purchase from the largest supplier accounted for 2.74% of the total purchase of the distribution section; the aggregate purchase from the five largest suppliers accounted for 9.68% of the total purchase of the distribution section of the Company for the year;

2) For manufacturing of pharmaceutical products, the purchase from the largest supplier accounted for 1.68% of the total purchase of the manufacturing section; the aggregate purchase from the five largest suppliers accounted for 5.89% of the total purchase of the manufacturing section of the Company for the year;

3) Information of any interests in the suppliers disclosed in 1)-2) above held by any directors or their respective associates or shareholders: none.

4. Expenses

(1) Table of analysis of expenses

Reasons for YOY changes of 30% or above in financial data such sales expenses, management expenses, finance expenses, income tax during the Reporting Period are detailed in Note IV of the supplemental information of financial statements prepared under the Chinese Accounting Standards for Business Enterprises.

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

The principal activities of Shanghai Pharmaceuticals are conducted in the PRC and are denominated in RMB. However, there are foreign exchange risks associated with assets and liabilities denominated in foreign currencies already recognised by the Group as well as foreign currencies-denominated transactions in the future (mainly denominated in USD and HKD).

(3) Tax relief and exemption

Please refer to Note III of the financial statements prepared under the Chinese Accounting Standards for Business Enterprises and Note 35 of the financial statements prepared under the Hong Kong Financial Reporting Standards for details.

5. Research and development expenditure

(1) Table of research and development expenditure

Unit: RMB10,000

Expensed research and development expenditure for the period	41,970
Capitalised research and development expenditure for the period	0
Total research and development expenditure	41,970
Total research and development expenditure as a percentage of net assets (%)	1.52
Total research and development expenditure as percentage of operating income (%)	0.62

(2) Explanation

During the period, the research and development expenditure and the expenditure on acquisition of assets for research and development of Shanghai Pharmaceuticals amounted to RMB419,700,000 and RMB48,020,000 respectively, with total research and development expenditure amounting to RMB467,720,000 and representing approximately 4.72% of the Company's manufacturing sales income. Of the total, research and development on innovative drugs accounted for approximately 35% of the total research and development expenditure, and that on generic drugs, such as generic drugs for major varieties and generic drugs from secondary development, accounted for approximately 65% of the total research and development expenditure.

6. Cash flows

During the Reporting Period, the Group's net cash flow from operating activities amounted to RMB1.151 billion, representing 56.06% of the net profit attributable to owners of the Company for the year. The cash flows from the Group's manufacturing business remained stable, while distribution business was at a stage of rapid development, thus requiring a certain amount of liquidity layout and generating a higher demand for liquidity, which resulted in net cash flows from operating activities lower than the profits in the Reporting Period.

7. Others

(1) Detailed explanation on major changes in the Company's constituents or sources of profit

There was no material change.

(2) Analysis on the progress of implementation of various financing and major asset restructuring initiatives by the Company in the previous period

Please refer to Application of Funds Raised below.

(3) Progress on development strategy and operational plan

In 2012, Shanghai Pharmaceuticals fully achieved its various operation targets set for the year.

(II) ANALYSIS OF OPERATION BY INDUSTRY, PRODUCT OR REGION

1. Principal business by industry and product

Unit: RMB

Principal business by industry						
By Industry	Principal operating income	Principal operating costs	Gross margin (%)	Change in principal operating income YOY (%)	Change in principal operating costs YOY (%)	Change in gross profit margin compared to last year (percentage point)
Manufacturing	9,911,817,729.56	5,221,778,594.13	47.32	9.06	6.13	+1.46
Distribution	58,926,444,947.64	55,091,726,939.53	6.51	26.64	27.34	–0.51
Retail	2,749,023,689.58	2,177,570,129.65	20.79	20.74	24.03	–2.10
Other	18,983,816.99	11,974,996.56	36.92	–7.89	–15.13	+5.38
Offsetting	–3,875,897,974.77	–3,865,692,942.53				

2. Principal business by region

Unit: RMB

Region	Principal operating income	Change in principal operating income YOY (%)
Domestic	66,894,115,850.39	24.50
Overseas	836,256,358.61	1.28

(III) ANALYSIS ON ASSETS AND LIABILITIES

1. Table of analysis on assets and liabilities

Unit: RMB

Name of item	Amount at end of Reporting Period	Amount at end of Reporting Period as a percentage of total assets (%)	Amount at end of previous period	Amount at end of previous period as a percentage of total assets (%)	Percentage change of amount at end of Reporting Period compared to that of previous period (%)	Explanation
Prepayments	630,005,529.41	1.23	481,781,725.51	1.01	30.77	Increase in prepayments accordingly due to the increase in procurement during the Reporting Period
Interests receivable	15,333,869.26	0.03	30,646,890.65	0.06	–49.97	Decrease in provision for interest receivables in the Reporting Period
Dividends receivable	21,027,811.90	0.04	15,990,542.89	0.03	31.50	Increase in dividends receivable from associate(s) in the Reporting Period
Other current assets	455,393,423.90	0.89	144,481,908.13	0.30	215.19	Increase in assets held for sale during the Reporting Period
Construction in progress	557,875,552.02	1.09	311,674,395.13	0.65	78.99	Increase in construction-in-progress during the Reporting Period
Construction materials	5,739,925.93	0.01	2,930,915.32	0.01	95.84	Increase in purchase of construction materials during the Reporting Period
Long-term deferred expenses	123,233,213.48	0.24	89,151,047.28	0.19	38.23	Increase in expenses on improvement of fixed assets during the Reporting Period
Other non-current assets	105,364,369.43	0.21	76,924,942.82	0.16	36.97	Increase in prepaid construction costs in the Reporting Period
Special payables	540,000.00	0.00	160,382,718.27	0.34	–99.66	Increase in transfer out from reclassification during the Reporting Period
Other non-current liabilities	878,165,382.93	1.72	280,122,157.89	0.59	213.49	Increase in transfer in from reclassification and compensation from relocation during the Reporting Period

(1) Capital structure

As at 31 December 2012, the debt asset ratio (total liabilities divided by total assets) of Shanghai Pharmaceuticals was 45.76% (31 December 2011: 45.49%), representing an increase of 0.27 percentage point YOY. Interest coverage ratio (EBIT divided by interest expenses) was 7.54 times (2011: 7.57 times).

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

During the Reporting Period, Shanghai Pharmaceuticals did not have material change to the asset constituents.

2. Explanation on matters relating to changes in valuation of assets measured at fair value and major assets

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

3. Explanation on other matters

(1) Information on loans and borrowings

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

As at 31 December 2012, the balance of the Group's borrowings was RMB4,941 million, of which the balance of USD denominated borrowings was equivalent to RMB38 million.

As at 31 December 2012, the Group had net accounts receivable and notes receivable of RMB13.651 billion (31 December 2011: RMB11.578 billion), representing a YOY increase of 17.91%. The increase in account receivables was mainly attributed to the increase in the scale of operation.

As at 31 December 2012, the balance of the Group's accounts payable and notes payable was RMB14.575 billion (31 December 2011: RMB12.659 billion), representing a YOY increase of 15.13%. The increase in accounts payable was mainly attributed to the increase in the scale of operation.

Details of the Group's loans and borrowings are set out in Notes V (26), (36), (37) to the financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and Note 25 to the financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

(2) Property, Plant and Equipment and Investment Properties

Details of changes in the property, plant and equipment and investment properties of Shanghai Pharmaceuticals during the Reporting Period are set out in Notes V (15), (16) and (17) to the financial statements in accordance with the Chinese Accounting Standards for Business Enterprises, and Note 7, 8 and 9 to the financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

(3) Properties (at fair value)

As at 31 December 2012, the revalued amount of investment properties of Shanghai Pharmaceuticals amounted to RMB760,381,000.

(4) Contingent liabilities

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

2) During the Reporting Period, the contingent liabilities arising from debt guarantees provided for third parties and guarantees provided for related parties by the Group and their financial impact are as follows:

Guarantor	Guarantee	Value of guarantee (RMB in thousand)	Commencement date of guarantee	Expiry date of guarantee
Shanghai Pharmaceutical Distribution Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	9,000.00	2012-04-10	2013-04-09
Shanghai Pharmaceutical Distribution Co., Ltd.	Jiangxi Nanhua Pharmaceutical Co., Ltd.	15,000.00	2012-04-26	2013-04-26
Shanghai Pharmaceutical Distribution Co., Ltd.	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	14,970.00	2012-09-06	2013-06-17
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	55,000.00	2012-11-09	2013-05-08
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	20,000.00	2012-09-29	2013-03-23
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	40,000.00	2012-09-10	2013-09-09
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	20,000.00	2012-12-19	2013-12-18
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	25,000.00	2012-02-20	2013-02-20
Total		198,970.00		

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

(5) Pledge of assets

As at 31 December 2012, buildings and machinery (at cost of RMB257,588,458.54 and net book value of RMB166,277,266.92) and the land use rights with site area of 559,282.80 sq.m. (at cost of RMB79,423,662.06 and net book value of RMB65,791,880.23) were pledged to secure short-term borrowings of RMB385,090,000.00 and long-term borrowings of RMB16,177,272.00.

As at 31 December 2012, the accounts receivable of RMB638,563,466.53 was pledged to secure short-term bank loans of RMB627,501,529.55.

(IV) CORE COMPETENCE ANALYSIS

1. Shanghai Pharmaceuticals has a comprehensive competitive edge for its core industry chain integrating R&D, manufacturing, distribution and retail.

2. Shanghai Pharmaceuticals has competitive strengths in market scale with an annual operating income of over RMB68 billion and in terminal network.

3. Shanghai Pharmaceuticals is advantaged in product concentration with 2,695 drug certificates covering all major therapeutic areas.

4. Shanghai Pharmaceuticals has an edge in advanced technologies and processes for drug production and drug R&D with over 126 patents under registration application and 179 registered patents obtained by the Group.

5. Shanghai Pharmaceuticals has solid qualifications in production and sales with 113 GMP certificates and 64 GSP certificates.

6. Shanghai Pharmaceuticals has good financial resources with a total asset of over RMB 50 billion and a balanced asset-liability structure.

7. Shanghai Pharmaceuticals enjoys the layout advantage with three core regions of East China, North China and South China which occupy the largest market share in China with the most mature markets.

8. Shanghai Pharmaceuticals has a competitive edge in brands with 8 national well-known brands.

9. Shanghai Pharmaceuticals has a professional operation management team which is not only enterprising and innovative but is able to lead the Company to achieve fast progress.

(V) ANALYSIS OF INVESTMENTS BY THE COMPANY

1. Overall analysis of external investment in equity interests of companies

Currency: RMB10,000

Investment in the Reporting Period	158,548.69
Change in the amount of investment	–548,510.51
Investment in the same period last year	707,059.20
Percentage increase/decrease in the amount of investment (%)	–77.58

Particulars of major invested company

Invested Company name	Principal operations	Percentage of the equity interest in the invested company (%)
Changzhou Kony Pharmaceutical Co., Ltd.	Production of pharmaceuticals	70
Zhejiang Xinxin Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	67
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	11.27
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production of pharmaceuticals	96.9
Shanghai Northern Investment Co., Ltd.	Investment holding	100

(1) Securities investment

Number	Securities	Stock code	Short name	Initial investment amount (RMB)	Number of shares held (share)	Book value at the end of the period (RMB)	Percentage in total securities investment at the end of the period (%)	Profit or loss during the Reporting Period (RMB)
1	Share	600329	Zhongxin Pharmaceuticals	91,473	182,946	1,939,227.60	66.40	228,682.60
2	Share	601328	Bank of Communications	90,825	114,894	567,576.36	19.44	52,851.36
3	Share	600618	Chlor-Alkali Chemical	186,500	50,820	413,675.00	14.16	–19,819.00
		Total		368,798	/	2,920,478.96	100	261,714.96

(2) Equity interests held by the Group in other listed companies

Unit: RMB

Security code	Short name	Initial investment cost	Book value at the end of the period	Profit or loss during the Reporting Period	Change in equity holders' interest during the Reporting Period	Accounting item	Source of shares
600377	Jiangsu Expressway	1,754,000.00	6,408,300.00	442,800.00	–420,790.50	Available-for-sale financial assets	Purchase
600329	Zhongxin Pharmaceuticals		969,603.20	18,294.40	85,755.15	Available-for-sale financial assets	Debt set-off
000931	Centek	99,300.00	140,868.00	–	12,285.00	Available-for-sale financial assets	Purchase
600675	China Enterprise	390,000.00	3,469,827.38	8,944.40	934,240.56	Available-for-sale financial assets	Purchase
601328	Bank of Communications	5,895,157.00	7,801,514.76	159,520.86	544,843.50	Available-for-sale financial assets	Purchase
000048	Kondarl	134,547.00	1,022,024.25		-149,882.06	Available-for-sale financial assets	Transferred in from merger
HK08231	Fudan-Zhangjiang	31,955,101.23	67,450,395.48	15,735,040.61		Long-term equity investment	Purchase
	Total	40,228,105.23	87,262,533.07	16,364,600.27	1,006,451.65	/	/

(3) Equity interests held by the Group in other non-listed financial companies

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

(4) Details of dealings in shares of other listed companies

During the Reporting Period, the Company has not purchased or sold shares of other listed companies.

2. Asset management mandates for non-financial companies and investment in derivatives

(1) Asset management mandates

The Company has no asset management mandate during the year.

(2) Entrusted loans

The Company has no external entrusted loan during the year.

3. Use of proceeds

(1) A Shares

During the Reporting Period, the Company did not raise any funds or use any funds raised in the previous period.

(2) H Shares

As at 31 December 2012, the overall use of H Share proceeds is as follows:

Unit: HKD10,000

Total amount of proceeds	Total proceeds used during the Reporting Period	Total accumulative proceeds used	Proceeds remain unused	Usage and whereabout of remaining proceeds
1,549,230	225,698	902,412	646,818	Deposited in offshore wholly-owned subsidiaries by means of shareholder loans, thus achieving capital preservation and appreciation.

Unit: HKD10,000

Use of proceeds	Intended use of proceeds	Accumulative proceeds used	Percentage of proceeds used to the total	Proceeds remain unused
Expansion and enhancement of the distribution network and integration of the existing distribution network	712,645	608,267	85%	104,378
Strategic acquisitions of domestic and overseas pharmaceutical businesses and internal integration of existing pharmaceutical business	604,200	185,752	31%	418,448
Investment in the information technology system and platform	61,970	–	0%	61,970
Further enhancement of product portfolio and products under R&D through investment in the R&D platform of the products	61,970	16,001	26%	45,969
Working capital requirements and general corporate purposes	108,445	92,392	85%	16,053
Total	1,549,230	902,412		646,818

4. Analysis on major subsidiaries and invested companies

The following table shows the performance of the major subsidiaries and invested companies of Shanghai Pharmaceuticals.

Unit: RMB10,000

Name of company	Nature of business	Shareholding	Registered capital	Scale of assets	Owners' equity	Operating income	Net profit
Shanghai Pharmaceuticals Distribution Co., Ltd.	Sale of pharmaceuticals	100%	283,686.80	1,819,875.81	495,038.99	4,214,637.72	79,984.28
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	50,000.00	669,968.87	141,446.83	1,190,189.89	22,986.63
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100%	82,100.00	197,747.21	118,307.61	236,622.66	11,226.17
Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	22,500.00	94,826.05	73,035.19	89,351.39	23,560.37
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	96.9%	67,958.72	149,419.28	85,766.24	88,146.52	3,049.84
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd	Sale of pharmaceuticals	100%	1,144.80	39,822.69	26,170.64	71,384.23	1,178.50
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100%	46,369.00	291,115.75	89,664.41	365,389.57	4,594.10
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	55%	12,850.00	131,721.83	99,767.52	108,297.96	18,517.17
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	73.96%	7,879.03	212,641.40	124,709.02	388,194.38	19,340.20
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	54,580.00	215,387.76	120,481.64	125,883.88	23,144.08
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.52%	9,500.00	88,716.66	51,920.76	70,925.81	4,056.66
TECHPOOL Bio-Pharma Co., Ltd.	Production and sale of pharmaceuticals	40.80%	10,000.00	85,547.31	69,432.04	98,870.33	17,631.86
Sino-American Shanghai Squibb Pharmaceutical Ltd.	Production and sale of pharmaceuticals	30%	USD1,844	155,716.57	51,560.44	312,374.12	12,374.92
Shanghai Roche Pharmaceuticals Ltd.	Production and sale of pharmaceuticals	30%	USD6,235.71	611,905.37	186,738.63	765,533.38	41,758.88

5. Projects financed by non-raised capital

There was no material investment project financed by non-raised capital during the Reporting Period.

6. Material acquisition or disposal of subsidiaries and associates in the Reporting Period

Details are set out in the "Asset Transactions" and "Business Combinations" subsections in the section headed "Significant Events".

(VI) PARTICULARS OF THE SPECIAL PURPOSE ENTITIES CONTROLLED BY THE COMPANY

Nil

II. BOARD OF DIRECTORS' DISCUSSION AND ANALYSIS ON THE OUTLOOK AND PROSPECTS OF THE COMPANY

(I) Competitive landscape and development trend of the industry

Policy impact: The next three years will be crucial for deepening the healthcare reform and going through drastic changes in the pharmaceutical industry. The national policy is favourable for the pharmaceutical industry. The government has released several guiding documents such as "Plan for Industrial Transformation and Upgrading (2011-2015)", "Plan For National Drugs Safety During the 12th Five-Year Plan Period", "Development Plan for National Strategic Emerging Industries During the 12th Five-Year Plan Period", and "Circular on Accelerating the Implementation of the Newly-revised Drug Production Quality Management Standards to Promote the Pharmaceutical Industry Upgrade and Related Issues". These documents aim at improving the concentration ratio, the innovation strength and the competitiveness of the industry. They encourage and facilitate medicine and essential drug production concentration towards dominant enterprises, and convey positive signal to the industry development. However, the industry development will be under sustained pressure resulting from various adverse impacts such as reducing medicine tender price, medicine price reduction, policy on restricted use of antibacterial drugs, medical insurance control and rising costs. However, new opportunities for future development of the pharmaceutical industry keep arising from the dynamics such as the deepening reform and progressive development of medical care, medical service, public health, medicine supply and supervision system, China's aging population and increasing demand for healthcare consumption.

As to the pharmaceutical industry, with the promotion of the new GMP standards and after the "Toxic capsule scandal", pharmaceutical adjuvant supervision and related regulations were introduced. With higher standards for pharmaceutical safety, supervision over the entire production process will be stricter. As a result, some weak pharmaceutical producers will be phased out, which will in turn enhance the industry concentration and accelerate the industry landscape transformation. The Company's pharmaceutical business covers major therapeutic areas. Our products are diverse in type and large in scale, enabling us to benefit from the speedy growth of a healthy pharmaceutical market. On the other hand, adverse impacts from hiking raw material costs and labour costs, tougher environmental and resource constraints exert higher pressure on production cost.

As to pharmaceutical business, leading groups enjoy increasing market share in pharmaceutical distribution, so the industry concentration will continue to increase. The Company has built up a nationwide distribution network, providing customers with strong terminal network and value-added services in key coverage areas, namely eastern China, northern China and southern China. Meanwhile, a new development trend is emerging under the influence of the medical reform. Delinkage of hospital and medicine, pharmacy trusteeship will bring about significant reform to the business. As medicine price decreases and impact from excessive competition increases, the distribution business may be exposed to risk of decreasing average gross profit margin.

With a pharmaceutical operation covering all core businesses, the Company has industry advantage. H Share proceeds enhance the capital capability, and a favourable financial structure lays a solid foundation for further development. The industry is full of opportunities and challenges, and the Company claims certain advantages in manufacture, distribution, research and development.

(II) Development strategy

Three-year development goal: Business operation expands to over 100 billion; competitiveness continues to enhance; the Company, shareholders and employees grow together.

Vision: A respectable leading branded pharmaceutical producer and health service provider with industry reputation

Mission: Persistent and committed to improving the quality of healthy life for the public.

Core Values: Innovation, integrity, cooperation, inclusiveness, responsibility.

(III) Business plan

In 2013, the overall business focuses on the new three-year development strategy and the coming opportunities and challenges faced by the Company in 2013. The Company seeks more positive progress and a "dual drivers" mode combining internal increase and external expansion together: be more scientific and steady, enhance technology innovation and resource integration, be more harmonious and sharing, and set up the "inclusive" development concept deepening internal cohesion and external relationships with our investors. In 2013, the Company will make major progress in nine key tasks, and will strive to procure a double-digit growth in both revenue and net profit attributable to shareholders, and to maintain fine business quality.

(IV) Capital needs for current business and on-going construction projects

In 2013, the capital for major business development will be generated mainly from the Company's balance of its own funds and partly from debt financing including bank loans.

Details regarding the fixed assets investment and capital source in the next three years are set out in the section headed "Analysis on significant business during the Reporting Period".

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

In 2013, the Company will stick to the acquisition strategy focusing on both commerce and industry. For the commerce part, the Company will focus more on the key areas such as East China, South China and North China; for the industry part, the emphasis will be laid on the perfection of product structure in key therapeutic areas, transformation of production gradient, control of the key raw materials, and entry into the bio-tech pharmaceutical industry when appropriate. The Company's raised proceeds will be the main capital source.

(VI) Possible risks

1. According to past practice, each year the National Development and Reform Commission will introduce unified price reduction in certain therapeutic areas. Due to a wide range of therapeutic areas the Company involves in, some pharmaceutical products face price reduction risk.

2. With the promotion of medical reform and the introduction of regional regulations, hospital terminals and channel landscape will change, causing certain adverse influence to the original regional sales model of the Company.

3. With the province as the unit, a new round of pharmaceutical tender has been launched. Some of the Company's products may lose the bidding due to excessive price competition.

4. Chinese medicine represents a significant share in the Company so the price fluctuation in bulk medicinal materials will put product costs under pressure.

5. Foreign currencies from the remaining raised proceeds may face foreign exchange risks.

   The management of the Company will propose positive plans and adopt effective measures to the above mentioned contingent risks so as to reduce their impacts on the business operation of the Company as a whole.

III. STATEMENT OF THE BOARD OF DIRECTORS ON THE 'NON-STANDARD AUDIT REPORT' PREPARED BY THE AUDITOR

(I) Statement of the board of directors and the board of supervisors on the 'Non-standard audit report' prepared by the Auditor

✓ Not applicable

(II) Board of director's analysis on the cause and impact of changes in accounting policies and methods of accounting estimation or calculation

✓ Not applicable

(III) Board of director's analysis on the cause and impact of material errors correction in the previous period

✓ Not applicable

IV. PLAN FOR PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL

(I) Formulation, implementation or adjustments of cash dividend policies

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

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

On the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2012 was RMB1,012,542,000 based on the financial statements prepared under the Hong Kong Financial Reporting Standards. Details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2012 are set out in the financial statements.

According to the profit distribution plan of the Company for 2012 as resolved at the 27th meeting of the fourth session of the board of directors of Shanghai Pharmaceuticals, the profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB2.40 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares of Shanghai Pharmaceuticals as at the end of 2012, subject to approval by the shareholders' annual general meeting of the Company for 2012. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, fully protected the legal interests of small and medium investors. The independent directors of the Company have provided their view in this regard.

About withholding of tax for non-PRC resident shareholders

1. Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Document Guo Shui Fa [1993] No. 045 issued by the State Administration of Taxation on 28 June 2011, the dividend distributed by the Company to non-PRC resident individual shareholders of H Shares is subject to PRC individual income tax at a rate agreed by the applicable tax agreement or arrangement between China and the jurisdictions that the shareholders reside in, ranging from 5% to 20% (as the case may be). The Notice further states that the tax rate applicable to dividend income as stated in the relevant tax agreement or arrangement is 10% in general, therefore the Company may withhold 10% of the dividend for tax payment without prior approval of the competent tax authority. Shareholders who reside in a jurisdiction where the applicable tax rate for dividend is lower than 10% (as stated in the relevant tax agreement or arrangement) are entitled to a refund of the excessive amount withheld by the Company, nonetheless such refund is subject to the approval of the competent tax authority. For shareholders who reside

in a jurisdiction where the tax rate for dividend is above 10% but less than 20% (as stated in the relevant tax agreement or arrangement), we shall withhold the individual income tax at the actual rate in accordance with the relevant tax agreement or arrangement without the approval of the competent tax authority. For shareholders who reside in a jurisdiction where the tax rate for dividend is 20% (as stated in the relevant tax agreement or arrangement) or no tax agreement or arrangement has been entered into with China, we shall withhold the individual income tax at the rate of 20%. A brief introduction to the above arrangements has been made in the letter issued by the State Administration of Taxation to the Hong Kong Inland Revenue Department on 28 June 2011. The letter further specified that Hong Kong resident individuals shall pay a 10% individual income tax for the dividend received from the Company. Therefore the Company shall deduct 10% from the dividend to be distributed to non-PRC resident individual shareholders of H Shares as individual income tax, unless otherwise specified in the relevant requirements and procedures of the PRC tax authorities.

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

(II) If profits and undistributed profit of the parent company were positive during the Reporting Period, yet no cash dividend distribution plan has been proposed, the Company shall disclose in detail the reasons and usage and utilisation plan of the undistributed profit.

✓ Not applicable

(III) Distribution of Dividends or Conversion of Capital Reserve Fund into Share Capital and Bonus for the Latest Three Years of the Company

Unit: RMB

Year of dividends	Bonus share for every 10 Shares	Dividend for every 10 Shares (tax inclusive)	Conversion into share capital for every 10 Shares	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company based on the consolidated statement for the year of dividends	Percentage in net profit attributable to shareholders of the Company based on the consolidated statement (%)
2012	0	2.4	0	645,338,529.12	2,052,871,698.55	31.44
2011	0	1.6	0	430,225,686.08	2,042,238,482.84	21.07
2010	0	1.4	0	278,970,067.32	1,368,252,869.36	20.39

V. POSITIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) Performing social responsibilities

Details are set out in the 2012 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd. disclosed by the Company.

(II) Description of the environmental protection work performed by the listed Company and its subsidiaries which are in industry with serious pollution recognised by the national environmental protection authorities

During the Reporting Period, the Group continued to require pharmaceuticals production enterprises to comply with relevant laws and regulations, completing environment management tasks such as reporting on waste discharge, environment monitoring and emergency drills, etc. In addition, the Group formed the safety and environmental protection committee, stepped up environmental protection team and strengthened its staffing, improved various systems and carefully maintained environmental protection documentation. Two new pharmaceuticals production enterprises passed the ISO14000 Environment Management System inspection and acceptance; 4 pharmaceuticals production enterprises prepared the Corporate Environmental Report, disclosing corporate environmental information. The Group conducted on-site inspections of environment management in 10 major pharmaceuticals production enterprises, requesting them to solve the environmental protection issues discovered in a timely manner. When conducting construction projects, the relevant enterprises proactively carried out environmental impact assessment, completing the assessment in accordance with laws and regulations. When conducting mergers, enterprises carried out due diligence investigation on environmental protection in advance and requested target companies to complete rectification for environmental non-compliance. Save for one environmental protection inspection rectification commitment made during the listing, which is progressing as scheduled, all other issues have been fully addressed.

VI. OTHER DISCLOSURE MATTERS

(I) Opinions on the classified information provided in the report of the board of directors and accounts

There were no material changes during the year.

(II) Charity and other donations

Details are set out in the 2012 Corporate Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd. disclosed by the Company.

(III) Headcount, remuneration, remuneration policy, bonus, share option plan and training plan of employees

Details are set out in the subsections below headed "Employees of the Company" and "Remuneration Policy".

(IV) Share capital

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

(V) Information about directors, supervisors and senior management

The information about the Company's directors, supervisors and senior management as at 31 December 2012 is set out in the section below headed "Directors, Supervisors and Senior Management".

(VI) Management service contracts

Except for the service contracts entered into with the Company's senior management and those disclosed in this report, the Company has not entered into contract with any individual, company or legal entity during the Reporting Period in order to manage or deal with the whole or any substantial part of the business of Shanghai Pharmaceuticals.

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

During the Reporting Period, the directors, supervisors and Controlling Shareholders (including subsidiaries of Controlling Shareholders) did not have any interests in the material contracts entered into by the Company (including subsidiaries of the Company) with external parties.

(VIII) Directors and supervisors' rights to share subscription

The Company has not granted the right to subscribe for the shares or bonds of the Company (including subsidiaries of the Company) to any directors, supervisors or their spouse or children under 18 years old.

(IX) Directors and supervisors' interests in competing business

As at 31 December 2012, none of the Company's directors or supervisors had any competing interests that constitute or may constitute direct or indirect competition with the Group's business.

Significant Events

I. MATERIAL LITIGATIONS, ARBITRATIONS, AND EVENTS THAT GIVE RISE TO MEDIA'S GENERAL ALLEGATIONS

(I) Litigations, arbitrations and events that give rise to media's allegations disclosed in interim announcements without subsequent development.

Overview and Type of Event	Search Index
The clarification announcements made by the Company in response to media's allegations	The Company's announcements Lin No. 2012-011 and Lin No. 2012-012. Unless otherwise specified hereinafter, such announcements have been published on the Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange at www.sse.com.cn. The relevant information can also be found on the website of the Hong Kong Stock Exchange at http://www.hkexnews.hk and the Company's website.

(II) Events that give rise to media's general allegations not disclosed in interim announcements or with subsequent development.

Nil

(III) Other explanations

Nil

II. APPROPRIATION AND SETTLEMENT OF FUNDS DURING THE REPORTING PERIOD

✓ Not applicable

III. ISSUES RELEVANT TO INSOLVENCY AND RESTRUCTURING AS WELL AS SUSPENSION OR TERMINATION OF LISTING

The Company had no issues relevant to insolvency and restructuring or suspension or termination of listing during the year.

IV. ASSET TRANSACTIONS AND BUSINESS COMBINATIONS

(I) Acquisition, disposal of assets and business combinations disclosed in interim announcements without subsequent changes during implementation

Overview and Type of Events	Search Index
The acquisition of Changzhou Kony Pharm Co., Ltd. by Shanghai Pharmaceuticals	The Company's announcement Lin No.2012-001
The reorganisation by Shanghai Pharmaceutical Distribution Co., Limited and mergers with Hunan Jiuwang Pharmaceutical Co., Ltd.(湖南九旺醫藥有限公司)	The Company's announcement Lin No.2012-007

(II) Events not disclosed in interim announcements or with subsequent development

1. Acquisition of assets

Unit: RMB10,000

Counterparty or ultimate controlling party	Assets acquired	Date of acquisition	Acquisition price of assets	Contribution to the net profit of the listed company from the date of acquisition to the end of the year	Connected transaction or not? (If yes, specify pricing principle)	Pricing principle of acquisition assets	Have all the titles related to the assets been transferred to the Company?	Have all the credits and liabilities related to the assets been transferred to the Company?	Proportion of the net profit attributable to equity holders of the listed company (%)	Related party relationship
Eight natural persons including Lu Jianjun	67% equity interests in Zhejiang Xinxin Pharmaceutical Co., Ltd.	March 2012	10,274.00	983.76	No	Appraised value	Yes	Yes	0.48	No
Natural persons and legal person shareholders	11.27% equity interests in Changzhou Pharmaceutical Co., Ltd.	August to December 2012	15,165.10	496.91	No	Appraised value	Yes	Yes	0.24	No

2. Disposal of assets

There was no significant disposal of assets of the Company during the Reporting Period.

3. Assets swap

None for the year.

4. Business combination

None for the year.

V. SHARE INCENTIVES OF THE COMPANY AND ITS INFLUENCE

√ Not applicable

VI. SIGNIFICANT CONNECTED TRANSACTIONS

(I) Connected transactions relating to daily operations

1. Events disclosed in interim announcements without subsequent development or changes during implementation

Overview of Events	Search Index
The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Continuing Connected Transactions of the Company in 2012 was approved at the 2011 annual general meeting. Pursuant to the proposal, from January to December 2012, the estimated amount of continuing connected transactions between the Company (and its subsidiaries) and Shanghai Pharmaceutical (Group) (and its subsidiaries) shall not exceed RMB650 million, in which the amount receivable by the Group from the sale of raw materials and products and the provision of distribution agency services to Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB200 million; the amount payable by the Group for the procurement of raw materials and products and the commissioned processing services from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB400 million; the amount payable by the Group for leasing premises and production equipments from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB50 million. The actual amount of the continuing connected transactions of the Company and its subsidiaries in 2012 did not exceed the amount approved at the annual general meeting stated above.	The Company's announcements Lin No. 2012-014

Note: The above connected transactions (as defined under the Listing Rules of the Shanghai Stock Exchange) also constitute the "connected transactions with connected persons at the level of the Company" defined under Chapter 14A of the Hong Kong Listing Rules. Since the term of the connected transaction framework agreement between the Company and Shanghai Pharmaceutical (Group) expired on 4 November 2012, the cap amount of the 2012 continuing connected transactions under the connected transaction framework agreement actually only applied to the transactions in relation to the sale of raw materials and products and the provision of distribution agency services by the Company to Shanghai Pharmaceutical (Group) and its subsidiaries as well as the procurement of raw materials and products and the commissioned processing from Shanghai Pharmaceutical (Group) and its subsidiaries under the connected transaction framework agreement from January to November 2012. During the period from January to November 2012, the relevant percentage ratios other than profits ratio corresponding to the actual amount of such continuing connected transactions were more than 0.1% but less than 5%.

In respect of the "connected transactions with connected persons at the level of the subsidiaries of the Company" defined under Chapter 14A of the Hong Kong Listing Rules, during the period from January to December 2012, each of the relevant percentage ratios other than profits ratio corresponding to the actual amount was less than 1%.

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

None for the year.

3. Events not disclosed in interim announcements

Unit: RMB10,000

Connected party	Connected relationship	Type of the connected transaction	Particulars of the connected transaction	Pricing principle of the connected transaction	Amount of the connected transaction	Proportion in the amount of transactions of the same type (%)	Settlement method of the connected transaction
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	A wholly-owned subsidiary of the parent company	Procurement of merchandises	Pharmaceutical products	Market price	15,022.08	0.26	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	A wholly-owned subsidiary of the parent company	Sales of goods and render of service	Pharmaceutical products	Market price	1,778.67	0.03	Cash
Shanghai Pharmaceutical (Group) Co., Ltd.	The parent company	Leasing	Properties	Market price	2,692.21	13.92	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	A wholly-owned subsidiary of the parent company	Leasing	Properties and equipment	Market price	1,275.56	6.60	Cash
Shanghai Pharmaceuticals Advertisement Co., Ltd.	A wholly-owned subsidiary of the parent company	Acceptance of service	Services	Market price	193.33	–	Cash
Shanghai Indu-pharm Property Co., Ltd.	A wholly-owned subsidiary of the parent company	Acceptance of service	Services	Market price	118.04	–	Cash

Note: data relating to sales and procurement as shown in the above table refer to the amounts from January to December 2012, of which the amount of sales and procurement from January to November 2012 is the same with that from January to December 2012.

4. Confirmation of continuing connected transactions between Shanghai Pharmaceuticals and Shanghai Pharmaceutical (Group) and its subsidiaries in 2012

(1) Connected Transaction Framework Agreement

As disclosed in the chapter headed "Connected Transactions" of the Company's H shares prospectus, Shanghai Pharmaceutical (Group), a controlling shareholder of the Company, entered into a comprehensive framework agreement in connection with connected transactions with the Company in the ordinary course of business (the "Framework Connected Transaction Agreement") which took effect as of 5 November 2009. The Framework Connected Transaction Agreement provides for the scope and principle of such transactions as trading of raw materials and products, commissioned processing services and other services between Shanghai Pharmaceutical (Group) and the Company (respectively including their subsidiaries) in the ordinary course of business. The initial term of the Framework Connected Transaction Agreement is three years, from November 2009 to November 2012.

(2) Amount of Continuing Connected Transactions

Unit: RMB10,000

	2012
Property rented by the Group as tenant (please refer to "Events not disclosed in interim announcements" as above for more details)	3,967.77
Sales and render of service by the Group	1,778.67
Procurement and acceptance of service by the Group	15,333.45

(3) Confirmation of Continuing Connected Transactions

The directors of the Company (including independent non-executive directors) confirm that, all of the above connected transactions are conducted in the daily and ordinary course of business of the Group on normal commercial terms in compliance with the relevant connected transaction agreement, and are fair and reasonable and in the interest of the shareholders of the Company as a whole. PricewaterhouseCoopers, the overseas auditor of the Company, has been engaged to report on the continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information) issued by the Hong Kong Institute of Chartered Public Accountants and with reference to Practice Note No.740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules). It has also confirmed that nothing has come into its notice for it to believe that any of the above continuing connected transactions was (1) not approved by the board of directors of the Company; (2) not in compliance with the pricing policies of the Group in material aspects where it relates to the provision of goods or service by the Group; (3) not carried out in accordance with the relevant agreement regulating the transaction in material aspects; and (4) a transaction the amount of which exceeded the total annual cap amount for each of such disclosed continuing connected transactions as announced in the documents of the annual general meeting of the Company dated 31 May 2012.

(II) Connected transactions relating to acquisition and disposal of assets

1. Events disclosed in interim announcements without subsequent development or changes during implementation

Overview of Events	Search Index
The acquisition of the intangible assets (including patents, proprietary know-how and trademarks, etc) of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (a subsidiary of Shanghai Pharmaceutical (Group)) from Shanghai Pharmaceutical (Group) by Shanghai New Asiatic Pharmaceuticals Co., Ltd.	The Company's announcement Lin No. 2012-007
The acquisition of fixed assets, inventories (products under development) and the intangible assets of Shanghai Pharmaceutical Technology Development Co., Ltd. by Shanghai New Asiatic Pharmaceuticals Co., Ltd.	The Company's announcement Lin No. 2012-021

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

None for the year.

3. Events not disclosed in interim announcements

None for the year.

(III) Material connected transaction relating to joint external investment

None for the year.

(IV) Credits and liabilities with related parties

1. Events disclosed in interim announcements without subsequent development or changes during implementation

None for the year.

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

None for the year.

3. Events not disclosed in interim announcements

None for the year.

VII. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Trusteeship, contracting and leasing

1. Trusteeship

During the year, the Company had no material trusteeship arrangement.

2. Contracting

During the year, the Company had no material contracting arrangement.

3. Leasing

During the year, the Group had no material leasing arrangement.

(II) Guarantee

Unit: RMB10,000

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between guarantor and the listed company	Guaranteed party	Value guaranteed	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiration date of guarantee	Type of guarantee	Guarantee fully fulfilled?	Guarantee overdue?	Overdue amount of guarantee	Any counter guarantee?	Guarantee provided to connected parties?	Connected relationship
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	100.00		30 May 2011	8 April 2012	Joint responsibility guarantee	Yes	No		No	No	Associated company
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	900.00		10 April 2012	9 April 2013	Joint responsibility guarantee	No	No		No	No	Associated company
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Jiangxi Nanhua Medicines Co., Ltd.	2,000.00		14 February 2011	13 February 2012	Joint responsibility guarantee	Yes	No		No	No	Joint venture
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Jiangxi Nanhua Medicines Co., Ltd.	1,000.00		26 April 2012	13 December 2012	Joint responsibility guarantee	Yes	No		No	No	Joint venture
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Jiangxi Nanhua Medicines Co., Ltd.	1,500.00		26 April 2012	26 April 2013	Joint responsibility guarantee	No	No		No	No	Joint venture
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	1,497.00		6 September 2012	17 June 2013	Joint responsibility guarantee	No	No		No	No	Associated company

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between guarantor and the listed company	Guaranteed party	Value guaranteed	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiration date of guarantee	Type of guarantee	Guarantee fully fulfilled?	Guarantee overdue?	Overdue amount of guarantee	Any counter guarantee?	Guarantee provided to connected parties?	Connected relationship
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,000.00		22 December 2011	19 December 2012	Joint responsibility guarantee	Yes	No		No	No	Associated company
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,000.00		19 December 2012	18 December 2013	Joint responsibility guarantee	No	No		No	No	Associated company
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,500.00		20 February 2012	20 February 2013	Joint responsibility guarantee	No	No		No	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,500.00		29 December 2011	28 November 2012	Joint responsibility guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		14 March 2011	14 March2012	Joint responsibility guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	1,000.00		16 September 2011	16 September 2012	Joint responsibility guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,000.00		16 September 2011	16 September 2012	Joint responsibility guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,500.00		9 November 2012	8 May 2013	Joint responsibility guarantee	No	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	3,000.00		14 March 2012	13 September 2012	Joint responsibility guarantee	Yes	No		Yes	No	Associated company

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between guarantor and the listed company	Guaranteed party	Value guaranteed	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiration date of guarantee	Type of guarantee	Guarantee fully fulfilled?	Guarantee overdue?	Overdue amount of guarantee	Any counter guarantee?	Guarantee provided to connected parties?	Connected relationship
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		15 March 2012	15 September 2012	Joint responsibility guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		29 September 2012	23 March 2013	Joint responsibility guarantee	No	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	4,000.00		10 September 2012	9 September 2013	Joint responsibility guarantee	No	No		Yes	No	Associated company
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)								25,385.50					
Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)								19,540.50					
Guarantees provided by the Company to its subsidiaries													
Total value guaranteed for its subsidiaries during the Reporting Period								0					
Total balance guaranteed for its subsidiaries at the end of the Reporting Period (B)								0					
Total value guaranteed by the Company (including those provided to its subsidiaries)													
Total value guaranteed (A+B)								19,540.50					
Percentage of total value guaranteed in the Company's net assets (%)								0.79					
Among which:													
Value guaranteed for shareholders, de facto controller and connected parties (C)								0					
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D)								15,040.5					
Amount of total value guaranteed exceeding 50% of net assets (E)								0					
Total of value guaranteed for the above three items (C+D+E)								15,040.5					

(III) Other material contracts

During the year, the Group had no other material contracts.

VIII. FULFILLMENT STATUS OF COMMITMENTS

Please refer to the Announcement of Shanghai Pharmaceuticals Holding Co., Ltd. in relation to Fulfillment Status of Commitments by Shareholders of Listed Company, Related Parties and Listed Company (the Company's announcement No. Lin 2012-025) for more details.

Since the date (31 October 2012) of the above announcement to the date of this report, the fulfillment status of commitments made by shareholders' of the Company, related parties and the Company is set out as follows:

(I) The commitment of Shanghai Pharmaceutical (Group) and Shanghai Shangshi in relation to the lock-up of Shares

Each of Shanghai Pharmaceutical (Group) and Shanghai Shangshi has undertaken that no transfer of the Shares of Shanghai Pharmaceuticals in which they are interested would be made within 36 months from the completion of such private placements related to the substantial asset restructuring. The lock-up period of the relevant Shares has expired and the commitment has been fulfilled. The relevant Shares with trade restrictions were listed and traded on 18 February 2013 (the Company's announcement Lin No. 2013-001).

(II) The commitment of Shanghai Pharmaceutical (Group) in relation to clearing up and regulating Shares held by employees of the Company and the Employee Share Ownership Committee

On 12 March 2013, as considered and approved by the 26th meeting of the fourth session of the Board of the Company, the Company agreed to acquire 20% equity interests in Chiatai Qingchunbao Pharmaceutical Co., Ltd. held by the Employee Share Ownership Committee of Hangzhou Chiatai Qingchunbao at a consideration of RMB444.4 million (subject to the finalised amount filed with the State-owned assets supervision and administration authority) (the Company's announcements Lin No. 2013-002 and Lin No. 2013-003).

(III) The commitment of Shanghai Pharmaceutical (Group) and Shanghai Shangshi in relation to the compensation for profit forecast

During the substantial asset restructuring, certain assets were acquired by Shanghai Pharmaceutical (Group) and Shanghai Industrial Holdings Ltd. and were appraised using the income method. Among such assets, the actual earnings in 2012 of the assets acquired by Shanghai Pharmaceutical (Group) have met the profit forecast, with a realisation ratio of 148.30%, while the actual earnings in 2012 of the assets acquired by Shanghai Industrial Holdings Ltd. did not meet the profit forecast, with a realisation ratio of 86.85%. PricewaterhouseCoopers Zhong Tian CPAs Limited Company has issued the Special Audit Report on the Explanation of the Differences between the Actual Earnings and the Profit Forecast (Pu Hua Yong Dao Zhong Tian Te Shen Zi (2013) No. 720).

IX. APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

Unit: RMB10,000

Change of Appointment:	No
	Current engagement
Name of the domestic accounting firm engaged by the company	PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Remuneration for the domestic accounting firm	Charged a total of RMB19.5 million together with the overseas accounting firm (including fees of RMB9.1 million charged to the parent company and fees of RMB10.4 million charged to certain of its subsidiaries; relevant reimbursed expenses and taxation expenses inclusive)
Number of years of service of the domestic accounting firm	2 years
Name of the overseas accounting firm engaged by the Company	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong
Remuneration for the overseas accounting firm	Charged a total of RMB19.5 million together with the domestic accounting firm (including fees of RMB9.1 million charged to the parent company and fees of RMB10.4 million charged to certain of its subsidiaries; relevant reimbursed expenses and taxation expenses inclusive)
Number of years of service of the overseas accounting firm	2 years

Unit: RMB10,000

	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian CPAs Limited Company	RMB1.25 million (relevant reimbursed expenses and taxation expenses inclusive)

X. PUNISHMENT AND RECTIFICATION OF THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING MORE THAN 5% OF SHARES, DE FACTO CONTROLLERS AND ACQUIRERS.

Nil

XI. EXPLANATION ON OTHER SIGNIFICANT EVENTS

During the Reporting Period, the Company had no other significant events.

Changes in Share Capital and Information about Shareholders

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in share capital

1. Table of changes in share capital

Unit: share

	Before current change		Current increase or decrease (+,-)					After current change	
	Number of Shares	Percentage (%)	Issue of new Shares	Bonus Share	Conversion of capital reserve fund into share capital	Others	Subtotal	Number of Shares	Percentage (%)
I. Trade-restricted Shares	852,489,559	31.704						852,489,559	31.704
1. State-held Shares									
2. Shares held by state-owned legal persons	852,407,959	31.701						852,407,959	31.701
3. Other domestically held Shares	81,600	0.003						81,600	0.003
Of which: Shares held by domestic non-state-owned legal persons	81,600	0.003						81,600	0.003
Shares held by domestic natural persons									
4. Foreign-held Shares									
Of which: Shares held by foreign legal persons									
Shares held by foreign natural persons									
II. Shares without trade restrictions	1,836,420,979	68.296						1,836,420,979	68.296
1. RMB common Shares	1,070,527,059	39.813						1,070,527,059	39.813
2. Domestically listed foreign Shares									
3. Overseas listed foreign Shares	765,893,920	28.483						765,893,920	28.483
4. Others									
III. Total number of Shares	2,688,910,538	100.000						2,688,910,538	100.000

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

(II) Changes in trade-restricted Shares

During the Reporting Period, there was no change in the Company's trade-restricted Shares. As at 31 December 2012, the total share capital of the Company was 2,688,910,538 Shares, including 1,836,420,979 Shares without trade restrictions, comprising 1,070,527,059 A Shares and 765,893,920 H Shares). The Company has sufficient public float to meet the minimum public float requirements stipulated under the Securities Law of the People's Republic of China and the Hong Kong Listing Rules.

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities over the past three years up to the end of the Reporting Period

Unit: share

Class of Share and its derivative securities	Date of issue	Issue price (RMB)	Volume of issue	Listing date	Number of Shares approved for listing and trading	Date of termination of trading
Shares						
Private placement of ordinary A Shares denominated in RMB	10 February 2010	RMB11.83	455,289,547	18 February 2013	455,289,547	/
Private placement of ordinary A Shares denominated in RMB	10 February 2010	RMB11.83	169,028,205	18 February 2013	169,028,205	/
Public offering of H Share	20 May 2011	HKD23.00	664,214,000	20 May 2011	664,214,000	/
Public offering of H Share	11 June 2011	HKD23.00	32,053,200	11 June 2011	32,053,200	/

Notes: 1. The Company carried out two private placements on 10 February 2010 during the substantial asset restructuring:

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

(2) The issue of 169,028,200 A Shares at the price of RMB11.83 each to Shanghai Shangshi. The proceeds of RMB1,999,603,700 was used as the consideration for acquisition of the pharmaceutical assets of Shanghai Industrial Holdings Ltd.

Shanghai Pharmaceutical (Group) and Shanghai Shangshi undertook that no transfer of the Shares as above would be made in the 36 months from the completion of such private placements. The actual date of listing is 18 February 2013 (please refer to the Company's announcement Lin No. 2013-001 for more details. Unless otherwise specified hereinafter, such announcement has been published on the Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange at www.sse.com.cn. The relevant information can also be found on the website of the Hong Kong Stock Exchange at http://www.hkexnews.hk and the Company's website.).

2. The Company issued 664,214,000 H Shares on 20 May 2011 and partially exercised the over-allotment option of the H Shares on 11 June 2011, pursuant to which a total of 32,053,200 H Shares were placed.

(II) Change in the total number of Shares, the shareholding structure and the asset and liability structure of the Company

During the Reporting Period, there was no change in the total number of Shares and shareholding structure of the Company as a result of issue of bonus share or Share allotment.

(III) Existing internal employee shares

As at the end of the Reporting Period, the Company had no internal employee shares.

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders and their shareholdings

Unit: share

Aggregate number of shareholders during the Reporting Period	104,496 (A Shares)	Aggregate number of shareholders as at the end of the 5th trading day prior to the disclosure date of the annual report	92,381 (A shares)
	3,387 (H Shares)		3,301 (H Shares)

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
Shanghai Pharmaceutical (Group)	State-owned legal person shareholder	27.89	749 ,923,539	0	693,006,251	Pledged 13,648,772
HKSCC NOMINEES LIMITED	Foreign shareholder	27.84	748,478,920	-5,344,200	0	Unknown
SIIC and its wholly-owned subsidiaries	State-owned legal person shareholder	7.61	204,678,698	11,171,038	159,401,708	Unknown
Shanghai Shengrui	State-owned legal person shareholder	6.04	162,399,040	0	0	Unknown
Shenergy (Group) Co., Ltd.	State-owned legal person shareholder	3.02	81,199,520	0	0	Unknown
Industrial and Commercial Bank of China–Guangfa Jufeng Equity Securities Investment Fund	Other	1.31	35,101,011	/	0	Unknown
Taikang Life Insurance Co., Ltd. - Bonus - Personal Bonus - 019L - FH002 SH	Other	0.66	17,631,939	/	0	Unknown
Industrial and Commercial Bank of China – Invesco Great Wall Selected Blue Chip Securities Investment Fund	Other	0.65	17,499,705	/	0	Unknown
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	Other	0.57	15,229,489	-15,618,598	0	Unknown
China Construction Bank – Guotai Jinma Sound Return Securities Investment Fund	Other	0.43	11,500,000	/	0	Unknown

Aggregate number of shareholders during the Reporting Period	104,496 (A Shares)	Aggregate number of shareholders as at the end of the 5th trading day prior to the disclosure date of the annual report	92,381 (A shares)
	3,387 (H Shares)		3,301 (H Shares)

Shareholdings of top ten shareholders holding Shares without trade restrictions		
Name	Number of Shares without trade restrictions	Class and number of Shares
HKSCC NOMINEES LIMITED	748,478,920	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
SIIC and its wholly-owned subsidiaries	45,276,990	A Shares 129,492,590 H Shares 115,784,400
Industrial and Commercial Bank of China-Guangfa Jufeng Equity Securities Investment Fund	35,101,011	A Shares
Taikang Life Insurance Co., Ltd. - Bonus - Personal Bonus - 019L - FH002 SH	17,631,939	A Shares
Industrial and Commercial Bank of China – Invesco Great Wall Selected Blue Chip Securities Investment Fund	17,499,705	A Shares
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	15,229,489	A Shares
China Construction Bank – Guotai Jinma Sound Return Securities Investment Fund	11,500,000	A Shares
Note on affiliation or concerted actions of the above shareholders	SIIC is a Controlling Shareholder of Shanghai Pharmaceutical (Group) Co., Ltd. The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the Administrative Measures on Disclosure of Changes in Shareholders' Shareholdings in Listed Companies.	

Note: 1. SIIC and its persons acting in concert intended to increase their shareholdings in the Company within 12 months starting from 24 May 2012, and the aggregate of such increase in shareholdings should not exceed 2% of the total outstanding Shares of the Company. (Please refer to the Company's announcement Lin No. 2012-013 for more details).

2. Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 15,784,400 H Shares held by SIIC and its wholly-owned subsidiaries. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to count or provide the number of shares pledged or frozen.

3. Shanghai Pharmaceutical (Group) has undertaken to voluntarily lock up the 56,917,288 Shares without trade restrictions held by it within 36 months from the completion date of the private placement related to the substantial asset restructuring. Such Shares can be listed and traded upon expiry of the lock-up period on 18 February 2013. (Please refer to the Company's announcement Lin No. 2013-001 for more details).

4. The latest information of the 13,648,772 pledged Shares of Shanghai Pharmaceutical (Group): Pursuant to the equity transfer agreement entered into between Shanghai Pharmaceutical (Group) and China Great Wall Asset Management Corporation ("Great Wall") (the vendor) in relation to the acquisition of 39.01% equity interest of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. by Shanghai Pharmaceutical (Group), Great Wall has the option to receive cash or A Shares of Shanghai Pharmaceutical as consideration within 10 working days from 1 March 2013 upon the expiry of the lock-up period of the Shares of Shanghai Pharmaceuticals held by Shanghai Pharmaceutical (Group). As such, Shanghai Pharmaceutical (Group) pledged 13,648,772 A Shares (floating shares with trade restrictions) of Shanghai Pharmaceutical held by it to Great Wall on 20 September 2011 to secure the payment of such consideration and the share pledge period started from 20 September 2011 to 15 March 2015 (please refer to the Company's announcement No. Lin 2011-038 for more details). On 18 February 2013, the lock-up period of the aforesaid 13,648,772 pledged Shares expired (please refer to the Company's announcement No. Lin 2013-001 for more details). On 15 March 2013, Shanghai Pharmaceutical (Group) and Great Wall entered into a supplementary equity transfer agreement, pursuant to which, the parties agreed to extend the period of fulfilling the obligation of consideration payment in relation to the equity transfer by one year, and as such Great Wall has the option to receive cash or A Shares of Shanghai Pharmaceutical as consideration within 10 working days from 1 March 2014. In accordance with the share pledge agreement entered into between Shanghai Pharmaceutical (Group) and Great Wall, the pledge will be released upon payment of consideration by Shanghai Pharmaceutical (Group).

Unit: share

Number of and the trade restrictions on the Shares held by the top ten shareholders holding trade-restricted shares					
No.	Name of shareholders holding trade-restricted shares	Number of trade-restricted shares	The listing and trading of the trade-restricted Shares		Trade restrictions
			Time of availability for listing and trading	Number of additional Shares available for listing and trading	
1	Shanghai Pharmaceutical (Group)	693,006,251	10 February 2013	0	Undertaking not to transfer the Shares in Shanghai Pharmaceuticals held by it within 36 months from the completion date of the private placement related to the substantial asset restructuring (excluding the 56,917,288 Shares under 36-month voluntary lock-up which were originally not subject to trade restrictions).

Number of and the trade restrictions on the Shares held by the top ten shareholders holding trade-restricted shares					
No.	Name of shareholders holding trade-restricted shares	Number of trade-restricted shares	The listing and trading of the trade-restricted Shares		Trade restrictions
			Time of availability for listing and trading	Number of additional Shares available for listing and trading	
2	Shanghai Shangshi	159,401,708	10 February 2013	0	Undertaking not to transfer the Shares in Shanghai Pharmaceuticals held by it within the 36 months from the completion date of the private placement related to the substantial asset restructuring.
3	Hainan Zhong Wang Investment and Management Company Limited	81,600	To be decided	0	The consideration repayable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding
Note on affiliation or concerted actions of the above shareholders		Shanghai Shangshi is a shareholder of Shanghai Pharmaceutical (Group), holding 60% of its shares. The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the Administrative Measures on Disclosure of Changes in Shareholders' Shareholdings in Listed Companies.			

Note: The trade-restricted shares held by Shanghai Pharmaceutical (Group) and Shanghai Shangshi were entirely listed and traded on 18 February 2013. (Please refer to the Company's announcement Lin No. 2013-001 for more details).

IV. CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Controlling Shareholders

1. Legal persons

Unit: HKD

Name	Shanghai Industrial Investment (Holdings) Co., Ltd.
Person in charge of the company or legal representative	Teng Yilong
Date of establishment	17 July 1981
Organisation code	Enterprise registered in Hong Kong; the organisation code of its Shanghai Representative Office is X0725582-3
Registered capital	10,000,000
Principal business	Enhancing the five core businesses – pharmaceuticals (whole industrial chain), infrastructure (highways, water treatment, solid waste disposal and new energy), real estate, financial investment and consumer goods, and actively developing such new businesses as elderly care and environmental protection.
Operating result	Operating revenue: HK82.8 billion Net profit attributable to the parent company: HK$3 billion
Financial position	Total assets: HK$224.9 billion Net assets attributable to the parent company: HK$41.6 billion
Cash flow and future development strategy	In the three years to come (2013-2015), SIIC will improve the business development, as well as management and control, build up a new market image and try to further increase the comprehensive strength, take the competitiveness and management and control to a new level and build up a new market image.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	(1) Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 0363)
	(2) Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 0563)
	(3) Shanghai Industrial Environment Holding Co., Ltd. (a company listed on the Main Board of Singapore Exchange with stock code 5GB)
	(4) Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748)
	(5) Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 0981 and the New York Stock Exchange under the ticker symbol "SMI")

Notes: The above data are audited data extracted from the 2011 consolidated statements. The information about equity interests are subject to the disclosure in the 2012 annual reports of the respective listed companies.

Unit: RMB

Name	Shanghai Shangshi (Group) Co., Ltd.
Person in charge of the company or legal representative	Teng Yilong
Date of establishment	20 August 1996
Organisation code	13227821-5
Registered capital	1,859,000,000
Principal business	Investment in industries, domestic trading (except where there are special provisions), and operation and management of state-owned assets to the extent authorised
Operating result	Operating revenue: RMB 57.57 billion Net profit attributable to the parent company: RMB 3.27 billion
Financial position	Total assets: RMB 81.78 billion Net assets: RMB 42.94 billion
Cash flow and future development strategy	Shanghai Municipal State-owned Assets Supervision and Administration Commission authorised Shanghai Industrial Investment (Holdings) Co., Ltd. to operate Shanghai Shangshi (Group) Co., Ltd., which carries out the business operations in accordance with the strategic objectives determined by Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748)

Notes: The above data are audited data extracted from the 2011 consolidated statements. The information about equity interests are subject to the disclosure in the 2012 annual reports of the respective listed companies.

Unit: RMB

Name	Shanghai Pharmaceutical (Group) Co., Ltd.
Person in charge of the Company or legal representative	Lou Dingbo
Date of establishment	23 April 1997
Organisation code	13454082-X
Registered capital	3,158,720,000
Principal business	Scientific research on pharmaceutical products, medical equipment and related products, production, sale, installation and maintenance of pharmaceutical equipment, investment in industries, and import and export business as approved by the State.
Operating result	Operating revenue: RMB 55.44 billion Net profit attributable to the parent company: RMB 550 million
Financial position	Total assets: RMB 50.29 billion Net assets: RMB 4.78 billion
Cash flow and future development strategy	Shanghai Pharmaceutical (Group) Co., Ltd. carries out the business operations in accordance with the strategic objectives determined by Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	N/A

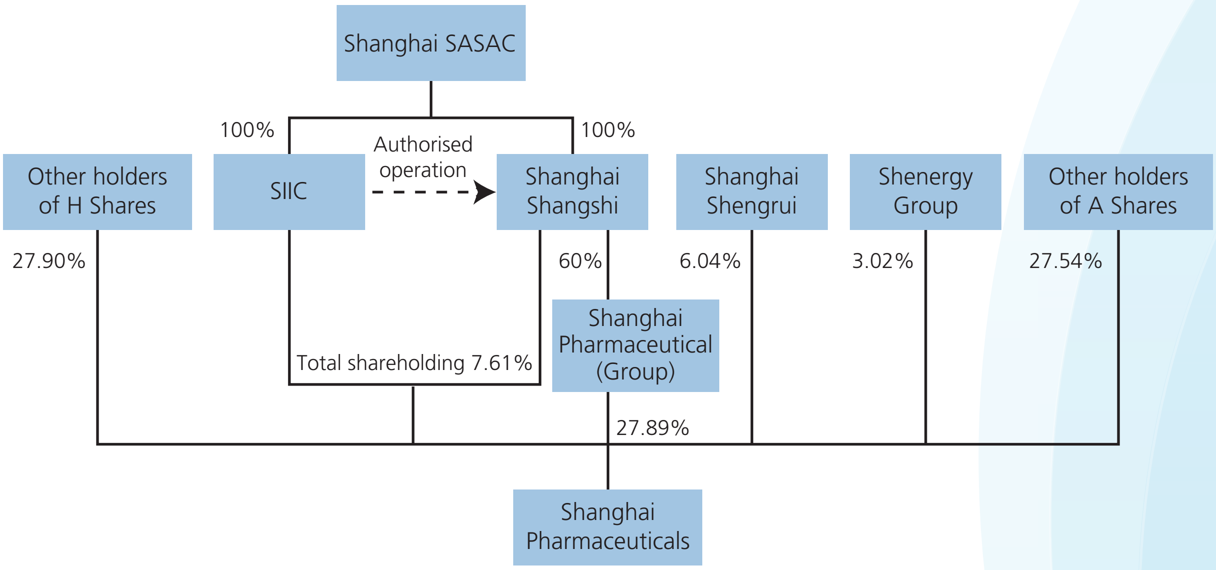
Note: the above data are audited data extracted from the 2011 consolidated statements.

(II) De Facto Controller

1. Legal person

The de facto controller of the Company is Shanghai SASAC.

2. The chart illustrating the ownership and control relationship between the Company and the de facto controller



Note: SIIC and Shanghai Shangshi hold shares in Shanghai Pharmaceuticals directly or through their respective subsidiaries

V. OTHER LEGAL PERSON SHAREHOLDERS WITH 10% OR MORE SHAREHOLDING

As at the end of the Reporting Period, there was no other legal person shareholder with 10% or more shareholdings in the Company.

VI. DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

(I) Directors' interests

Directors' interests are set out in the section titled "Directors, supervisors, senior management and employees" below.

(II) Interests and short positions of substantial shareholders and other persons in the Shares and underlying shares

As at 31 December 2012, according to the information available to the Company and to the knowledge of the directors, the following shareholders had interests or short positions in the Shares or underlying shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the outstanding H Shares and A Shares at the shareholders' general meetings of the Company:

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/A Shares held as at the end of the Reporting Period to the outstanding H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group Note 1(1)	A Shares/ H Shares	Interests of controlled corporation	954,602,237(L)	48.82(A Share)/ 2.06(H Share)	35.50
Shanghai Shangshi group Note 1(2)	A Shares	Beneficial owner/ Interests of controlled corporation	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 corporation	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 corporation	124,023,800(L)	16.19(L)	4.61(L)
Credit Suisse (Hong Kong) Limited	H Shares	Interests commonly held with another person	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
Credit Suisse AG	H Shares	Interests of controlled corporation	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
JPMorgan Chase & Co.	H Shares	Beneficial owner/ Investment Manager/ Custodian/approved lending agent	81,396,582(L) 0(S) 80,226,282(P)	10.63(L) 0.00(S) 10.47(P)	3.03(L) 0.00(S) 2.98(P)

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/A Shares held as at the end of the Reporting Period to the outstanding H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
T. Rowe Price Associates, Inc. and its affiliates	H Shares	Beneficial owner	76,302,200(L)	9.96(L)	2.84(L)
NSSF	H Shares	Beneficial owner	66,633,400(L)	8.70(L)	2.48(L)
Cheah Capital Management Limited	H Shares	Interests of controlled corporation	61,288,000(L)	8.00(L)	2.28(L)
Cheah Company Limited	H Shares	Interests of controlled corporation	61,288,000(L)	8.00(L)	2.28(L)
Hang Seng Bank Trustee International Limited	H Shares	Trustee	61,288,000(L)	8.00(L)	2.28(L)
Value Partners Group Limited	H Shares	Interests of controlled corporation	61,288,000(L)	8.00(L)	2.28(L)
To Hau Yin	H Shares	Interest of spouse	61,288,000(L)	8.00(L)	2.28(L)
Cheah Cheng Hye	H Shares	Discretionary Trust settlor	61,288,000(L)	8.00(L)	2.28(L)
Morgan Stanley	H Shares	Interests of controlled corporation	61,125,003(L) 2,136,858(S) 0(P)	7.98(L) 0.28(S) 0.00(P)	2.27(L) 0.08(S) 0.00(P)

(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. SIIC group means SIIC and its wholly-owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate the State-owned Assets of Shanghai Overseas Companies, Its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou No. [1998] 6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC held 954,602,237 Shares of the Company in total (including A Shares and H Shares), of which 938,817,837 A Shares were indirectly held by SIIC through Shanghai Shangshi group, while 15,784,400 H Shares were directly held by SIIC group.

(2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi group means Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,817,837 A Shares held by Shanghai Shangshi group in the Company, 188,894,298 A Shares were directly held by Shanghai Shangshi group, 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) Data disclosed in the table above are based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

(2) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file a disclosure of interests form when certain criteria are fulfilled. When a shareholding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless several criteria have been fulfilled, therefore a shareholder's latest shareholding in the Company may be different from the shareholding filed with the Stock Exchange.

(3) Save as disclosed above, as at 31 December 2012, the Company was not aware that any other person (other than the directors, supervisors and senior management of the Company) had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

VII. PRE-EMPTIVE RIGHTS

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

VIII. PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2012, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

During the period from January to December 2012, SIIC, the Controlling Shareholder of the Company, and its wholly-owned subsidiary, further acquired 5,794,538 A Shares and 5,376,500 H Shares of Shanghai Pharmaceuticals in total.

SIIC and its persons acting in concert plan to further increase their shareholding in Shanghai Pharmaceuticals in their own names within 12 months (commencing from 24 May 2012) and the aggregate of such increase (including the 4,576,700 H Shares acquired on 24 May 2012) shall not exceed 2% of the total outstanding Shares of Shanghai Pharmaceuticals. The Company will go through the filing procedures as required by the regulators of the PRC and Hong Kong.

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, EXISTING AND RESIGNED DURING THE REPORTING PERIOD

Unit: share

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/ decrease of Shares during the year	Reasons for change	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)
Zhou Jie	Chairman, Executive Director	Male	46	1 Jun 2012, 31 May 2012	31 Mar 2013	0	0	0	/	0.00
Zhang Jialin	Vice Chairman, Executive Director	Male	58	31 Mar 2010	31 Mar 2013	0	0	0	/	0.00
Lu Shen	(Non-executive) director	Male	57	31 Mar 2010	31 Mar 2013	6,440 A Shares	6,440 A Shares	0	/	0.00
Xu Guoxiong	Executive Director, President	Male	57	31 Mar 2010	31 Mar 2013	38,900 A Shares	90,100 A Shares	51,200 A Shares	*Note 1*	321.11
Bai Huiliang	Independent (non-executive) director	Male	70	31 Mar 2010	31 Mar 2013	0	0	0	/	15.00
Chen Naiwei	Independent (non-executive) director	Male	56	31 Mar 2010	31 Mar 2013	0	0	0	/	15.00
Tommei Tong	Independent (non-executive) director	Female	48	31 Mar 2010	31 Mar 2013	0	0	0	/	15.00
Li Zhenfu	Independent (non-executive) director	Male	50	31 May 2012	31 Mar 2013	0	0	0	/	8.75
Jiang Ming	(Non-executive) director	Male	56	31 Mar 2010	31 Mar 2013	0	0	0	/	0.00
Zhang Zhenbei	Chairman of the Supervisory Board	Male	59	31 May 2012	31 Mar 2013	0	0	0	/	0.00
Chen Xin	Employee supervisor	Female	50	31 Mar 2010	31 Mar 2013	0	0	0	/	0.00
Wu Junhao	Supervisor	Male	48	31 Mar 2010	31 Mar 2013	0	0	0	/	0.00
Jiang Yuanying	Vice president	Male	50	7 Jun 2010	31 Mar 2013	8,000 A Shares	29,000 A Shares	21,000 A Shares	*Note 1*	133.82
Ren Jian	Vice president	Male	48	31 Mar 2010	31 Mar 2013	20,000 A Shares	48,000 A Shares	28,000 A Shares	*Note 1*	185.35
Li Yongzhong	Vice president	Male	43	31 Mar 2010	31 Mar 2013	20,500 A Shares	48,500 A Shares	28,000 A Shares	*Note 1*	185.35
Shu Chang	Vice president	Male	55	8 Oct 2012	31 Mar 2013	0	0	0	*Note 1*	9.53
Guo Junyu	Vice president	Male	39	29 Oct 2012	31 Mar 2013	0	0	0	*Note 1*	6.80
Shen Bo	Chief financial officer	Male	40	31 Mar 2010	31 Mar 2013	21,400 A Shares	54,400 A Shares	33,000 A Shares	*Note 1*	190.77
Han Min	Secretary to the board of directors, Joint Company Secretary	Female	36	8 Sept 2010	31 Mar 2013	12,000 A Shares	40,200 A Shares	28,200 A Shares	*Note 1*	170.73
Lu Mingfang	Ceasing to be the Chairman and Executive director of the Company	Male	56	31 Mar 2010	31 May 2012	37,674 A Shares	37,674 A Shares	0	/	0.00
Zeng Yixin	Ceasing to be the independent (non-executive) director	Male	51	31 Mar 2010	29 Mar 2012	0	0	0	/	3.75
Total						164,914	354,314	189,400	/	1,260.96

Notes: 1. According to the undertaking on arrangement of annual performance bonus of the senior management disclosed in the H Shares Prospectus, senior management of the Company purchased A Shares of the Shanghai Pharmaceuticals by using 50% of their annual performance bonus for 2011 received in 2012 through open market trades.

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

3. Save as disclosed above, as at 31 December 2012, according to the information available to the Company and to the knowledge of the directors, none of the directors, supervisors and senior management of the Company had any interest or short position in the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

4. During the Reporting Period, none of the Company's directors and supervisors had any material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business entered into by the Company or any of its subsidiaries.

II. POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Major work experience of directors, supervisors and senior management

1. Biographical Details of the Directors

The board of directors of Shanghai Pharmaceuticals currently consists of nine members, including three executive directors, two non-executive directors and four independent non-executive directors, all elected by the shareholders. The term of each session of the board of directors is generally three years, which is renewable upon re-election.

Mr. Zhou Jie, born in December 1967, master in engineering from Shanghai Jiao Tong University. He was appointed as an Executive Director and Chairman of the Company in May 2012 and June 2012 respectively, and holds directorship in certain subsidiaries of the Company (See "Positions in subsidiaries" below). Mr. Zhou has been a non-executive director of Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 0981 and the New York Stock Exchange under the ticker symbol "SMI") since January 2009; the president and executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since April 2012 and May 2008, respectively; the vice chairman, CEO and an executive director of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 0363) since April 2012 and November 2007, respectively. His previous positions included the chairman of the board of directors of Shanghai Pharmaceutical (Group), the Chief Supervisor of the Company, the vice executive president of SIIC, the vice executive CEO of Shanghai Industrial Holdings Limited, and the chairman and general manager of Shanghai SIIC Asset Management Co., Ltd.

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

Mr. Lu Shen, born in August 1956, a bachelor in radio electronics from Shanghai University of Science and Technology and a master in business administration from Shanghai Jiao Tong University, senior economist. He joined the Company in March 2010. He is a non-executive director of the Company and holds no concurrent office of director in any of the Company's subsidiaries. Mr. Lu has been an executive director of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 0363) since April 2012, the chairman of Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) since July 2008, and the executive director of SIIC since April 2011. His previous positions included chairman of the City Hotel Shanghai, director and deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., director and general manager of Shanghai Industrial United Holdings Co., Ltd., and president and vice chairman of Shanghai Industrial Development Co., Ltd.

Mr. Xu Guoxiong, born in April 1956, majored in Chinese language and literature from Shanghai Normal University and a master in business administration from Asia International Open University (Macau), senior political engineer. He joined the Company in March 2010. He is the President and executive director of the Company and director of the Company's subsidiaries (See "Positions in subsidiaries" below). He has been the vice chairman of the China Pharmaceutical Industry Research and Development Association since May 2010, the vice chairman of China Pharmaceutical Industry Association since May 2012, and an executive director of Shanghai Pharmaceutical (Group) since April 2012. His previous positions included general manager's assistant and deputy general manager of Shanghai Bicycle Group Co., Ltd, general manager of the department of industry and president's assistant of China Hua Yuan Group Co., Ltd, vice chairman and general manager of Hua Yuan Kai Ma Machinery Co., Ltd., and vice president of Shanghai Pharmaceutical (Group).

Mr. Bai Huiliang, born in October 1943, graduated from Beijing University of Technology majoring in the organic synthesis, and a senior engineer. He joined the Company in March 2010 as an independent non-executive director and holds no concurrent office of director in any of the Company's subsidiaries. He has been as the president of China Nonprescription Medicines Association since August 2009, the independent non-executive director of Sihuan Pharmaceutical Holdings Group Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code 0460) and Shandong Xinhua Pharmaceutical Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code 000756) respectively since October 2010 and December 2011, and served as the vice president of China Pharmaceutical Enterprise Management Association since March 2005. He was an independent non-executive director of Gansu Duyiwei Biological Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code 002219), the director of the Drug Safety Supervision Department of State Food and Drug Administration, special researcher of the China Center for Pharmaco Economics and Outcomes Research at Peking University, the executive vice president of China Nonprescription Medicines Association and vice president of China Nonprescription Medicines Association and Vice President of China Pharmaceutical Industry Association.

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

Ms. Tommei Tong, born in January 1965, obtained a bachelor degree from the University of Hong Kong and is a senior member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. She joined the Company in March 2010 as an independent non-executive director and holds no concurrent office of director in any of the Company's subsidiaries. She has been an independent non-executive director of MGM China Holdings Ltd. (a company listed on the Hong Kong Stock Exchange whose stock code is 2282) since June 2011. She was the CFO of China Ping An Insurance (Group) Co., Ltd. (a company respectively listed on Shanghai Stock Exchange (Stock Code: 601318) and the Hong Kong Stock Exchange (Stock Code: 2318)) and CEO and executive director of TOM Group Co., Ltd. (a company listed on the Hong Kong Stock Exchange whose stock code is 2383, which is an associated enterprise of Hutchison Whampoa Limited) in succession.

Mr. Li Zhenfu, born in July 1963, has a bachelor degree of science from Beihang University and a master degree of science from Illinois Institute of Technology in the United States of America. He was appointed as an independent non-executive director of the Company in May 2012. He was appointed as the independent non-executive director of the Company in May 2012. Mr. Li Zhenfu is the founder and CEO of GL Capital Group and he has been the chief executive officer of GL Capital Group since 2010. Mr. Li Zhenfu is a member of the China Entrepreneur Club, a member of the Committee of 100 of United States of America, a member of the International Board of Overseas Directors of Illinois Institute of Technology, the honorary Vice Chairman of China Charity Federation, and a member of China Advisory Board of The Nature Conservancy. Between 2004 and 2010, Mr. Li Zhenfu was the president of Novartis China. Prior to such appointments, Mr. Li Zhenfu had worked in the Pritzker Organisation for 11 years, where he worked in a number of positions with investment, advisory and general management responsibilities. In the last five years at the Pritzker Organisation, he was president of Getz Commercial at Getz Bros. & Co., Inc.

Mr. Jiang Ming, born in September of 1957, obtained a bachelor degree from the History Department of Fudan University and is an economist. He joined the Company in March 2010 as a non-executive director and holds no concurrent office of director in any of the Company's subsidiaries. Mr. Jiang has been the vice president of Shanghai Guosheng since May 2008. He was a clerk at the director level of the Organisation Department of the CPC Shanghai Municipal Committee, the general manager of securities business department of the China Rural Development Trust and Investment Corporation, general manager of securities business department of China Xinda Trust and Investment Company, and the deputy general manager and general manager of the Headquarters of China Galaxy Securities Co., Ltd..

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

2. Biographical Details of the Supervisors

The board of supervisors of Shanghai Pharmaceuticals consists of three members. Except for the employee representative supervisor who was elected by employees, the other supervisors were elected by the shareholders. The term of each session of the board of supervisors is generally three years, which is renewable upon re-election.

Mr. Zhang Zhenbei, born in June 1954, graduated from Shanghai University, majoring in politics. Mr. Zhang also has a master's degree in business administration from T.E.D. Huaxia School of Management, Singapore and is an international business engineer. Mr. Zhang was appointed as the chief Supervisor of the Company in May 2012, and holds no concurrent office of director in any of the Company's subsidiaries. He has been an executive director of Shanghai Pharmaceutical (Group) since October 2012, and the vice president of Shanghai Shangshi since January 2010. Mr. Zhang had held positions including the deputy director for personnel training of Shanghai Foreign Economic Relations & Trade Commission, the human resources director of Shanghai Overseas Company, the vice president of Shanghai International Holding Corp. GMBH (Europe), the vice president of Shanghai Overseas Company, the general manager of the Human Resources Department of SIIC, the assistant president of SIIC and the vice executive president of Shanghai Industrial Holdings Limited.

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

Mr. Wu Junhao, born in June 1965, obtained a master degree of management from East China Normal University and is an economist. Mr. Wu was appointed as a supervisor of the Company in March 2010 and he holds no concurrent office of director in any of the Company's subsidiaries. He has been as a non-executive director of China Pacific Insurance (Group) Co., Ltd. (a company respectively listed on Shanghai Stock Exchange (Stock Code: 601601) and the Hong Kong Stock Exchange (Stock Code: 02601) since July 2012, the manager of the Financial Management Department of Shenneng Group since April 2011, and supervisor of China Everbright Bank Co., Ltd. (a company listed on Shanghai Stock Exchange (Stock Code: 601818) since November 2009. He was the deputy director of Shanghai Shenneng Assets Management Co., Ltd., the deputy director, director and senior director of the Assets Management Department of Shenneng Group, and the deputy manager (presiding) of the Financial Management Department of Shenneng Group.

3. Biographical Details of the Senior Management

The senior management of Shanghai Pharmaceuticals consists of eight members, appointed by the board of directors for a term equal to that of the session of board of directors and the board of supervisors, which is renewable upon reappointment by the board of directors.

Mr. Xu Guoxiong is the president of the Company. Please refer to the section headed "Biographical Details of the Directors" for his biographical details.

Mr. Jiang Yuanying, born in January 1963, obtained a master degree of Pharmacology, and is a professor and a doctoral tutor in Pharmacology from Navy Medical Department of the Second Military Medical University. He is currently a vice president of the Company and holds no concurrent office of director in any of the Company's subsidiaries. He has been the vice chairman of Shanghai Pharmaceutical Society since December 2001. He was the vice president and president of the College of Pharmacy of the Second Military Medical University.

Mr. Ren Jian, born in March 1965, obtained degrees of bachelor of Inorganic Materials from East China Institute of Chemical Technology, and EMBA of China Europe International Business School and an engineer. He is currently a vice president of the Company and holds a concurrent office of director with the Company's subsidiaries (See the "Employment with the Subsidiaries" as below). Mr. Ren was the head of the HR Department, the head of the Organisation Cadre Department, the head of the Leader Management Department and vice president of Shanghai Pharmaceutical (Group) Co., Ltd..

Mr. Li Yongzhong, born in February 1970, obtained degrees of bachelor of International Finance from Shanghai Institute of Foreign Trade, and EMBA of China Europe International Business School and is a pharmacist. He is currently a vice president of the Company and holds a concurrent office of director with the Company's subsidiaries (See the "Employment with the Subsidiaries" as below). He was the deputy manager of New Drug Branch, the deputy general manager and general manager of the Drug Division Department, the assistant to general manager and deputy general manager of Shanghai Pharmaceutical Joint Stock Company.

Mr. Shu Chang, born in September 1958, obtained degrees of bachelor of arts majoring in French from Beijing International Studies University and master of economics from the Graduate School of New York University, United States. He is a vice president of the Company and holds no concurrent office of director in any of the Company's subsidiaries. He was assistant to the chairman of CibaGeigy Corp., a Swiss pharmaceuticals company; investment banking manager of Morgan Stanley, United States; vice president of Asia-Pacific region, Landsat, an international satellite company, United States; chairman of Shenzhen Zhengguo (Jun'an) Investment Company, Ltd. (深圳正國(君安)投資有限公司); vice president of China Minsheng Credit Guarantee Investment Company (中國民生投資信用擔保有限公司); managing director of Huachen Wuzhou Electronic Commerce Co., Ltd (華晨五洲電子商務有限公司); director, executive of the strategy committee under the board of directors, chief financial officer and chief asset management officer of SAIC Motor Corporation, Ltd.; director and chief investment and development officer of JinJiang International Holdings Co., Ltd., vice president of Beijing Automobile Investment Co., Ltd.; assistant executive president of Shanghai Industrial Holdings Limited, and vice president of Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 0563).

Mr. Guo Junyu, born in February 1974, obtained degrees of bachelor of Shanghai Medical University majoring in medicinal chemistry, MBA of Asia (Macau) International Open University, and EMBA of China Europe International Business School. He is recognised as professional pharmacist at the deputy director level. He is currently a vice president of the Company and holds a concurrent office of director in Company's subsidiaries (See the section headed " Positions in the Subsidiaries" as below). He has been a deputy manager of Shanghai Pharmaceutical Distribution Co., Limited and the chairman of Shanghai Pharmaceutical Logistics Center Co., Ltd. since April 2010. He was the manager and deputy general manager of the Import Department of the Deployment, Storage and Transportation Headquarters, and the deputy general manager of the Medicine Division Department of Shanghai Pharmaceutical Joint Stock Company, the chairman of Shanghai Huashi Pharmacy Co., Ltd., and the deputy general manager and the assistant to general manager of Shanghai Pharmaceutical Joint Stock Company.

Mr. Shen Bo, born in March 1973, obtained degrees of bachelor majoring in accounting from Shanghai Institute of Construction Materials Industry and master of professional accountancy from Chinese University of Hong Kong. He has passed the PRC Certified Public Accountants examination. He is the chief financial officer of the Company and concurrently holds office of director in a subsidiary of the Company (see the section headed" Positions in the subsidiaries" below). He has been a non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 08231) since June 2012. His previous positions included the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600607, merged with the Company), and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd.

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

(II) Positions in shareholder entities

Name	Name of shareholder entity	Position	Starting date of term of office	Expiry date of term of office
Zhou Jie	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, executive director	9 April 2012	20 July 2012
Zhang Jialin	Shanghai Pharmaceutical (Group) Co., Ltd.	President	28 July 2010	12 October 2012
Xu Guoxiong	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director	9 April 2012	–
Zhang Zhenbei	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director	12 October 2012	–

(III) Positions in subsidiaries

Name	Name of subsidiary	Position	Starting date of term of office	Expiry date of term of office
Zhou Jie	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	July 2012	–
Zhou Jie	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2002	October 2012
Zhou Jie	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	June 2012	–
Xu Guoxiong	Shanghai Pharmaceuticals Distribution Co., Ltd.	Chairman	July 2012	–
Xu Guoxiong	Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	December 2008	–
Xu Guoxiong	Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	October 2007	–
Xu Guoxiong	Changzhou Pharmaceutical Co., Ltd.	Chairman	November 2009	–
Xu Guoxiong	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	October 2012	–
Xu Guoxiong	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	October 2012	–
Xu Guoxiong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	July 2012	–
Ren Jian	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	June 2010	–
Ren Jian	Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Chairman	December 2010	–
Ren Jian	Liaoning Herbapex Pharmaceutical (Group) Co., Ltd.	Chairman	February 2011	–
Li Yongzhong	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	September 2010	January 2013
Li Yongzhong	Shanghai Pharmaceuticals Distribution Co., Ltd.	Director	April 2010	–
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	–
Li Yongzhong	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	February 2011	–
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	–
Guo Junyu	Beijing SPH Aixin Weiye Medicine Co., Ltd.	Chairman	November 2010	–
Guo Junyu	Shanghai Suzuken Huzhong Pharmaceutical Co.,Ltd.	Vice chairman	February 2012	–
Guo Junyu	Guangzhou Z.S.Y. Pharmaceutical Co., Ltd.	Director	September 2010	–
Guo Junyu	Fujiang Pharmaceutical Co.,Ltd.	Director	July 2010	–
Shen Bo	Shanghai Medical Instrument Co., Ltd.	Chairman	April 2011	–
Shen Bo	Shanghai Pharmaceuticals Distribution Co., Ltd.	Supervisor	April 2010	–
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	–
Shen Bo	Changzhou Pharmaceutical Co., Ltd.	Director	June 2007	–
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	–

(IV) Service Contracts of Directors and Supervisors

Neither the directors nor the supervisors had entered into a service contract which is not terminable within one year without payment of compensation (other than statutory compensation).

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Procedure for determining the remuneration of directors, supervisors and senior management	The remuneration and assessment committee of the board of directors of the Company considers and recommends to the board of directors the remuneration and other benefits to be paid to the directors of the Company. The remuneration of the directors and supervisors of the Company are resolved at the shareholders' general meeting. The remuneration of all directors of the Company is monitored regularly by the remuneration and assessment committee to ensure an appropriate level of remuneration and compensation. The remuneration of the senior management of the Company is provided in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee.
Determination criteria for the remuneration of directors, supervisors and senior management	The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the administrative measures relating to annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators.
Payment of the remuneration payable to directors, supervisors and senior management	The directors, supervisors and senior management of the Company receive remuneration from the Company in strict compliance with the responsibility assessment mechanism. The remuneration disclosed by the Company is in line with that actually paid.
Total remuneration actually received by all directors, supervisors and senior management at the end of the Reporting Period	The remuneration actually received by the directors, supervisors and senior management of the Company in 2012 totaled RMB12.6096 million.

IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change situation	Reasons for changes
Lu Mingfang	Chairman	Departure	Work reason
Zeng Yixin	Independent non-executive director	Departure	Personal reason
Shu Chang	Vice president	Appointment	Business needs
Guo Junyu	Vice president	Appointment	Business needs

V. CORE TECHNICAL TEAM OR KEY TECHNICAL STAFF OF THE COMPANY

R&D staff, technical quality management staff and production technicians play a key role in guaranteeing the sustainable development and product quality of the Group. The Group has provided key technical staff with diversified career development channels and established a salary incentive system, a performance management system as well as a training system in line with market practice, so as to ensure the stability of the Group's key technical staff. Specific measures include:

R&D staff: R&D staff are the drivers of the Group's sustainable development. With a view to accelerating the cultivation of R&D staff by means of "project", the Group has straightened out the 7-level promotion system from laboratory assistant to chief scientist and formed a mechanism for internal assessment and supporting salary incentive scheme.

Technical quality management staff: The quality of pharmaceutical products is the lifeline for the Company, whilst technical staff, QCs, QAs, quality managers and quality directors from all production bases serve as the backbones of this lifeline. The Group cooperates with professional consultancy institutions to provide comprehensive training courses for technical quality management staff every year. Meanwhile, the Group co-organised training courses for part-time postgraduates with well-known colleges and universities so as to cultivate skilled specialists in the pharmaceutical engineering and project management (GMP) for the technical innovation and quality assurance system of the Group.

Production technicians: Through mentorship programme and technical competitions, the Group started a green channel for the growth of production technicians. Through development of occupational standards and establishment of the chief technician system, the Group opened up a career development channel for production technicians progressing from junior technical staff, intermediate technical staff, senior technical staff and technicians up to senior technicians and chief technicians.

VI. EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the parent company	91
Number of in-service employees of the major subsidiaries	38,264
Total number of in-service employees	38,355
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	131
Composition of professions	
Type of profession	**Number of staff in the profession**
Production staff	14,110
Sales staff	14,973
Technical staff	3,914
Finance staff	1,204
Administrative staff	2,372
Others	1,782
Education level	
Type of education level	**Number of persons**
PhD	54
Master	614
University graduate	5,550
College graduate	9,819
Specialised secondary school (high school) graduate	13,837
Below specialised secondary school graduate	8,481
Total	38,355

(II) Remuneration Policy and Long-term Incentive Scheme

The Group has established a performance appraisal system and an incentive and control system based on performances, duties and responsibilities and capabilities. Also, the management measures on remunerations of the senior management of the Group, the management measures on appraisal of operating responsibility of subsidiaries and the management measures on appraisal and remunerations of management, research and development staff, sales and marketing staff and production staff have been established. These measures have effectively motivated the employees and stimulate creativity, continually improved the Group's business results and enhanced the achievement of the Group's strategic goal.

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

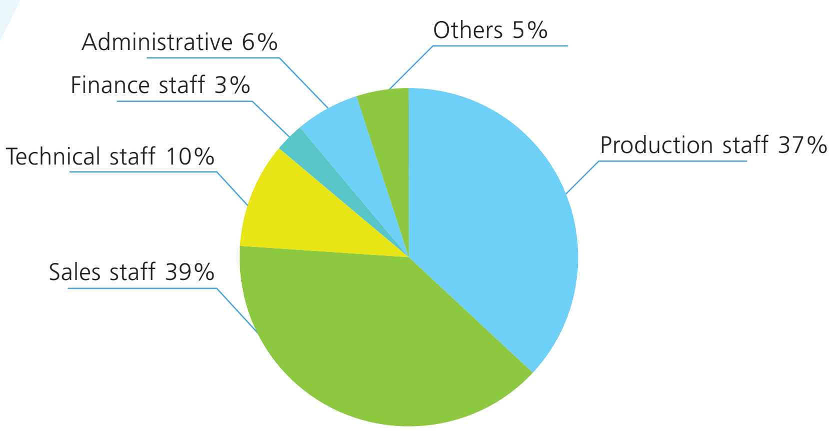
(III) Training Programme

Based on the Company's strategies, the Group offers professional, effective, personalised training sessions and solutions to all levels of staff according to the development requirements of each position and the career development of individual employees. Pursuant to the requirements of the regulatory departments of the State, the Group provides systematical trainings on GMP, pharmacopoeia, and operational skills to its employees every year. The Group has also organised special training sessions including laws and internal control for management staff of all levels pursuant to the compliance requirements for listed companies.

In order to further improve the learning atmosphere, the Group launched an E-learning project in 2012 with an aim to offer its staff with a more convenient and flexible way to learn through electronic means.

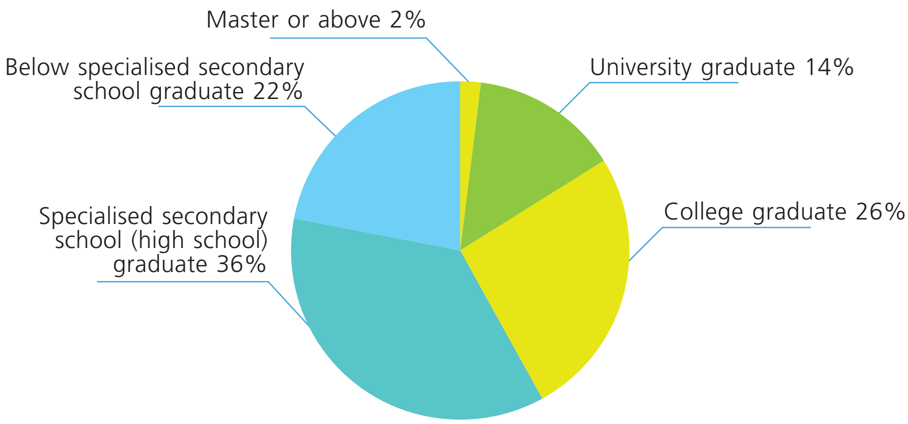
(IV) Statistical Chart on Composition of Professions

Composition of Professions



(V) Statistical Chart on Education Level

Composition of Education level



(VI) Labour Outsourcing

In order to keep the research and development, production, marketing and management functions of the Group under control, the Group is not committed to any large scale labour outsourcing.

(VII) Pension Scheme

The Group participates in a pension benefits scheme for employees organised by the local provincial and municipal governments in accordance with the relevant requirements of the PRC and pays pension contributions for all employees on a monthly basis. Retired employees are entitled to receive a monthly pension from the local provincial and municipal governments.

VII. FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals (including one director) during the relevant periods ended 31 December 2012 were as follows:

Unit: RMB'000

Wages and salaries	3,557
Bonus	12,057
Contribution by the employer to the pension scheme	338
Total	15,952

For the year ended 31 December 2012, the remuneration bands were as follows:

Remuneration bands (HKD)	Number of persons
HKD2,500,001–HKD3,000,000	1
HKD3,000,001–HKD3,500,000	1
HKD3,500,001–HKD4,000,000	1
HKD4,000,001–HKD4,500,000	1
HKD4,500,001–HKD5,000,000	–
HKD5,000,001–HKD5,500,000	1

In 2012, the Group did not pay any award to any directors or the above five highest paid individuals for joining the Group or as compensation for the loss of office. None of the directors waived or agreed to waive his/her remunerations as above.

Corporate Governance

I. CORPORATE GOVERNANCE AND INSIDER REGISTRATION AND MANAGEMENT

The Company has established and kept improving the corporate governance structure of the Company strictly in accordance 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, Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules as well as the Articles of Association of the Company. During the Reporting Period, the Company has made amendments and improvements 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 Strategy Committee of the Board of Directors, the Implementation Rules of the Audit Committee of the Board of Directors, the Implementation Rules of the Remuneration and Assessment Committee of the Board of Directors and the Management System on Long-term Equity Investment. 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 compliance operation and standardised decision-making of the Company in terms of system construction.

There is no discrepancy between the actual situation of corporate governance and that required in the Company Law of the People's Republic of China and relevant provisions of the China Securities Regulatory Commission. The Management System on Inside Information and Insiders of the Company was considered and approved at the 3rd meeting of the fourth session of the board of directors on 20 April 2010 and has been put into practice. (For details, please refer to the Company's announcement Lin No. 2010-027 which has been published in China Securities Journal, Shanghai Securities News and Securities Times and on the website of Shanghai Stock Exchange at www.sse.com.cn.)

II. SHAREHOLDERS' GENERAL MEETINGS

Session	Date of convening	Name of proposal	Result of resolution	Websites designated for information disclosure of resolutions	Date of information disclosure of resolutions
2011 Annual General Meeting of Shanghai Pharmaceuticals	31 May 2012	1. Report of the Board of Directors 2011 of Shanghai Pharmaceuticals Holding Co., Ltd.; 2. Report of the Board of Supervisors 2011 of Shanghai Pharmaceuticals Holding Co., Ltd.; 3. Final Accounts Report 2011 of Shanghai Pharmaceuticals Holding Co., Ltd.; 4. Profit Distribution Proposal for 2011 of Shanghai Pharmaceuticals Holding Co., Ltd.; 5. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Payment of Auditor's Fees for 2011; 6. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Engagement of Auditors; 7. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding External Guarantees for 2012; 8. Financial Budget for 2012 of Shanghai Pharmaceuticals Holding Co., Ltd.; 9. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Adjustment to Amount for Use of Proceeds from the H Share Offering; 10. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Removal of Mr. Lu Mingfang as a Director; 11. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Election of Mr. Zhou Jie as a Director; 12. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Removal of Mr. Zhou Jie as a Supervisor; 13. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Election of Mr. Zhang Zhenbei as a Supervisor; 14. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Continuing Connected Transactions of the Company in 2012; 15. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Election of Mr. Li Zhenfu as an Independent Non-executive Director; 16. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Grant of General Mandate by the Shareholders' General Meeting to the Board of Directors to Allot, Issue and Deal with Shares; and 17. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Amendments to the Articles of Association of the Company.	All the proposals were considered and passed	Unless otherwise specified, the Company's announcement Lin No. 2012-014 has been published in Shanghai Securities News and Securities Times and on the website of Shanghai Stock Exchange (www.sse.com.cn). Meanwhile relevant information has also been published on the websites of Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company.	1 June 2012

III. DUTY PERFORMANCE OF DIRECTORS

(I) Attendance of directors at the board meetings and the shareholders' general meetings

Name of director	Independent non-executive director or not	Attendance at the board meetings							Attendance at the shareholders' general meetings
		Required attendance for the year (times)	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate	Any failure in attending in person for two consecutive meetings	Attendance for the shareholders' general meetings (times)
Zhou Jie	No	4	4	3	0	0	100%	No	1
Zhang Jialin	No	6	6	3	0	0	100%	No	1
Lu Shen	No	6	5	3	1	0	83%	No	1
Xu Guoxiong	No	6	6	3	0	0	100%	No	1
Bai Huiliang	Yes	6	6	3	0	0	100%	No	0
Chen Naiwei	Yes	6	5	3	1	0	83%	No	0
Tommei Tong	Yes	6	6	3	0	0	100%	No	0
Li Zhenfu	Yes	4	4	3	0	0	100%	No	0
Jiang Ming	No	6	6	3	0	0	100%	No	0
Lu Mingfang Note 1	No	2	1	0	0	1	50%	No	0
Zeng Yixin Note 2	Yes	1	1	0	0	0	100%	No	0

Notes: 1. Mr. Lu Mingfang left office on 31 May 2012.

2. Mr. Zeng Yixin left office on 29 March 2012.

Number of board meetings held in the year	6
Including: number of on-site meetings	3
Number of meetings held by way of communication	3
Number of meetings held on-site with attendance by way of communication available	/

(II) Independent non-executive directors' objections to the Company's relevant matters

During the Reporting Period, in reviewing and adopting the Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Removal of Mr. Lu Mingfang as Director, Executive Director and the Chairman of the Company at the 20th meeting of the fourth session of the board of directors, one independent non-executive director voted against the proposal, and one independent non-executive director abstained. (For details, please refer to the Company's announcement Lin No. 2012-014)

IV. SIGNIFICANT OPINIONS AND RECOMMENDATIONS PUT FORWARD BY THE SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS DURING THE REPORTING PERIOD WHILE PERFORMING THEIR DUTIES

During the Reporting Period, the special committees under the board of directors while performing their duties approved all the resolutions submitted for consideration. For specific details on their duty performance, please refer to the "Corporate Governance Report" below.

V. RISKS DISCOVERED BY THE BOARD OF SUPERVISORS

The board of supervisors of the Company had no objection to any supervision matters during the Reporting Period.

VI. INABILITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS TO ENSURE INDEPENDENCE AND MAINTAIN THEIR CAPACITY OF INDEPENDENT OPERATION IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANISATION AND FINANCE

There is no such case under which the Company and its Controlling Shareholders are not able to ensure their respective independence and maintain their capacity of independent operation in terms of business, personnel, assets, organisation and finance.

VII. THE ESTABLISHMENT AND IMPLEMENTATION OF THE ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The remuneration of senior management of the Company is paid in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee. The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the relevant administrative measures on annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators.

VIII. CORPORATE GOVERNANCE REPORT

Shanghai Pharmaceuticals, as a company dual-listed in the A-share and H-share market, 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 code provision A.5.1 of the Corporate Governance Code, the Company held the relevant meetings of the board of directors and the shareholders' general meetings when practicable in accordance with the relevant procedures, established the nomination committee on 26 April 2012, and formulated the Implementation Rules of the Nomination Committee of the Board of Directors to determine the terms of reference of the nomination committee. Pursuant to code provision A.1.8 of the Corporate Governance Code, a listed company should arrange appropriate insurance cover in respect of the legal action against its directors. The Company is actively involved in maintaining insurance cover for each of its directors in accordance with the relevant procedures and arranging insurance cover for them when appropriate. According to E.1.2 of the Corporate Governance Code, the Company will proactively urge its independent non-executive directors to attend the shareholders' general meeting in the future.

Save as disclosed above, during the Reporting Period, the Company fully complied with the principles and code provisions stipulated under the Corporate Governance Code. In addition, during the Reporting Period, the Company also complied with laws and regulations such as the Company Law of the PRC, the Securities Law of the PRC, the Standards on Corporate Governance of Listed Companies, Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules.

(I) Compliance with the Model Code by Directors and Supervisors

The board of directors of the Company has confirmed that the Company has adopted the Model Code. After sufficient enquiry, all the directors and supervisors have confirmed that during the Reporting Period, they complied with the Model Code in all aspects.

(II) Board of Directors

1. Composition of the board of directors

The Company's board of directors comprises 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 biographical details of the directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

As far as the Company is aware, the members of the board of directors, the chairman and the president had no relationship in respect of finance, business or family or relevant material relationship with each other.

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

2. Primary duties of the board of directors

The Company has complied with the provisions of the Code on Corporate Governance Practices and distinguished between the roles of the chairman and the chief executive. Mr. Zhou Jie was the Chairman and Mr. Xu Guoxiong was the President. Meanwhile, with a view to differentiate the duties of the board of directors and the management, the board of directors is responsible for significant decision-makings within the scope of the Articles of Association, whilst the management is responsible for daily operations and implementation of relevant decisions. Pursuant to the Articles of Association, the specific duties of the board of directors include:

- to convene shareholders' general meetings and report on its work to the meetings;
- to implement the resolutions passed at the shareholders' general meetings;
- to decide on the business plan and investment proposals of the Company;
- to formulate the Company's annual financial budget and final accounts;
- to formulate the Company's profit distribution plan and loss recovery plan;
- to formulate proposals for increases or reductions of the Company's registered capital and for the issuance and listing of debentures or other securities;
- to draw up proposals for material acquisition, Share repurchase, merger, demerger, dissolution or change in corporate form;
- save as otherwise specified in laws, administrative regulations, departmental rules, regulations of the securities authorities of the places where the Company's Shares are listed or this Articles of Association, to decide on disposal of assets of the Company and its controlled subsidiaries (excluding those subject to approval by shareholders' general meetings), to decide on disposal of assets between the Company and its controlled subsidiaries or between the controlled subsidiaries, and to decide on merger or demerger of the controlled subsidiaries;
- to decide on the Company's internal organisation of management;
- to appoint or dismiss the Company's president and the secretary to the board of directors; to appoint or dismiss senior management including vice president and chief financial officer of the Company according to nominations by the president and to decide on their remuneration, rewards and penalties;
- to establish the Company's basic management systems;
- to formulate proposals for amendments to the Articles of Association;
- to manage information disclosure of the Company;

- to propose to the shareholders' general meeting the appointment or replacement of the accounting firm for the audit of the Company;

- to receive work reports submitted by the president and to review his/her work performance; and

- to exercise other functions and powers specified in laws, administrative regulations, departmental rules or the Articles of Association and conferred by the shareholders' general meetings.

In order to meet the requirements of the revised Corporate Governance Code which came into effect on 1 April 2012, the Company added "to perform the corporate governance functions" to "the Functions and Powers Exercised by the Board" in the Articles of Association and to add the following to the rules of procedure of the board of directors: "The Board shall perform the corporate governance functions, including but not limited to reviewing the Company's corporate governance policies and their implementation; reviewing and supervising the training and career development of directors and senior management; reviewing and supervising the Company's compliance policies and their implementation; formulating, reviewing and supervising the code of conduct applicable to the employees and directors of the Company and the compliance with such code; reviewing the Company's compliance with the relevant laws, regulations and rules related to corporate governance and disclosing the same in the corporate governance report". The above amendments were reviewed and approved at the 2011 annual general meeting held on 31 May 2012.

3. Board meetings

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

During the Reporting Period, the board of directors held a total of six meetings, at which proposals were considered in relation to the Company's business results, change of directors, appointment of senior management, formulation of and amendments to corporate policies, guarantee plan for 2012, credit facilities for 2012, restructuring of and capital increase in subsidiaries as well as the performance of the corporate governance function, etc. Attendance details of the directors during the Reporting Period are set out in the paragraph headed "Attendance of directors at the board meetings and shareholders' general meetings" above.

In accordance with code provision A.2.7 of the Corporate Governance Code, independent non-executive directors shall meet with the chairman individually at least once during the Reporting Period.

(III) Special Committees under the Board

1. Remuneration and assessment committee

The remuneration and assessment committee under the board of directors of the Company consists of three directors, namely Mr. Chen Naiwei, acting as its convener/chairman, Mr. Bai Huiliang and Mr. Li Zhenfu. The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating and implementing the performance review standards for directors, the president and other senior management members of the Company, and formulating and reviewing the remuneration policies and proposals for directors, the president and other senior management. The remuneration and assessment committee shall determine with delegated responsibility from the Board remuneration packages of the senior management.

During the Reporting Period, the remuneration and assessment committee held two meetings, at which the performance review report on senior management for 2011 and the proposal for assessment on management responsibilities of the senior management for 2012 were discussed. Set out below is the attendance record of the members of the remuneration and assessment committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Chen Naiwei (independent non-executive director)	2/2	100%
Mr. Bai Huiliang (independent non-executive director)	2/2	100%
Mr. Li Zhenfu (independent non-executive director)	2/2	100%

2. Audit committee

The audit committee under the board of directors of the Company consists of three directors, namely Ms. Tommei Tong, acting as its convener/chairwoman, Mr. Bai Huiliang and Mr. Chen Naiwei. The audit committee is a special body established under the board of directors, mainly responsible for communication, supervision and review of the internal and external audit of the Company.

During the Reporting Period, the audit committee held a total of six meetings, at which matters were considered in relation to the Company's business results, internal control of the Company for 2011, summary of internal audit findings for 2012 and internal audit plan for 2013, audit schedule on financial report for 2012, etc. Set out below is the attendance record of the members of the audit committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Ms. Tommei Tong (independent non-executive director)	6/6	100%
Mr. Bai Huiliang (independent non-executive director)	6/6	100%
Mr. Chen Naiwei (independent non-executive director)	5/6	83%

Pursuant to the requirements under the announcement ([2008] No. 48) of the China Securities Regulatory Commission and the work rules of independent directors, the audit committee held two meetings with the certified public accountants and the accounting firm for annual audit respectively before their on-site audit and after the issuance of preliminary opinions, to confirm the audit schedule and arrangements for auditing the Shanghai Pharmaceuticals' financial statements for 2012. On such basis, the audit committee is of the opinion that the Shanghai Pharmaceuticals' financial reports for 2012 are prepared in accordance with the Accounting Standards for Business Enterprises of the PRC, and give a true and fair view in all material aspects of Shanghai Pharmaceuticals' business results for 2012 and its financial position as at 31 December 2012, and is resolved to submit the same to the board of directors for consideration and approval.

In accordance with code provision C.3.3 of the Corporate Governance Code, the audit committee shall meet with the auditor without the presence of executive directors at least once during the Reporting Period.

Pursuant to the Rule 14A.37 of the Hong Kong Listing Rules, the audit committee has reviewed the continuing connected transactions of the Company. The actual amount of the connected transactions entered into by the Company and its subsidiaries in the ordinary course of business in 2012 did not exceed the amount approved by the shareholders' general meeting.

3. Strategy committee

The strategy committee under the board of directors of the Company consists of three directors, namely Mr. Zhou Jie, acting as its convener/chairman, Mr. Bai Huiliang and Ms. Tommei Tong. The strategy committee is a special body established under the board of directors focusing on strategy study as entrusted by the board of directors, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

During the Reporting Period, the strategy committee held one meeting, at which the strategic planning of the Company was considered. Set out below is the attendance of the members of strategic committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Zhou Jie (chairman and executive director)	1/1	100%
Mr. Bai Huiliang (independent non-executive director)	1/1	100%
Ms. Tommei Tong (independent non-executive director)	1/1	100%

4. Nomination committee

The nomination committee under the board of directors consists of three directors, namely Mr. Chen Naiwei, acting as its convener/chairman, Mr. Zhou Jie and Mr. Bai Huiliang. Mr. Chen Naiwei and Mr. Bai Huiliang are independent non-executive directors and Mr. Zhou Jie is an executive director. The nomination committee is a special body established under the board of directors, mainly responsible for analysing the candidates for directors of the Company and the selecting criteria and procedures and making recommendations to the board of directors. The nomination committee may also be responsible for analysing the candidates for the senior management of the Company and the selecting criteria and procedures and making recommendations to the board of directors when necessary.

The nomination committee was newly established on 26th April 2012 and did not hold any meeting during the Reporting Period, but the nomination committee will submit a proposal for the change to the board of directors and consider the structure, number of members and composition of the board of directors prior to the re-election of the board of directors in 2013.

(IV) Board of supervisors

The board of supervisors of the Company consists of three supervisors, including Mr. Zhang Zhenbei, chairman of the board of supervisors, Ms. Chen Xin, the employee supervisor, and Mr. Wu Junhao, the supervisor. See the section titled "Directors, Supervisors and Senior Management" herein for the supervisors' biographical details. In accordance with the Articles of Association of the Company, the board of supervisors should report to the shareholders' general meeting and exercise the following functions and powers in compliance with laws:

- to review the Company's financial reports, operation reports, profit distribution plan and other financial information prepared by the board of directors and to be submitted to the shareholders' general meeting and to give written comments;

- to review the Company's financial position;

- to supervise the acts of the board of directors, president and other senior management in performing their duties and to propose the dismissal of directors, the president and senior management who violate laws, administrative regulations, the Articles of Association or the resolutions of shareholders' general meetings;

- to demand a director, the president or any other senior management to rectify their error if they have acted in a way detrimental to the Company's interests;

- to propose the convening of an extraordinary shareholders' general meeting and to convene and preside over a shareholders' general meeting when the board of directors fails to perform its duty of convening and presiding over a shareholders' general meeting as stipulated in the Company Law of the People's Republic of China;

- to submit proposals to the shareholders' general meetings;

- to bring litigations against directors, the president and other senior management pursuant to the provisions of the Company Law of the People's Republic of China;

- to investigate into abnormality in the Company's operation; and, if necessary, to engage such professional institutions such as an accounting firm, or a law firm to assist in its work at the expense of the Company;

- to negotiate with directors or bring litigations against directors on behalf of the Company; and

- other functions and powers of the board of supervisors specified in laws, administrative regulations, departmental rules and the Articles of Association or conferred by the shareholders' general meeting.

During the Reporting Period, the board of supervisors held a total of five meetings, at which the Company's performance, final accounts, budgets, 2011 profit distribution plan, engagement and remuneration of auditors and other matters were supervised an reviewed. Set out below is the attendance of the supervisors during the Reporting Period:

Name of Supervisor	Actual/required attendance (times)	Attendance rate
Mr. Zhang Zhenbei	3/3	100%
Ms. Chen Xin	5/5	100%
Mr. Wu Junhao	5/5	100%
Mr. Zhou Jie *(Note)*	2/2	100%

Note: Mr. Zhou Jie ceased to be the supervisor of the Company since 31 May 2012.

(V) Remuneration of Auditors

With reference to the Company's actual situation of business development, the audit fee payable by Shanghai Pharmaceuticals for 2012 was fixed at RMB19,500,000 (including the audit fee of RMB9,100,000 of the parent company and the audit fee of RMB10,400,000 of certain subsidiaries, relevant reimbursed expenses and taxation expenses inclusive) while the audit fee for internal control was set at RMB1,250,000 (relevant reimbursed expenses and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian CPAs Limited Company, and the overseas auditor, PricewaterhouseCoopers.

(VI) Accountability and Audit

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

The directors are responsible for overseeing the preparation of financial report for each accounting period to give a true and fair view of the financial position, business results and cash flows of the Group. During the Reporting Period, the Company disclosed its annual report for 2011, interim report for 2012 and the first and third quarterly reports for 2012 in accordance with relevant laws and regulations and the listing rules of the places where the Company is listed.

In preparing the financial report for the year ended 31 December 2012, the directors have adopted and consistently applied appropriate accounting policies, and have made judgements and estimates that are prudent and reasonable. As far as the directors are aware, there was no event, condition or material uncertainty that may cast doubt upon the Group's ability to continue its operation as a going concern.

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

(VII) About Shareholders

The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised and their legitimate interests can be safeguarded and that the shareholders' general meetings can be convened and held in strict compliance with the relevant laws and regulations. The Articles of Association and rules of procedures for the shareholders' general meeting specify in detail the specific procedures for convening a shareholders' extraordinary general meeting and proposing provisional motions at general meetings. Shareholders individually or collectively holding ten percent (10%) or more of Shares of the Company may request the Board to convene a shareholders' extraordinary general meeting and such request shall be in written form. The Board shall decide on whether the proposal is approved based on the provisions of laws, administrative regulations and the Articles of Association as well as the specific circumstances. Shareholders individually or collectively holding three percent (3%) or more of Shares may raise provisional proposals and submit them in writing to the convenor ten (10) days before the holding of the shareholders' general meeting. The convenor shall include in the agenda of the meeting the issues raised in the proposals that fall within the scope of responsibility of the shareholders' general meeting. The Company encourages all shareholders to attend the shareholders' general meetings and welcome shareholders to voice their opinions at the meetings. Shareholders who request to inspect relevant information or seek to obtain the relevant materials shall provide written documents evidencing the class and number of Shares they are holding. For the contact information for shareholders to make inquiries to the Company, please refer to the section “Basic Information” above.

(VIII) Investor Relations

After the successful listing of H Shares and becoming an A-share and H-share dual listed company, the Company has attracted much higher attention from the capital market. Investors at home and abroad addressed invitations to the Company through various means, including on-site surveys, telephone surveys, and invitations to participate in investment strategy forums. During the Reporting Period, the Company further stepped up the efforts on investor relations by communicating actively to promote mutual understanding and improve our market image. Upon the release of the interim report by the Company, a team of senior management of the Company led by the chairman and the president conducted roadshows in different locations including Beijing, Shanghai, Shenzhen, Hong Kong, Singapore and the United States. The Company has received visits of nearly 500 analysts and representatives from investment institutions in the domestic and foreign medical industries.

In response to the unexpected incident causing damages to the interests of investors due to the substantial price fluctuations in the shares of the Company triggered by the irresponsible reports of some media on Shanghai Pharmaceuticals during the first half of 2012, the Company issued two clarification announcements in a timely manner on 24 May 2012 and 25 May 2012 respectively in the spirit of being accountable to investors, and proactively enhanced the communications with investors, media and regulatory authorities. We ensured the continuity and stability of our operations and sought external support. During the period, the Company launched interim report road show, arranged a number of reversed road shows and held a total of 63 communication meetings for domestic and overseas investors. Information disclosure of the Company was made in a more open and transparent manner. With these measures, investor relations of the Company significantly improved, the negative impact of such incident was eliminated over time, and investors regained their confidence in the Company gradually. As at the end of 2012, Shanghai Pharmaceuticals was awarded the “Golden Bauhinia Awards of China Securities”, and became one of the listing companies with the best investor relations management.

(IX) Company Secretary

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Ms. Han Min and Ms. Mok Mingwai are the joint company secretaries of the Company and received relevant training in 2012, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. Ms. Mok Mingwai (a director of KCS Hong Kong Limited) is one of the joint company secretaries of the Company, while Ms. Han Min, the board secretary of the company, serves as her main contact person with the interior of the Company. In order to comply with Rule 3.29 of the Hong Kong Listing Rules, Ms. Han Min and Ms. Mok Mingwai both received relevant professional training of no less than 15 hours for the year ended 31 December 2012.

(X) Training for Directors

The Company provides introduction and information to newly appointed directors on their legal and other responsibilities as directors and their functions. During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills. Among the directors, Mr. Zhang Jialin, Mr. Xu Guoxiong, Mr. Bai Huiliang, Mr. Chen Naiwei, Ms. Tommei Tong, Mr. Li Zhenfu and Mr. Jiang Ming all participated in the training provided by Freshfields Bruckhaus Deringer LLP engaged by the Company in respect of Hong Kong-listed companies and directors' continuing obligations; Mr. Zhou Jie participated in the training courses provided by other third parties such as those in respect of the guidelines on disclosure of inside information by listed companies; and Mr. Lu Shen participated in the training courses provided by other third parties such as those in respect of share option management, option exercise mechanism and relevant regulations. The Company has kept training log to assist the directors to record the training sessions they participated in.

According to the newly revised Corporate Governance Code, the management shall provide the board members with monthly updates containing information including the performance, financial position and future prospect of the Company so as to enable the directors to discharge their duties under the Hong Kong Listing Rules. The Company regularly provides all the directors with monthly data collection so that the directors are able to make informed decisions and discharge their responsibilities and duties as directors of the Company.

Internal Control

I. INTERNAL CONTROL STATEMENT AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

For details, please refer to the Self-evaluation Report on Internal Control disclosed by the Company.

II. MATTERS RELATING TO THE AUDIT REPORT ON INTERNAL CONTROL

For details, please refer to the Audit Report on Internal Control released by the Company.

III. ACCOUNTABILITY SYSTEM FOR MATERIAL ERRORS IN ANNUAL REPORT AND ITS IMPLEMENTATION

The Company has formulated a Management System on Information Disclosure and established an accountability system for material errors in information disclosure (including annual reports) and implemented the system in our daily operations.

During the Reporting Period, there is no occurrence of corrections of material accounting errors, supplement for material omissions or adjustments to estimated results in the information disclosure in the annual report of the Company.

Financial Report

Attached.

Catalogue of Documents Available for Inspection

1. The financial statements signed and sealed by the legal representative, chief financial officer and accounting manager.

2. The original copy of the auditor's report signed and sealed by the accounting firm and the certified public accountant.

3. The original documents of the Company and the original copy of the announcements disclosed in the designated newspapers of China Securities Regulatory Commission during the Reporting Period.

Zhou Jie
Chairman

Shanghai Pharmaceuticals Holding Co., Ltd.
27 March 2013

Independent Auditor's Report

羅兵咸永道

To the shareholders of
Shanghai Pharmaceuticals Holding Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 102 to 228, which comprise the consolidated and Company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor’s Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

Consolidated Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Assets			
Non-current assets			
Land use rights	7	**905,359**	818,338
Investment properties	8	**312,740**	384,548
Property, plant and equipment	9	**4,423,573**	4,171,765
Intangible assets	10	**3,674,866**	3,447,509
Investments in jointly controlled entities	12	**309,020**	250,109
Investments in associates	13	**2,236,288**	2,204,408
Deferred income tax assets	26	**191,744**	178,629
Available-for-sale financial assets	14	**149,057**	182,792
Other non-current prepayments	15	**64,461**	33,899
		12,267,108	11,671,997
Current assets			
Inventories	16	**9,809,700**	8,297,483
Trade and other receivables	17	**15,329,912**	12,845,631
Financial assets at fair value through profit or loss	19	**2,920**	2,659
Restricted cash	18	**224,497**	295,345
Cash and cash equivalents	18	**13,300,901**	14,554,709
		38,667,930	35,995,827
Assets classified as held for sale	13	**134,000**	–
		38,801,930	35,995,827
Total assets		**51,069,038**	47,667,824
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	**2,688,910**	2,688,910
Share premium	22	**14,396,727**	14,396,727
Other reserves	22	**835,395**	796,573
Retained earnings	23		
– Proposed final dividends	38	**645,339**	430,226
– Others		**6,072,928**	4,766,035
		24,639,299	23,078,471
Non-controlling interests		**3,061,575**	2,902,994
Total equity		**27,700,874**	25,981,465

Consolidated Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*25*	**40,773**	52,311
Deferred income tax liabilities	*26*	**282,349**	266,288
Termination benefit obligations	*28*	**52,353**	58,524
Other non-current liabilities	*27*	**894,629**	453,324
		1,270,104	830,447
Current liabilities			
Trade and other payables	*24*	**16,959,537**	14,948,013
Current income tax liabilities		**237,750**	232,440
Borrowings	*25*	**4,900,773**	5,675,459
		22,098,060	20,855,912
Total liabilities		**23,368,164**	21,686,359
Total equity and liabilities		**51,069,038**	47,667,824
Net current assets		**16,703,870**	15,139,915
Total assets less current liabilities		**28,970,978**	26,811,912

The notes on pages 111 to 228 are an integral part of these consolidated financial statements.

The financial statements on pages 102 to 228 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

Zhou Jie
Director

Xu Guoxiong
Director

Company Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Assets			
Non-current assets			
Land use rights	*7*	**24,498**	25,138
Investment properties	*8*	**11,195**	56,206
Property, plant and equipment	*9*	**162,226**	164,155
Intangible assets	*10*	**6,846**	1,574
Investments in subsidiaries	*11*	**12,580,257**	12,058,741
Investments in associates	*13*	**386,927**	386,927
Available-for-sale financial assets	*14*	**24,896**	54,346
		13,196,845	12,747,087
Current assets			
Trade and other receivables	*17*	**8,269,399**	1,675,610
Cash and cash equivalents	*18*	**1,388,630**	8,608,622
		9,658,029	10,284,232
Total assets		**22,854,874**	23,031,319
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	*21*	**2,688,910**	2,688,910
Share premium	*22*	**16,328,357**	16,328,357
Other reserves	*22*	**424,349**	335,701
Retained earnings	*23*		
– Proposed final dividends	*38*	**645,339**	430,226
– Others		**367,203**	245,316
Total equity		**20,454,158**	20,028,510

Company Balance Sheet

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		**221**	271
Other non-current liabilities	27	**26,686**	28,278
		26,907	28,549
Current liabilities			
Trade and other payables	24	**1,953,316**	2,028,260
Current income tax liabilities		**20,493**	–
Borrowings	25	**400,000**	946,000
		2,373,809	2,974,260
Total liabilities		**2,400,716**	3,002,809
Total equity and liabilities		**22,854,874**	23,031,319
Net current assets		**7,284,220**	7,309,972
Total assets less current liabilities		**20,481,065**	20,057,059

The notes on pages 111 to 228 are an integral part of these consolidated financial statements.

The financial statements on pages 102 to 228 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

Zhou Jie
Director

Xu Guoxiong
Director

Consolidated Income Statement

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	6	**68,078,118**	54,899,873
Cost of sales	32	**(58,980,324)**	(47,043,403)
Gross profit		**9,097,794**	7,856,470
Distribution and selling expenses	32	**(3,972,605)**	(3,288,687)
General and administrative expenses	32	**(2,529,768)**	(2,188,151)
Operating profit		**2,595,421**	2,379,632
Other income	29	**476,062**	167,631
Other losses – net	30	**(176,566)**	(84,107)
Gains on disposal of subsidiaries and associates	31	**46,710**	521,612
Finance income	34	**304,449**	262,917
Finance costs	34	**(496,742)**	(516,333)
Share of profit of jointly controlled entities	12	**70,673**	56,959
Share of profit of associates	13	**267,720**	246,791
Profit before income tax		**3,087,727**	3,035,102
Income tax expense	35	**(627,139)**	(589,072)
Profit for the year		**2,460,588**	2,446,030
Profit attributable to:			
Owners of the Company		**2,052,872**	2,042,239
Non-controlling interests		**407,716**	403,791
		2,460,588	2,446,030
Earnings per share attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic and diluted	37	**0.76**	0.84

The notes on pages 111 to 228 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Dividends	38	**645,339**	430,226

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Profit for the year		**2,460,588**	2,446,030
Other comprehensive income:			
Available-for-sale financial assets			
– Gross	*14*	**1,342**	(86,562)
– Tax	*26*	**(335)**	21,531
Currency translation differences, net		**(11,288)**	(5,538)
Others		**–**	10,550
Other comprehensive income for the year, net of tax		**(10,281)**	(60,019)
Total comprehensive income for the year		**2,450,307**	2,386,011
Attributable to:			
– Owners of the Company		**2,048,200**	1,982,648
– Non-controlling interests		**402,107**	403,363
Total comprehensive income for the year		**2,450,307**	2,386,011

The notes on pages 111 to 228 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings	Total		
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2011		1,992,643	3,673,565	829,983	3,513,527	10,009,718	2,818,510	12,828,228
Comprehensive income								
Profit for the year		–	–	–	2,042,239	2,042,239	403,791	2,446,030
Other comprehensive income								
Available-for-sale financial assets								
– Gross	*14*	–	–	(86,019)	–	(86,019)	(543)	(86,562)
– Tax	*26*	–	–	21,416	–	21,416	115	21,531
Currency translation differences, net	*22*	–	–	(5,538)	–	(5,538)	–	(5,538)
Others		–	–	10,550	–	10,550	–	10,550
Total other comprehensive income		–	–	(59,591)	–	(59,591)	(428)	(60,019)
Total comprehensive income		–	–	(59,591)	2,042,239	1,982,648	403,363	2,386,011
Transactions with owners								
Deemed distribution to equity holders		–	–	–	(1,140)	(1,140)	–	(1,140)
Issue of shares, net of expenses	*21, 22*	696,267	12,211,184	–	–	12,907,451	–	12,907,451
Capital injections from non-controlling interests		–	–	–	–	–	46,316	46,316
Consideration for business combination under common control	*22*	–	(1,488,022)	–	–	(1,488,022)	–	(1,488,022)
Acquisitions of subsidiaries		–	–	–	–	–	256,180	256,180
Disposal of a subsidiary		–	–	–	–	–	(297,094)	(297,094)
Changes in ownership interests in subsidiaries without change of control		–	–	(25,377)	(18,341)	(43,718)	(57,942)	(101,660)
Dividends		–	–	–	(278,970)	(278,970)	(261,911)	(540,881)
Appropriation to statutory reserves	*22, 23*	–	–	51,558	(51,558)	–	–	–
Others		–	–	–	(9,496)	(9,496)	(4,428)	(13,924)
Total transaction with owners		696,267	10,723,162	26,181	(359,505)	11,086,105	(318,879)	10,767,226
Balance at 31 December 2011		2,688,910	14,396,727	796,573	5,196,261	23,078,471	2,902,994	25,981,465

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company						
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 year		–	–	–	2,052,872	2,052,872	407,716	2,460,588
Other comprehensive income								
Available-for-sale financial assets								
– Gross	*14*	–	–	1,430	–	1,430	(88)	1,342
– Tax	*26*	–	–	(357)	–	(357)	22	(335)
Currency translation differences, net	*22*	–	–	(5,745)	–	(5,745)	(5,543)	(11,288)
Total other comprehensive income		–	–	(4,672)	–	(4,672)	(5,609)	(10,281)
Total comprehensive income		–	–	(4,672)	2,052,872	2,048,200	402,107	2,450,307
Transactions with owners								
Capital injections from non-controlling interests		–	–	–	–	–	55,062	55,062
Acquisitions of subsidiaries	*43*	–	–	–	–	–	127,355	127,355
Disposal of a subsidiary		–	–	–	–	–	(8,835)	(8,835)
Changes in ownership interests in subsidiaries without change of control	*42*	–	–	(50,960)	(247)	(51,207)	(164,820)	(216,027)
Dividends		–	–	–	(430,226)	(430,226)	(231,062)	(661,288)
Appropriation to statutory reserves	*22, 23*	–	–	88,798	(88,798)	–	–	–
Others		–	–	5,656	(11,595)	(5,939)	(21,226)	(27,165)
Total transaction with owners		–	–	43,494	(530,866)	(487,372)	(243,526)	(730,898)
Balance at 31 December 2012		2,688,910	14,396,727	835,395	6,718,267	24,639,299	3,061,575	27,700,874

The notes on pages 111 to 228 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	39(i)	**1,490,692**	2,044,114
Interest paid		**(461,000)**	(453,733)
Income tax paid		**(659,679)**	(501,190)
Net cash generated from operating activities		**370,013**	1,089,191
Cash flows from investing activities			
Business combination under common control		–	(1,070,452)
Increase in interests in subsidiaries	43	**(441,527)**	(2,823,776)
Cash outflow due to deemed disposal of TECHPOOL		–	(266,733)
Increase in investments in associates		**(52,010)**	–
Purchases of property, plant and equipment ("PP&E") and investment properties		**(629,926)**	(407,063)
Proceeds from disposal of PP&E and investment properties	39(ii)	**20,067**	41,419
Purchases of land use rights and intangible assets		**(78,983)**	(6,473)
Repayment of loan receivables from non-controlling interests		**30,244**	143,837
Interest received		**319,762**	229,514
Dividends received		**179,609**	198,260
Proceeds from disposal of available-for-sale financial assets	39(iv)	**51,260**	231,172
Proceeds from disposal of land use rights and intangible assets	39(iii)	–	190
Proceeds from disposal of subsidiaries, associates and jointly controlled entities	39(v)	**28,041**	68,753
Proceeds from government grant of plant relocation, net		**542,006**	–
Other cash flows (used in)/generated from investing activities		**(50,052)**	100,443
Net cash used in investing activities		**(81,509)**	(3,560,909)
Cash flows from financing activities			
Proceeds from non-controlling interests of certain subsidiaries		**55,062**	46,316
Proceeds from issuance of ordinary shares of the Company		–	13,324,331
Cash paid in respect of expenses related to issuance of new shares		**(40,105)**	(372,710)
Proceeds from borrowings		**8,085,497**	11,355,279
Repayments of borrowings		**(8,897,811)**	(12,753,308)
Dividends paid by the Group		**(696,235)**	(515,962)
Other cash flows (used in)/generated from financing activities		**(71,436)**	12,844
Net cash (used in)/generated from financing activities		**(1,565,028)**	11,096,790
Net (decrease)/increase in cash and cash equivalents		**(1,276,524)**	8,625,072
Cash and cash equivalents at beginning of year		**14,554,709**	6,210,449
Exchange gains/(losses) on cash and cash equivalents		**22,716**	(280,812)
Cash and cash equivalents at end of year		**13,300,901**	14,554,709

The notes on pages 111 to 228 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

1 History and group reorganisation

Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company"), initially known as Shanghai No. 4 Pharmaceutical Co., Ltd. (上海四藥股份有限公司), was incorporated in the People's Republic of China (the "PRC") on 18 January 1994 as a joint stock company with limited liability under the Company Law of the PRC. Pursuant to a restructuring, the Company issued 42,966,600 domestic shares of 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.

Notes to the 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 consolidated financial statements. After the above restructuring transactions were completed in 2010, the Company changed its name to Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司). As at 31 December 2010, the Company totally had 1,992,643,338 A Shares.

On 20 May 2011, the Company issued 664,214,000 overseas-listed shares ("H Shares") of RMB1 par value at a price of Hong Kong Dollars (HKD) 23 per share. On 17 June 2011, the Company partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued). Thereby, the Company totally issued 696,267,200 H Shares in 2011. Pursuant to certain regulations and agreements, 69,626,720 state-owned A Shares of the Company held by the controlling shareholders were transferred to the National Council for Social Security Fund of the PRC (the "NSSF") and converted into H Shares on a one-for-one basis. As at 31 December 2011 and 2012, 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.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2013.

2 PRINCIPAL ACTIVITIES

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

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

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

3.2 Accounting policies

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

The following new standards and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2012 that would be expected to have a material impact on the Group.

- HKFRS 7 (Amendment), 'Financial instruments: Disclosures', on transfer of financial assets': These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments 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 asset. The amendment is applicable to annual periods beginning on or after 1 July 2011.

- HKFRS 1 (Amendment), 'First time adoption', on hyperinflation and fixed dates: The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to HKFRSs, thus eliminating the need for companies 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. The amendment is applicable to annual periods beginning on or after 1 July 2011.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Accounting policies (continued)

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

- HKAS 12 (Amendment), 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 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. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

The adoption of the abovementioned revised standard did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

(b) New and amended standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted. The Group is assessing the impact of these new and amended standards and interpretations. Based on its current assessment, the Group expects that these new and amended standards and interpretations will not have material impact on the financial statements of the Group.

- HKAS 1, 'Financial statement presentation' regarding other comprehensive income. 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 intends to adopt HKAS 1 no later than the accounting period beginning on or after 1 July 2012.

- 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 intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2013.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Accounting policies (continued)

(b) (continued)

- 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 intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group 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, which are largely aligned between HKFRSs and US GAAP, 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 or US GAAP. The Group intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

3.3 Subsidiaries, jointly controlled entities and associates

(a) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) *Consolidation (continued)*

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

(i) Business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" to account for the purchase of the equity interests in the Anti-biotic Businesses and Acquired Businesses, as if the combination had been occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The net assets of the Group, Acquired Businesses and the Anti-biotic Businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of the Acquired Businesses and Anti-biotic Businesses' identifiable assets, liabilities and contingent liabilities over cost of acquisition at the time of the business combinations under common control.

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) *Consolidation (continued)*

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

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

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

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

(iv) Disposal of subsidiaries

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

(b) *Separate financial statements*

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) *Jointly controlled entities and associates*

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

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

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

Other than the associates acquired as an integrated part of the Acquired Businesses which were accounted for as prescribed in Note 3.3(a)(i), the Group's share of its jointly controlled entities and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity or an associate equals or exceeds its interest in the jointly controlled entity or associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or associate.

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

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

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

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

3.4 Segment reporting

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

3.5 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Foreign currency translation (continued)

(b) *Transactions and balances (continued)*

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

(c) *Group companies*

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

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

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

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

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

3.6 Property, plant and equipment

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, plant and equipment (continued)

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

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

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

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

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

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

3.7 Investment properties

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

Investment property, principally comprising land use rights and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Land use rights

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

3.9 Intangible assets

(a) *Goodwill*

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

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

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

(b) *Business network*

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

(c) *Trademarks and patent rights*

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

(d) *Know-how*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(e) *Research and development*

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(f) Computer software

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

(g) Other intangible assets

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

3.10 Impairment of non-financial assets

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

3.11 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial assets (continued)

(a) *Classification (continued)*

(iii) Available-for-sale financial assets

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

(b) *Recognition and measurement*

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

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

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

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

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

3.12 Offsetting financial instruments

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

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

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

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

(b) *Assets classified as available for sale*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Inventories

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

3.15 Trade and other receivables

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

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

3.16 Cash and cash equivalents

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

3.17 Share capital

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

3.18 Trade payables

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

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

3.19 Borrowings

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Borrowing costs

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

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

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

3.21 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

(i) Inside basis differences

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Current and deferred income tax (continued)

(b) *Deferred income tax (continued)*

(ii) Outside basis differences

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

(c) *Offsetting*

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

3.22 Employee benefits

(a) *Pension obligations*

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

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

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

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

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Employee benefits (continued)

(c) Termination benefits

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

3.23 Provisions

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

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

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

3.24 Government grants

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 Revenue recognition

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

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

(a) *Sales of goods – wholesale*

The Group recognises revenue from the sale of goods when all the following conditions have been satisfied: (a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; (b) the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) it is probable that the economic benefits associated with the transaction will flow to the enterprise; and (d) the relevant amount of revenue and costs can be measured reliably.

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

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

(c) *Rental income*

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

(d) *Interest income*

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

(e) *Sales of services*

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

(f) *Dividend income*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Leases (as a leasee)

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

3.27 Dividend distribution

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

3.28 Financial guarantee contracts

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

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

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(a) *Foreign exchange risk*

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

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

Management will monitor closely the foreign exchange risk exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2012, if RMB had strengthened/weakened by 5% against the USD and HKD with all other variables held constant, the Group's profit before income tax for the year would have been higher/lower by approximately RMB13,899,000 (2011: lower/higher RMB344,312,000), mainly as a result of foreign exchange gains/losses (2011: losses/gains) arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

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

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

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

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

As at 31 December 2012, if the interest rates on bank borrowings at floating rates had been 10% higher/lower with all other variables held constant, the Group's profit before income tax for the year would have been lower/higher by approximately RMB3,382,000 (2011: lower/higher RMB5,658,000) respectively, mainly as a result of higher/lower interest expenses on bank borrowings.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Credit risk*

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

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

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

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

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

(d) *Liquidity risk*

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

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
At 31 December 2012					
Borrowings *(Note 25)*	**4,900,773**	**120**	**21,200**	**19,453**	**4,941,546**
Interests payments on borrowings	**100,584**	**633**	**623**	**162**	**102,002**
Financial liabilities as included in trade and other payables	**16,012,092**	**–**	**–**	**–**	**16,012,092**
	21,013,449	**753**	**21,823**	**19,615**	**21,055,640**
At 31 December 2011					
Borrowings *(Note 25)*	5,675,459	7,710	23,731	20,870	5,727,770
Interests payments on borrowings	174,098	1,652	3,725	280	179,755
Financial liabilities as included in trade and other payables	14,084,696	–	–	–	14,084,696
	19,934,253	9,362	27,456	21,150	19,992,221

Loan guarantee provided to certain parties exposes the Group to liquidity risk and could be called within one year at the respective balance sheet dates. Management monitors the possible loss of the guarantee on a regularly basis. As at 31 December 2012 and 2011, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44 (d).

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital management

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

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

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

The gearing ratios are as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Total borrowings	**4,941,546**	5,727,770
Total equity	**27,700,874**	25,981,465
Total capital	**32,642,420**	31,709,235
Gearing ratio (%)	**15%**	18%

4.3 Fair value estimation

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

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

(b) Useful lives of business network

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

(c) Estimated impairment of goodwill

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Net realisable value of inventories

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

(e) Impairment of receivables

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

(f) Income taxes

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

6 SEGMENT INFORMATION

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

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

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

(b) Distribution and supply chain solutions (Distribution segment) – distribution, warehousing, logistics, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical manufacturers and dispensers, such as hospitals, distributors and retail pharmacies;

(c) Pharmaceutical retail (Retail segment) – operation of a network of retail pharmacy stores; and

(d) Other business operations (Others) – assets management, investment holding and etc.

6 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 year is as follows:

For the year ended 31 December 2012

	Production segment *RMB'000*	Distribution segment *RMB'000*	Retail segment *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
External revenue	8,139,585	56,822,823	2,742,105	373,605	–	68,078,118
Inter-segment revenue	1,772,233	2,103,622	6,918	11,774	(3,894,547)	–
Segment revenue	9,911,818	58,926,445	2,749,023	385,379	(3,894,547)	68,078,118
Segment operating profit	1,088,026	1,533,440	26,298	(59,025)	6,682	2,595,421
Other income						476,062
Other losses – net						(176,566)
Gains on disposal of subsidiaries and associates						46,710
Finance costs – net						(192,293)
Share of profit of jointly controlled entities	56,535	14,138	–	–	–	70,673
Share of profit of associates	230,041	37,679	–	–	–	267,720
Profit before income tax						3,087,727
Income tax expense						(627,139)
Profit for the year						2,460,588

6 SEGMENT INFORMATION (continued)

For the year ended 31 December 2011

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

Other segment items included in the consolidated financial statements for the year ended 31 December 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	**346,334**	**89,691**	**26,733**	**30,849**	**–**	**493,607**
Amortisation of intangible assets and land use rights	**26,760**	**58,193**	**811**	**2,898**	**–**	**88,662**
Capital expenditure	**615,545**	**142,405**	**32,016**	**63,189**	**–**	**853,155**

6 SEGMENT INFORMATION (continued)

Other segment items included in the consolidated financial statements for the year ended 31 December 2011 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	318,158	88,111	19,761	17,592	–	443,622
Amortisation of intangible assets and land use rights	21,329	46,784	873	516	–	69,502
Capital expenditure	210,637	194,917	8,235	60,245	–	474,034

The segment assets and liabilities as at 31 December 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	**191,006**	**118,014**	**–**	**–**	**–**	**309,020**
Investment in associates	**1,939,503**	**296,785**	**–**	**–**	**–**	**2,236,288**
Other assets	**13,071,728**	**28,449,115**	**922,042**	**24,394,268**	**191,744**	**67,028,897**
Elimination						**(18,505,167)**
Total assets						**51,069,038**
Segment liabilities	**5,198,668**	**20,176,242**	**569,624**	**2,145,064**	**520,099**	**28,609,697**
Elimination						**(5,241,533)**
Total liabilities						**23,368,164**

6 SEGMENT INFORMATION (continued)

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

	Assets *RMB'000*	Liabilities *RMB'000*
Segment assets/liabilities after elimination	**50,877,294**	**22,848,065**
Unallocated:		
Current income tax liabilities	**–**	**237,750**
Deferred tax assets/liabilities – net	**191,744**	**282,349**
Total	**51,069,038**	**23,368,164**

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

	Production segment *RMB'000*	Distribution segment *RMB'000*	Retail segment *RMB'000*	Others *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Investment in jointly controlled entities	144,496	105,613	–	–	–	250,109
Investment in associates	1,941,855	262,553	–	–	–	2,204,408
Other assets	11,936,693	28,383,829	854,643	30,208,363	178,629	71,562,157
Elimination						(26,348,850)
Total assets						47,667,824
Segment liabilities	4,942,226	18,268,539	479,123	3,826,171	498,728	28,014,787
Elimination						(6,328,428)
Total liabilities						21,686,359

6 SEGMENT INFORMATION (continued)

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

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

7 LAND USE RIGHTS

The Group

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

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Opening net book amount	**818,338**	799,025
Additions	**87,244**	5,336
Transfer from PP&E *(Note 9)*	**7,864**	53,599
Acquisition of subsidiaries	**31,181**	–
Amortisation charge *(Note 32)*	**(27,231)**	(24,727)
Disposals	**–**	(519)
Disposal of subsidiaries	**(12,037)**	(14,376)
Closing net book amount	**905,359**	818,338

7 LAND USE RIGHTS (continued)

The Group (continued)

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

	Year ended 31 December 2012 *RMB'000*	2011 *RMB'000*
Cost of sales	**666**	628
Distribution and selling expenses	**2,450**	2,274
General and administrative expenses	**24,115**	21,825
	27,231	24,727

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

	As at 31 December 2012 *RMB'000*	2011 *RMB'000*
Land use rights, secured	**65,792**	61,979

(c) As at 31 December 2012, the Group is still in the process of applying for land use right certificates of certain land use rights and the aggregated carrying amounts of these land use rights amounted to approximately RMB23,402,000 (2011: RMB6,618,000).

7 LAND USE RIGHTS (continued)

The Company

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Opening net book amount	**25,138**	25,778
Amortisation charge	**(640)**	(640)
Closing net book amount	**24,498**	25,138

8 INVESTMENT PROPERTIES

The Group

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost	**444,785**	531,162
Accumulated depreciation	**(132,045)**	(146,614)
Net book amount	**312,740**	384,548
Opening net book amount	**384,548**	399,163
Transfer from owner-occupied PP&E *(Note 9)*	**6,113**	2,219
Addition	**4,792**	–
Depreciation *(Note 32)*	**(14,734)**	(15,861)
Disposal in respect of plant relocation	**(44,775)**	–
Disposal of a subsidiary	**(23,204)**	–
Disposals	**–**	(973)
Closing net book amount	**312,740**	384,548

8 INVESTMENT PROPERTIES (continued)

The Group

(a) As at 31 December 2012, the fair values of the investment properties were approximately RMB760,381,000 (2011: RMB818,763,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Rental income	**78,063**	78,034

The Company

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost	**13,092**	83,293
Accumulated depreciation	**(1,897)**	(27,087)
Net book amount	**11,195**	56,206
Opening net book amount	**56,206**	57,705
Depreciation	**(236)**	(1,499)
Disposal in respect of plant relocation	**(44,775)**	–
Closing net book amount	**11,195**	56,206

Notes to the Consolidated Financial Statements

9 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction –in-progress RMB'000	Total RMB'000
At 1 January 2011							
Cost	3,555,439	2,241,630	283,484	398,062	491,545	331,145	7,301,305
Accumulated depreciation	(1,028,485)	(1,116,781)	(168,457)	(273,354)	(228,748)	–	(2,815,825)
Impairment	(41,148)	(53,001)	(1,455)	(280)	(2,391)	(3,725)	(102,000)
Net book amount	2,485,806	1,071,848	113,572	124,428	260,406	327,420	4,383,480
Year ended 31 December 2011							
Opening net book amount	2,485,806	1,071,848	113,572	124,428	260,406	327,420	4,383,480
Acquisition of subsidiaries	7,615	5,443	15,393	1,762	16,027	150	46,390
Additions	8,292	77,837	50,872	36,010	74,249	204,789	452,049
Internal transfer	57,583	42,789	5,621	15,534	45,999	(167,526)	–
Transfer to land use rights *(Note 7)*	(25,417)	–	–	–	–	(28,182)	(53,599)
Transfer to investment properties *(Note 8)*	(2,219)	–	–	–	–	–	(2,219)
Disposals *(Note 39(ii))*	(13,671)	(11,026)	(11,998)	(14,510)	(13,298)	(2,068)	(66,571)
Depreciation charge *(Note 32)*	(134,269)	(154,756)	(32,469)	(37,025)	(69,242)	–	(427,761)
Disposal of subsidiaries	(56,153)	(35,492)	(5,199)	(2,242)	(33,824)	(22,910)	(155,820)
Provision for impairment *(Note 30)*	–	(4,184)	–	–	–	–	(4,184)
Closing net book amount	2,327,567	992,459	135,792	123,957	280,317	311,673	4,171,765
At 31 December 2011							
Cost	3,491,000	2,242,617	319,618	421,311	493,681	314,842	7,283,069
Accumulated depreciation	(1,138,454)	(1,205,692)	(182,634)	(297,080)	(210,975)	–	(3,034,835)
Impairment	(24,979)	(44,466)	(1,192)	(274)	(2,389)	(3,169)	(76,469)
Net book amount	2,327,567	992,459	135,792	123,957	280,317	311,673	4,171,765
Year ended 31 December 2012							
Opening net book amount	**2,327,567**	**992,459**	**135,792**	**123,957**	**280,317**	**311,673**	**4,171,765**
Acquisition of subsidiaries	**69,230**	**36,683**	**1,968**	**2,234**	**4,053**	**40,627**	**154,795**
Additions	**51,640**	**81,905**	**31,449**	**24,007**	**90,443**	**441,661**	**721,105**
Internal transfer	**74,742**	**39,730**	**5,397**	**10,902**	**51,406**	**(182,177)**	**–**
Transfer to land use rights *(Note 7)*	**(7,864)**	**–**	**–**	**–**	**–**	**–**	**(7,864)**
Transfer to investment properties *(Note 8)*	**(6,113)**	**–**	**–**	**–**	**–**	**–**	**(6,113)**
Transfer to intangible assets *(Note 10)*	**–**	**–**	**–**	**–**	**–**	**(5,773)**	**(5,773)**
Injection to an associate *(Note 13)*	**–**	**–**	**–**	**–**	**–**	**(12,000)**	**(12,000)**
Disposals *(Note 39(ii))*	**(4,549)**	**(7,578)**	**(2,298)**	**(2,390)**	**(959)**	**(7,725)**	**(25,499)**
Depreciation charge	**(147,927)**	**(167,589)**	**(35,327)**	**(39,519)**	**(88,511)**	**–**	**(478,873)**
Disposal of subsidiaries	**(26,247)**	**(12,551)**	**(1,106)**	**(1,739)**	**(7,806)**	**(8,618)**	**(58,067)**
Provision for impairment *(Note 30)*	**–**	**(1,760)**	**–**	**–**	**(1,798)**	**–**	**(3,558)**
Translation difference	**(4,950)**	**(1,012)**	**(534)**	**(54)**	**–**	**–**	**(6,550)**
Other deduction	**–**	**–**	**–**	**–**	**–**	**(19,795)**	**(19,795)**
Closing net book amount	**2,325,529**	**960,287**	**135,341**	**117,398**	**327,145**	**557,873**	**4,423,573**
At 31 December 2012							
Cost	**3,637,462**	**2,333,212**	**332,987**	**448,469**	**615,183**	**561,042**	**7,928,355**
Accumulated depreciation	**(1,286,998)**	**(1,329,193)**	**(196,512)**	**(330,815)**	**(283,853)**	**–**	**(3,427,371)**
Impairment	**(24,935)**	**(43,732)**	**(1,134)**	**(256)**	**(4,185)**	**(3,169)**	**(77,411)**
Net book amount	**2,325,529**	**960,287**	**135,341**	**117,398**	**327,145**	**557,873**	**4,423,573**

9 PROPERTY, PLANT AND EQUIPMENT (continued)

The Group

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost of sales *(Note 32)*	**·236,447**	238,707
Distribution and selling expenses *(Note 32)*	**33,771**	31,569
General and administrative expenses *(Note 32)*	**204,248**	157,485
Other losses	**4,407**	–
	478,873	427,761

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Property, plant and equipment, pledged	**166,277**	189,227

(c) As at 31 December 2012, the Group is still in the process of applying for the property ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB241,004,000 (2011: RMB276,673,000).

Notes to the Consolidated Financial Statements

9 PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction –in-progress RMB'000	Total RMB'000
At 1 January 2011							
Cost	113,454	15,922	4,673	2,985	25,218	11,695	173,947
Accumulated depreciation	(47,445)	(531)	(1,227)	(1,217)	(3,177)	–	(53,597)
Net book amount	66,009	15,391	3,446	1,768	22,041	11,695	120,350
Year ended 31 December 2011							
Opening net book amount	66,009	15,391	3,446	1,768	22,041	11,695	120,350
Additions	–	–	1,126	2,430	27,462	28,177	59,195
Internal transfer	7,883	457	(1,116)	1,530	239	(8,993)	–
Disposals	(6)	–	(32)	(281)	(295)	–	(614)
Depreciation charge	(2,709)	–	(796)	(989)	(10,282)	–	(14,776)
Closing net book amount	71,177	15,848	2,628	4,458	39,165	30,879	164,155
At 31 December 2011							
Cost	118,364	15,848	4,432	6,663	52,619	30,879	228,805
Accumulated depreciation	(47,187)	–	(1,804)	(2,205)	(13,454)	–	(64,650)
Net book amount	71,177	15,848	2,628	4,458	39,165	30,879	164,155
Year ended 31 December 2012							
Opening net book amount	**71,177**	**15,848**	**2,628**	**4,458**	**39,165**	**30,879**	**164,155**
Additions	**–**	**–**	**2,318**	**591**	**24,979**	**12,814**	**40,702**
Internal transfer	**–**	**–**	**–**	**2,591**	**24,975**	**(27,566)**	**–**
Transfer to intangible assets *(Note 10)*	**–**	**–**	**–**	**–**	**–**	**(5,773)**	**(5,773)**
Disposals	**–**	**–**	**(172)**	**(39)**	**(160)**	**(7,020)**	**(7,391)**
Depreciation charge	**(3,162)**	**(1,426)**	**(949)**	**(2,440)**	**(21,490)**	**–**	**(29,467)**
Closing net book amount	**68,015**	**14,422**	**3,825**	**5,161**	**67,469**	**3,334**	**162,226**
At 31 December 2012							
Cost	**118,364**	**15,848**	**5,906**	**9,221**	**100,726**	**3,334**	**253,399**
Accumulated depreciation	**(50,349)**	**(1,426)**	**(2,081)**	**(4,060)**	**(33,257)**	**–**	**(91,173)**
Net book amount	**68,015**	**14,422**	**3,825**	**5,161**	**67,469**	**3,334**	**162,226**

Notes to the Consolidated Financial Statements

10 INTANGIBLE ASSETS

The Group

	Goodwill RMB'000	Business network RMB'000	Trademarks and patent rights RMB'000	Know-how RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011							
Cost	529,349	57,714	87,507	79,817	32,252	35,038	821,677
Accumulated amortisation	–	–	(15,946)	(58,344)	(25,752)	(7,297)	(107,339)
Impairment	(106,568)	–	(60,000)	(7,603)	–	(19,177)	(193,348)
Net book amount	422,781	57,714	11,561	13,870	6,500	8,564	520,990
Year ended 31 December 2011							
Opening net book amount	422,781	57,714	11,561	13,870	6,500	8,564	520,990
Reclassification	–	–	3,620	4,656	(1,336)	(6,940)	–
Acquisition of subsidiaries *(Note 43)*	2,567,152	397,022	–	–	2,001	1,713	2,967,888
Additions	–	–	2,619	–	5,567	1,562	9,748
Disposal of subsidiaries	–	–	(490)	(4,814)	–	–	(5,304)
Impairment Charge *(Note 30)*	(1,038)	–	–	–	–	–	(1,038)
Amortisation charge *(Note 32)*	–	(35,509)	(3,988)	(1,684)	(3,264)	(330)	(44,775)
Closing net book amount	2,988,895	419,227	13,322	12,028	9,468	4,569	3,447,509
At 31 December 2011							
Cost	3,096,485	464,081	31,317	125,898	40,764	30,106	3,788,651
Accumulated amortisation	–	(44,854)	(17,995)	(37,777)	(31,296)	(7,769)	(139,691)
Impairment	(107,590)	–	–	(76,093)	–	(17,768)	(201,451)
Net book amount	2,988,895	419,227	13,322	12,028	9,468	4,569	3,447,509
Year ended 31 December 2012							
Opening net book amount	**2,988,895**	**419,227**	**13,322**	**12,028**	**9,468**	**4,569**	**3,447,509**
Acquisition of subsidiaries *(Note 43)*	**183,931**	**10,838**	**45,429**	**–**	**104**	**–**	**240,302**
Transfer from property, plant and equipment *(Note 9)*	**–**	**–**	**–**	**–**	**5,773**	**–**	**5,773**
Additions	**–**	**–**	**16,892**	**13,746**	**10,872**	**1,283**	**42,793**
Disposal	**–**	**–**	**–**	**–**	**(26)**	**–**	**(26)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**(54)**	**–**	**(54)**
Amortisation charge *(Note 32)*	**–**	**(47,481)**	**(6,433)**	**(2,430)**	**(4,125)**	**(962)**	**(61,431)**
Closing net book amount	**3,172,826**	**382,584**	**69,210**	**23,344**	**22,012**	**4,890**	**3,674,866**
At 31 December 2012							
Cost	**3,264,800**	**474,919**	**93,638**	**138,544**	**57,336**	**31,389**	**4,060,626**
Accumulated amortisation	**–**	**(92,335)**	**(24,428)**	**(39,107)**	**(35,324)**	**(8,731)**	**(199,925)**
Impairment	**(91,974)**	**–**	**–**	**(76,093)**	**–**	**(17,768)**	**(185,835)**
Net book amount	**3,172,826**	**382,584**	**69,210**	**23,344**	**22,012**	**4,890**	**3,674,866**

10 INTANGIBLE ASSETS (continued)

The Group

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost of sales	**1,138**	926
Distribution and selling expenses	**36,893**	35,509
General and administrative expenses	**23,400**	8,340
	61,431	44,775

(b) *Impairment test for goodwill*

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Production segment	**119,917**	9,374
Distribution segment	**3,128,526**	3,070,754
Others	**16,357**	16,357
	3,264,800	3,096,485

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

The key assumptions used for value-in-use calculations in 2012 are as follows:

	Production segment	**Distribution segment**
Growth rate to extrapolate cash flows beyond the budget period	0%-3%	3%-6%
Gross margin	50%-70%	6.3%-7%
Discount rate	11%-13%	11%-14%

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

Notes to the Consolidated Financial Statements

10 INTANGIBLE ASSETS (continued)

The Company

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost	**8,631**	1,873
Accumulated amortisation	**(1,785)**	(299)
Net book amount	**6,846**	1,574
Opening net book amount	**1,574**	903
Transfer from PP&E *(Note 9)*	**5,773**	–
Additions	**985**	970
Amortisation charge	**(1,486)**	(299)
Closing net book amount	**6,846**	1,574

11 INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Investment at cost		
– Unlisted shares	**12,580,257**	12,058,741

In 2012 and 2011, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 45.

Notes to the Consolidated Financial Statements

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Share of net assets, unlisted	**309,020**	250,109
At 1 January	**250,109**	204,695
Share of profit for the year	**70,673**	56,959
Dividends declared	**(11,762)**	(11,545)
End of the year	**309,020**	250,109

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

(a) *Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**717,281**	611,272
Liabilities	**598,792**	511,446
Revenue	**1,509,993**	1,239,797
Profit for the year	**12,550**	8,269
Percentage of interests held	**50%**	50%

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

The Group (continued)

(b) Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**291,446**	228,608
Liabilities	**100,439**	84,112
Revenue	**392,055**	319,661
Profit for the year	**56,536**	46,583
Percentage of interests held	**50%**	50%

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

13 INVESTMENTS IN ASSOCIATES

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Share of net assets	**2,312,053**	2,273,552
Provision for impairment	**(75,765)**	(69,144)
	2,236,288	2,204,408
At 1 January	**2,204,408**	1,281,028
Addition arising from deemed disposal of subsidiaries *(Note 31)*	**13,344**	742,754
Other additions	**65,416**	124,945
Increases in investment in an associate by PP&E injection *(Note 9)*	**12,000**	–
Share of profit for the year	**267,720**	246,791
Dividends declared	**(180,070)**	(188,840)
Transfer to available-for-sale financial assets	**–**	(300)
Classified as assets held for sale *(Note)*	**(134,000)**	–
Provision for impairment *(Note 30)*	**(12,530)**	–
Deductions	**–**	(1,970)
End of the year	**2,236,288**	2,204,408

Note:

On 28 December 2012, the Group had put to open tender for the disposal of the 42% equity interests of Shandong Ruiying Pioneer Pharmaceutical Co., Ltd. ("Shandong Ruiying"). As at the date of the approval of these financial statements, the tender process has been completed and the transaction is in normal process. Hence, the 42% equity interests of Shandong Ruiying held by the Group was reclassified and presented as "assets classified as held for sale" in the consolidated balance sheet as at 31 December 2012.

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

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

(a) *Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**1,835,716**	1,370,634
Liabilities	**1,275,500**	887,425
Revenue	**2,296,600**	1,579,069
Profit for the year	**125,277**	97,816
Percentage of interest held	**30%**	30%

(b) *Sino-American Shanghai Squibb Pharmaceutical Co., Ltd.(中美上海施貴寶製藥有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**467,150**	447,482
Liabilities	**312,468**	254,129
Revenue	**937,122**	754,997
Profit for the year	**37,125**	57,955
Percentage of interest held	**30%**	30%

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

(c) *TECHPOOL Bio-Pharma Co., Ltd. ("TECHPOOL") (廣東天普生化醫藥股份有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**869,164**	843,833
Liabilities	**65,750**	63,810
Revenue	**403,391**	332,197
Profit for the year	**57,998**	61,454
Percentage of interest held	**40.8%**	40.8%

(d) *Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**159,040**	106,229
Liabilities	**82,046**	46,713
Revenue	**68,828**	39,631
Profit for the year	**15,521**	9,582
Percentage of interest held	**29.6%**	29.6%

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

(e) *Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**39,754**	37,282
Liabilities	**16,789**	16,442
Revenue	**80,250**	75,763
Profit for the year	**14,949**	14,959
Percentage of interest held	**24%**	24%

(f) *Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. (北京信海豐園生物醫藥科技有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**424,750**	411,958
Liabilities	**307,505**	272,051
Revenue	**1,034,521**	876,600
Profit for the year	**20,472**	14,988
Percentage of interest held	**50%**	50%

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

(g) *Shanghai Ajinomoto Amino Acid Co., Ltd. (上海味之素氨基酸有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**87,662**	82,297
Liabilities	**8,242**	8,483
Revenue	**63,330**	56,705
Profit for the year	**8,006**	4,992
Percentage of interest held	**39%**	39%

(h) *Shanghai Tsumura Pharmaceutical Co., Ltd. (上海津村製藥有限公司)*

	As at and for the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets	**185,052**	131,873
Liabilities	**72,311**	26,108
Revenue	**108,686**	86,086
Profit for the year	**7,997**	5,484
Percentage of interest held	**34%**	34%

13 INVESTMENTS IN ASSOCIATES (continued)

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Investment at cost		
– Unlisted shares	**449,741**	449,741
Provision for impairment	**(62,814)**	(62,814)
	386,927	386,927
At 1 January	**386,927**	234,243
Addition arising from deemed disposal of TECHPOOL	**–**	152,684
End of the year	**386,927**	386,927

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

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Listed equity investment, at fair value	**19,812**	18,470
Unlisted equity investment, cost	**189,690**	221,345
Provision for impairment of unlisted equity investment	**(60,445)**	(57,023)
Unlisted equity investment, net	**129,245**	164,322
	149,057	182,792

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The Group (continued)

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**182,792**	383,716
Transfer from investments in associates *(Note 13)*	**–**	300
Additions	**795**	8,310
Net amount recognised in equity	**1,342**	(86,562)
Disposals	**(31,575)**	(22,692)
Transfer to investment in a subsidiary	**–**	(93,989)
Provision for impairment *(Note 30)*	**(4,297)**	(6,291)
End of the year	**149,057**	182,792

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

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Listed equity investment, at fair value	**1,022**	1,222
Unlisted equity investment, net cost	**23,874**	53,124
	24,896	54,346
At 1 January	**54,346**	153,492
Additions	**250**	–
Net amount recognised in equity	**(200)**	(81,687)
Disposals	**(29,500)**	(17,459)
End of the year	**24,896**	54,346

15 OTHER NON-CURRENT PREPAYMENTS

As at 31 December 2012 and 2011, other non-current prepayments primarily represented construction cost prepaid by the Group.

16 INVENTORIES

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**625,402**	593,581
Work in progress	**379,919**	351,682
Finished goods	**8,984,407**	7,522,888
	9,989,728	8,468,151
Less: write-down to net realisable value	**(180,028)**	(170,668)
At the year end	**9,809,700**	8,297,483

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost of sales, distribution and selling expenses and general and administrative expenses	**57,583,203**	46,063,401

17 TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables from third parties		
Accounts receivable	**13,200,582**	11,246,789
Less: Provision for impairment	**(745,872)**	(747,859)
Accounts receivable – net	**12,454,710**	10,498,930
Notes receivable	**1,046,458**	971,206
Trade receivables – net	**13,501,168**	11,470,136
Other receivables from third parties	**1,343,346**	1,295,235
Less: Provision for impairment	**(701,483)**	(718,924)
Other receivables – net	**641,863**	576,311
Amount due from related parties *(Note 44(c))*	**241,495**	167,444
Less: Provision for impairment	**(13,321)**	(21,391)
Amount due from related parties – net	**228,174**	146,053
Prepayments *(Note b)*	**621,980**	478,002
Tax recoverable	**321,393**	144,482
Interest receivables	**15,334**	30,647
Trade and other receivables	**15,329,912**	12,845,631

17 TRADE AND OTHER RECEIVABLES (continued)

The Group (continued)

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

(b) As of 31 December 2012 and 2011, prepayments are in connection with:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Purchases of:		
– Raw materials and merchandise	**568,749**	402,669
– Prepaid expenses and others	**53,231**	75,333
	621,980	478,002

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
RMB	**16,779,229**	14,314,697
HKD	**8**	412
USD	**9,354**	8,830
Other currencies	**1,997**	9,866
	16,790,588	14,333,805

(d) As of 31 December 2012, trade receivables of approximately RMB638,563,000 (2011: RMB844,458,000) have been pledged by the Group for securing borrowings of approximately RMB627,502,000 (2011: RMB788,765,000) (Note 25).

17 TRADE AND OTHER RECEIVABLES (continued)

The Group (continued)

(e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, sales are made on credit terms of within 180 days. Ageing analysis of gross trade receivables from third parties (accounts receivable and notes receivable) at 31 December 2012 and 2011 are as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Less than 3 months	**10,510,624**	8,410,369
3 months to 6 months	**2,570,337**	2,134,609
6 months to 12 months	**397,918**	904,193
1 year to 2 years	**120,593**	102,095
Over 2 years	**647,568**	666,729
	14,247,040	12,217,995

As of 31 December 2012, trade receivables from third parties of approximately RMB1,166,079,000 (2011: RMB1,673,017,000) were past due and impaired. It was assessed that a portion or none of the receivables is expected to be recovered. The ageing analysis of these trade receivables and expected recovery are as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
6 months to 12 months	**397,918**	904,193
1 year to 2 years	**120,593**	102,095
Over 2 years	**647,568**	666,729
	1,166,079	1,673,017
Less: Expected recovery	**(464,730)**	(971,265)
Impairment	**701,349**	701,752

As of 31 December 2012, trade receivables from third parties of approximately RMB13,080,961,000 (2011: RMB10,544,978,000) were not past due. The impairment of these trade receivables was approximately RMB44,523,000 (2011: RMB46,107,000).

17 TRADE AND OTHER RECEIVABLES (continued)

The Group (continued)

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

	For the year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**1,488,174**	1,535,492
Provision for impairment	**24,382**	11,106
Reversal of impairment on certain long ageing receivables	**(7,462)**	(20,684)
Write-off against uncollectible and other deductions	**(44,418)**	(37,740)
At the end of year	**1,460,676**	1,488,174

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

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

17 TRADE AND OTHER RECEIVABLES (continued)

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables		
Accounts receivable	**119,438**	119,438
Less: Provision for impairment	**(119,438)**	(119,438)
Accounts receivable – net	**–**	–
Notes receivables	**–**	–
Trade receivables – net	**–**	–
Other receivables	**526,503**	466,925
Less: Provision for impairment	**(435,396)**	(428,983)
Other receivables – net	**91,107**	37,942
Amount due from related parties, net *(Note)*	**8,178,292**	1,635,487
Others		
Prepaid tax	**–**	2,181
	8,269,399	1,675,610

Note:

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

18 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cash at bank	**13,517,021**	14,843,951
Cash on hand	**8,377**	6,103
	13,525,398	14,850,054
Less: restricted cash *(Note a)*	**(224,497)**	(295,345)
Cash and cash equivalents	**13,300,901**	14,554,709
Denominated in:		
– RMB	**12,806,134**	6,809,611
– HKD	**577,643**	7,971,390
– USD	**125,780**	42,624
– EUR	**8,768**	4,643
– Other currencies	**7,073**	21,786
	13,525,398	14,850,054

(a) As of 31 December 2012 and 2011, certain of the Group's bank deposits have been pledged for the following purposes:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Bank deposits pledged for:		
– issue of notes payable	**187,199**	194,970
– others	**37,298**	100,375
	224,497	295,345

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

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

18 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

The Group (continued)

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

	As at 31 December	
	2012	2011
	% per annum	*% per annum*
Effective interest rate	**0.35% ~ 2.85%**	0.40% ~ 3.10%

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cash at bank	**1,388,630**	8,608,621
Cash on hand	**–**	1
	1,388,630	8,608,622
Less: restricted cash	**–**	–
Cash and cash equivalents	**1,388,630**	8,608,622
Denominated in:		
– RMB	**1,329,245**	1,350,161
– HKD	**59,385**	7,258,461
	1,388,630	8,608,622

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets per balance sheet:		
Financial assets at fair value through profit or loss	**2,920**	2,659
Available-for-sale financial assets *(Note 14)*	**149,057**	182,792
Loans and receivables		
– Accounts and notes receivables *(Note 17)*	**14,247,040**	12,217,995
– Amount due from related parties *(Note 44)*	**233,469**	163,664
– Other receivables *(Note 17)*	**1,358,680**	1,325,882
– Cash and bank *(Note 18)*	**13,525,398**	14,850,054
	29,516,564	28,743,046
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
– Accounts and notes payables *(Note 24)*	**14,175,684**	12,372,127
– Amount due to related parties *(Note 44)*	**435,986**	374,384
– Accrual and other payables	**1,400,422**	1,338,185
– Borrowings *(Note 25)*	**4,941,546**	5,727,770
	20,953,638	19,812,466

Notes to the Consolidated Financial Statements

19 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets per balance sheet:		
Available-for-sale financial assets	**24,896**	54,346
Loans and receivables		
– Amounts due from related parties *(Note 17)*	**8,182,264**	1,639,459
– Accounts and other receivables *(Note 17)*	**645,941**	586,363
– Cash and bank *(Note 18)*	**1,388,630**	8,608,622
	10,241,731	10,888,790
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
– Accounts and notes payables *(Note 24)*	**11,639**	10,785
– Amounts due to related parties *(Note 24)*	**1,775,546**	1,854,120
– Accrual and other payables *(Note 24)*	**140,747**	138,409
– Borrowings *(Note 25)*	**400,000**	946,000
	2,327,932	2,949,314

20 CREDIT QUALITY OF FINANCIAL ASSETS

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

(a) Trade receivables

As at 31 December 2012, the Group's trade receivables due from third parties of approximately RMB13,080,961,000 (2011: RMB10,544,978,000) were within 180 days. Trade receivables that were within three months mainly represent those due from customers with good credit history and low default rate. Trade receivables that were either past due or impaired were disclosed in Note 17.

None of the financial assets that are fully performing has been renegotiated in year ended 31 December 2012.

20 CREDIT QUALITY OF FINANCIAL ASSETS (continued)

(b) Cash and cash equivalents

As at 31 December 2012 and 2011, all the bank deposits are deposited in reputable financial institutions which primarily comprise reputable international banks and PRC listed banks or state-owned banks.

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

21 SHARE CAPITAL

The Group and the Company

	Number of A Shares *(thousands)*	Number of H Shares *(thousands)*	A Shares of RMB1 each *RMB'000*	H Shares of RMB1 each *RMB'000*	Total shares of RMB1 each *RMB'000*
Issued and fully paid:					
At 1 January and 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 31 December 2011 and 2012	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 Opition 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.

Notes to the Consolidated Financial Statements

22 SHARE PREMIUM AND OTHER RESERVES

The Group

	Share premium	Statutory reserves Note (a)	Available-for-sale financial Assets	Revaluation surplus Note (b)	Translation difference	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	3,673,565	661,771	62,766	28,227	(4,611)	81,830	4,503,548
Issue of shares, net of expenses *(Note (c))*	12,211,184	–	–	–	–	–	12,211,184
Appropriation to statutory reserves *(Note (a), 23)*	–	51,558	–	–	–	–	51,558
Available-for-sale financial assets							
– Gross	–	–	(86,019)	–	–	–	(86,019)
– Tax	–	–	21,416	–	–	–	21,416
Deemed distribution to equity holders *(Note (b))*	(1,488,022)	–	–	–	–	–	(1,488,022)
Changes in ownership interests in subsidiaries without change of control	–	–	–	–	–	(25,377)	(25,377)
Currency translation difference	–	–	–	–	(5,538)	–	(5,538)
Others	–	–	–	–	–	10,550	10,550
At 31 December 2011	14,396,727	713,329	(1,837)	28,227	(10,149)	67,003	15,193,300
Appropriation to statutory reserves *(Note (a), 23)*		**88,798**	**–**	**–**	**–**	**–**	**88,798**
Available-for-sale financial assets							
– Gross	**–**	**–**	**1,430**	**–**	**–**	**–**	**1,430**
– Tax	**–**	**–**	**(357)**	**–**	**–**	**–**	**(357)**
Changes in ownership interests in subsidiaries without change of control	**–**	**–**	**–**	**–**	**–**	**(50,960)**	**(50,960)**
Currency translation difference	**–**	**–**	**–**	**–**	**(5,745)**	**–**	**(5,745)**
Others	**–**	**–**	**–**	**–**	**–**	**5,656**	**5,656**
At 31 December 2012	**14,396,727**	**802,127**	**(764)**	**28,227**	**(15,894)**	**21,699**	**15,232,122**

22 SHARE PREMIUM AND OTHER RESERVES (continued)

The Company

	Share premium	Statutory reserves *Note (a)*	Available-for-sale financial Assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	4,689,309	280,556	64,852	5,034,717
Issue of shares, net of expenses *(Note (c))*	12,211,184	–	–	12,211,184
Effect of business combination under common control	(565,527)	–	–	(565,527)
Appropriation to statutory reserves *(Note (a), 23)*	–	51,558	–	51,558
Available-for-sale financial assets				
– Gross	–	–	(81,687)	(81,687)
– Tax	–	–	20,422	20,422
Others	(6,609)	–	–	(6,609)
At 31 December 2011	16,328,357	332,114	3,587	16,664,058
Appropriation to statutory reserves *(Note (a), 23)*	**–**	**88,798**	**–**	**88,798**
Available-for-sale financial assets				
– Gross	**–**	**–**	**(200)**	**(200)**
– Tax	**–**	**–**	**50**	**50**
At 31 December 2012	**16,328,357**	**420,912**	**3,437**	**16,752,706**

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

22 SHARE PREMIUM AND OTHER RESERVES (continued)

The Group and the Company

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

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

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

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

23 RETAINED EARNINGS

	The Group *RMB'000*	The Company *RMB'000*
At 1 January 2011	3,513,527	512,974
Profit for the year	2,042,239	493,096
Deemed distribution to equity holders *(Note)*	(1,140)	–
Dividends of the Company *(Note 38)*	(278,970)	(278,970)
Appropriation to statutory reserves *(Note 22)*	(51,558)	(51,558)
Others	(27,837)	–
At 31 December 2011	5,196,261	675,542
Profit for the year	**2,052,872**	**856,024**
Dividends of the Company *(Note 38)*	**(430,226)**	**(430,226)**
Appropriation to statutory reserves *(Note 22)*	**(88,798)**	**(88,798)**
Others	**(11,842)**	**–**
At 31 December 2012	**6,718,267**	**1,012,542**

Note:

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

Notes to the Consolidated Financial Statements

24 TRADE AND OTHER PAYABLES

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Accounts payable to third parties	**11,745,049**	10,276,215
Notes payable	**2,430,635**	2,095,912
Advances received from customers	**403,147**	366,944
Payables for purchase of PP&E and land use rights	**137,938**	106,844
Staff welfare and salary payables	**363,901**	331,376
Tax liabilities other than income tax	**178,117**	160,681
Amounts due to related parties *(Note 44)*	**438,266**	378,700
Accrued expenses	**442,043**	530,144
Deposits	**217,698**	216,825
Dividends payable	**47,797**	52,317
Others	**554,946**	432,055
	16,959,537	14,948,013

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Less than 3 months	**9,270,386**	9,085,183
3 months to 6 months	**3,987,437**	2,266,272
6 months to 12 months	**479,805**	716,681
1 year to 2 years	**285,116**	140,137
Over 2 years	**152,940**	163,854
	14,175,684	12,372,127

24 TRADE AND OTHER PAYABLES (continued)

The Group (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
RMB	**15,942,518**	14,075,938
USD	**809,966**	604,618
EUR	**44,146**	23,747
HKD	**162,848**	239,804
Other currencies	**59**	3,906
	16,959,537	14,948,013

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Accounts payable	**11,639**	10,785
Amounts due to related parties *(Note)*	**1,775,546**	1,854,120
Accrued expenses	**15,000**	37,415
Advances from customers	**4,207**	4,207
Tax liabilities other than income tax	**6,857**	6,533
Staff welfare and salary payables	**14,320**	14,206
Others	**125,747**	100,994
	1,953,316	2,028,260

Note:

Amount due to related parties primarily represented other payables due to the Company's subsidiaries.

25 BORROWINGS

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings		
– guaranteed *(Note a)*	**3,620**	4,470
– secured *(Note b)*	**16,177**	31,886
– unsecured	**16,543**	11,522
Other borrowings	**4,433**	4,433
	40,773	52,311
Current		
Short-term bank borrowings		
– guaranteed *(Note a)*	**141,100**	212,100
– secured *(Note b)*	**1,012,592**	1,126,455
– unsecured	**3,578,440**	4,197,614
Other borrowings	**167,911**	138,560
	4,900,043	5,674,729
Current portion of long-term bank borrowings		
– guaranteed *(Note a)*	**730**	730
	4,900,773	5,675,459
Total borrowings	**4,941,546**	5,727,770

(a) As at 31 December 2012, the bank borrowings as guaranteed by the Group's non-controlling interests and certain independent third parties amounted to approximately RMB141,100,000 (2011: RMB127,220,000).

As at 31 December 2012, the bank borrowings as guaranteed by a related party amounted to approximately RMB4,350,000 (2011: RMB90,080,000) (Note 44).

25 BORROWINGS (continued)

The Group (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Secured by:		
– PP&E and land use rights *(Note 7, 9)*	**401,267**	369,576
– Trade receivables *(Note 17)*	**627,502**	788,765
	1,028,769	1,158,341

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
RMB	**4,903,069**	5,415,229
USD	**38,477**	285,843
HKD	**–**	26,698
	4,941,546	5,727,770

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Bank borrowings		
– RMB	**5.86%**	6.45%
– USD	**2.82%**	4.55%
– HKD	**–**	4.72%

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

25 BORROWINGS (continued)

The Group (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**4,900,773**	5,675,459
Between 1 and 2 years	**120**	7,710
Between 2 and 5 years	**21,200**	23,731
Wholly repayable within 5 years	**4,922,093**	5,706,900
Over 5 years	**19,453**	20,870
	4,941,546	5,727,770

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Within 6 months	**1,406,311**	2,780,217
Between 6 and 12 months	**3,535,235**	2,947,553
	4,941,546	5,727,770

25 BORROWINGS (continued)

The Group (continued)

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

The carrying amount and fair value of non-current borrowings are set out as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Carrying amounts	**40,773**	52,311
Fair value	**38,544**	50,061

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

The Company

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current		
Short-term borrowings		
– unsecured	**400,000**	946,000
	400,000	946,000

26 DEFERRED INCOME TAX

The Group

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

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Deferred income tax assets		
– To be recovered after more than 12 months	**7,132**	12,825
– To be recovered within 12 months	**184,612**	165,804
	191,744	178,629
Deferred income tax liabilities		
– To be recovered after more than 12 months	**262,264**	240,419
– To be recovered within 12 months	**20,085**	25,869
	282,349	266,288
Deferred income tax liabilities – net	**(90,605)**	(87,659)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**(87,659)**	110,025
Recognised in the consolidated income statements *(Note 35)*	**25,299**	(113,014)
Disposal of subsidiaries	**(1,670)**	(11,488)
Acquisition of subsidiaries	**(26,240)**	(94,713)
Recognised in equity	**(335)**	21,531
Deferred income tax liabilities – net	**(90,605)**	(87,659)

26 DEFERRED INCOME TAX (continued)

The Group (continued)

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for impairment of assets *RMB'000*	Termination Benefit obligations *RMB'000*	Accruals *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2011	85,723	10,360	35,750	21,746	153,579
Acquisition of subsidiaries	8,419	–	6,279	–	14,698
Disposal of subsidiaries	(2,931)	–	(4,852)	(3,705)	(11,488)
Recognised in the consolidated income statements	5,436	(796)	272	16,928	21,840
At 31 December 2011	96,647	9,564	37,449	34,969	178,629
Acquisition of subsidiaries	**13**	**–**	**437**	**–**	**450**
Disposal of subsidiaries	**(1,670)**	**–**	**–**	**–**	**(1,670)**
Internal transfer	**4,658**	**1,929**	**(4,417)**	**(2,170)**	**–**
Recognised in the consolidated income statements	**11,382**	**903**	**(4,548)**	**6,598**	**14,335**
At 31 December 2012	**111,030**	**12,396**	**28,921**	**39,397**	**191,744**

26 DEFERRED INCOME TAX (continued)

The Group (continued)

Deferred income tax liabilities

	Fair value of intangible assets *RMB'000*	Deemed disposal of TECHPOOL *RMB'000*	Fair value gains from available-for-sale financial assets *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2011	–	–	23,381	20,173	43,554
Acquisition of subsidiaries	102,704	–	–	6,707	109,411
Recognised in the consolidated income statements	–	142,048	–	(7,194)	134,854
Recognised in equity	–	–	(21,531)	–	(21,531)
At 31 December 2011	102,704	142,048	1,850	19,686	266,288
Acquisition of subsidiaries	**25,718**	**–**	**–**	**972**	**26,690**
Internal transfer	**20,695**	**203**	**124**	**(21,022)**	**–**
Recognised in the consolidated income statements	**(13,522)**	**(3,485)**	**–**	**6,043**	**(10,964)**
Recognised in equity	**–**	**–**	**335**	**–**	**335**
At 31 December 2012	**135,595**	**138,766**	**2,309**	**5,679**	**282,349**

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately RMB123,470,000 (2011: RMB77,244,000) in respect of tax losses amounting to approximately RMB493,879,000 (2011: RMB308,974,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB40,729,000, RMB55,165,000, RMB27,007,000, RMB144,276,000 and RMB226,702,000 will expire in 2013, 2014, 2015, 2016 and 2017, respectively.

27 OTHER NON-CURRENT LIABILITIES

The Group

	As at 31 December 2012 RMB'000	2011 RMB'000
Medical reserve funds *(Note a)*	**73,516**	63,014
Project development funds *(Note b)*	**136,902**	80,372
Office and plant relocation funds *(Note c)*	**624,445**	255,908
Others	**59,766**	54,030
	894,629	453,324

(a) During the years ended 31 December 2012 and 2011, certain medical reserve funds were received by the Group from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group will sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2012 and 2011 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

(b) Certain of the Group's subsidiaries and the Company received funds from local governments as compensation for expenses arising from research expenses on certain special projects. Upon completion of the research, such funds, after offsetting against actual expenses arising during the course of research, will be recognised as other income. As at each balance sheet date, the directors expect that such project will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

(c) Certain of the Group's subsidiaries received funds from local governments or other organisations as compensation for losses arising from office or plant relocation upon the request from the local government. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses arising from office relocation, will be recognised as other income. As at each respective balance sheet date, the directors expect that such office or plant relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

The Company

	As at 31 December 2012 RMB'000	2011 RMB'000
Project development funds	**26,686**	28,278

Notes to the Consolidated Financial Statements

28 TERMINATION BENEFIT OBLIGATIONS

The Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Termination benefit	**52,353**	58,524

The Group had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the "Early Retired Employees").

The Group recognises a liability for the present value of the obligations relating to the termination benefits payable to these Early Retired Employees.

The liability related to the benefit obligations for the Early Retired Employees existing at the respective balance sheet dates are calculated by the management using future cash flow discounting method.

Movements of the net liability recognised in the consolidated financial statements are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of year	**58,524**	79,835
Recognised as expense *(Note 33)*	**–**	637
Benefits paid	**(6,171)**	(21,948)
At end of year	**52,353**	58,524

29 OTHER INCOME

The Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Government grants *(Note a)*	**172,567**	109,846
Subsidy for relocation *(Note 27(c))*	**299,043**	51,663
Dividend income from available-for-sale financial assets	**4,452**	6,122
	476,062	167,631

(a) Government grants mainly represented subsidy income received from various government organisations to support the operation of the Group.

30 OTHER LOSSES – NET

The Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Gain/(Loss) of financial assets at fair value through profit or loss, net	**262**	(1,075)
Gain on disposals of investment properties	**–**	4,129
(Loss)/Gain on disposals of PP&E	**(13,906)**	454
Gain on disposals of available-for-sale financial assets	**19,685**	119,412
Loss of disposal of intangible assets	**(26)**	–
Loss on disposals of land use rights	**–**	(329)
Provision for impairment of PP&E *(Note 9)*	**(3,558)**	(4,184)
Provision for impairment of available-for-sale financial assets *(Note 14)*	**(4,297)**	(6,291)
Provision for impairment of investment in associates *(Note 13)*	**(12,530)**	–
Provision for impairment of intangible assets *(Note 10)*	**–**	(1,038)
Reversal for impairment of long-term receivables	**7,462**	20,684
Foreign exchange gains/(losses)	**16,408**	(194,586)
Relocation costs *(Note 27 (c))*	**(175,969)**	–
Others – net	**(10,097)**	(21,283)
	(176,566)	(84,107)

31 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

The Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Disposal of Ningbo Asia Pacific Biotechnology Co., Ltd. ("Ningbo Asia Pacific") *(note (a))*	**19,578**	–
Deemed disposal of TECHPOOL *(note (b))*	**–**	479,195
Disposal of Qingdao Growful Dongrui Pharmaceutical Co., Ltd. ("Dongrui") *(note (c))*	**–**	37,803
Others	**27,132**	4,614
	46,710	521,612

31 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES (continued)

The Group (continued)

Note:

(a) On 30 April 2012, the Group disposed 100% of the share capital of Ningbo Asia Pacific for approximately RMB27,757,000.

	2012 *RMB'000*
Cash consideration of the 100% equity investment in Ningbo Asia Pacific	27,757
Less: Carrying amount of net assets of Ningbo Asia Pacific as at 30 April 2012	(8,179)
Gain on disposal of Ningbo Asia Pacific	19,578

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

Consequently, in recording such transaction, the Group (a) derecognised the assets (including goodwill) and liabilities of the TECHPOOL at their carrying amounts at 1 January 2011; (b) derecognised the carrying amount of non-controlling interests in TECHPOOL at 1 January 2011; (c) recognised the investment retained in TECHPOOL at fair value at 1 January 2011; and (d) recognised the resulting difference as gain in the income statement. Impact of the transaction is analysed as below:

	2011 *RMB'000*
Fair value of the 40.8% equity investment in TECHPOOL (Note 13)	742,754
Less: Carrying amount of net assets of TECHPOOL as at 1 January 2011	(491,485)
Goodwill in relation to TECHPOOL as at 1 January 2011	(63,033)
Carrying amount of non-controlling interest in TECHPOOL as at 1 January 2011	290,959
Gain on deemed disposal of TECHPOOL	479,195

The deferred tax impact on the above gain is recorded under deferred income tax liabilities in Note 26.

Notes to the Consolidated Financial Statements

31 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES (continued)

The Group (continued)

Note: (continued)

(c) On 9 May 2011, the Group disposed 100% of the share capital of Dongrui for approximately RMB19,391,000.

	2011 *RMB'000*
Cash consideration of the 100% equity investment in Dongrui	19,391
Add: Carrying amount of net liabilities of Dongrui as at 9 May 2011	18,412
Gain on disposal of Dongrui	37,803

32 EXPENSES BY NATURE

The Group

	Year ended 31 December	
	2012 ***RMB'000***	2011 *RMB'000*
Raw materials, merchandise and consumables used	**59,017,922**	49,077,744
Changes in inventories of finished goods and work in progress	**(1,434,719)**	(3,014,344)
Employee benefit expenses *(Note 33)*	**2,491,708**	2,035,075
Travelling and meeting expenses	**1,068,458**	831,854
Promotion and advertising costs	**847,964**	571,472
Depreciation of PP&E *(Note 9)*	**474,466**	427,761
Transportation costs	**286,878**	240,325
Real estate tax, stamp duties and other taxes	**245,668**	207,476
Office expenditures	**201,853**	193,793
Operating lease rentals	**199,609**	214,017
Energy and utilities	**179,121**	124,559
Repair and maintenance fee	**143,765**	100,755
Amortisation of intangible assets *(Note 10)*	**61,431**	44,775
Amortisation of land use rights *(Note 7)*	**27,231**	24,727
Provision for impairment of trade and other receivables *(Note 17)*	**24,382**	11,106
Auditors' remuneration	**19,529**	9,389
Depreciation of investment properties *(Note 8)*	**14,734**	15,861
Write-down of inventories to net realisable value	**9,360**	4,338
Others	**1,603,337**	1,399,558
Total cost of sales, distribution and selling expenses and general and administrative expenses	**65,482,697**	52,520,241

33 EMPLOYEE BENEFIT EXPENSES

The Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**1,758,503**	1,428,140
Contributions to pension plans *(Note (a))*	**298,030**	239,690
Housing fund, medical insurance and other social insurance *(Note (b))*	**308,560**	220,037
Termination benefit obligations *(Note 28)*	**–**	637
Others	**126,615**	146,571
	2,491,708	2,035,075

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

33 EMPLOYEE BENEFIT EXPENSES (continued)

The Group (continued)

(c) *Directors' and chief executive's emoluments*

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2012 is set out below:

Name of director	Salaries and fee *RMB'000*	Bonuses *RMB'000*	Others *RMB'000*	Total *RMB'000*
Mr. Zhou Jie (a)	–	–	–	–
Mr. Zhang Jialin	–	–	–	–
Mr. Lu Shen	–	–	–	–
Mr. Xu Guoxiong (also the chief executive)	**450**	**2,683**	**78**	**3,211**
Mr. Bai Huiliang	**150**	–	–	**150**
Mr. Chen Naiwei	**150**	–	–	**150**
Ms. Tommei Tong	**150**	–	–	**150**
Mr. Li zhenfu	**88**	–	–	**88**
Mr. Jiang Ming	–	–	–	–
Mr. Lu Mingfang (b)	–	–	–	–
Mr. Zeng yixin (c)	**38**	–	–	**38**
	1,026	**2,683**	**78**	**3,787**

(a) Appointed on 1 June 2012.
(b) Resigned on 31 May 2012.
(c) Resigned on 29 March 2012

The remuneration of every director and the chief executive of the Company for the year ended 31 December 2011 is set out below:

Name of director	Salaries and fee *RMB'000*	Bonuses *RMB'000*	Others *RMB'000*	Total *RMB'000*
Mr. Lu Mingfang	–	–	–	–
Mr. Zhang Jialin	–	–	–	–
Mr. Xu Guoxiong (also the chief executive)	451	2,540	71	3,062
Mr. Lu Shen	–	–	–	–
Mr. Jiang Ming	–	–	–	–
Mr. Zeng Yixin	115	–	–	115
Mr. Bai Huiliang	115	–	–	115
Mr. Chen Naiwei	115	–	–	115
Ms. Tommei Tong	115	–	–	115
	911	2,540	71	3,522

33 EMPLOYEE BENEFIT EXPENSES (continued)

The Group (continued)

(c) Directors' and chief executive's emoluments (continued)

Note:

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments (the "Emoluments") from Shanghai Pharma Group or Shanghai Industrial Group, the immediate holding company and ultimate parent company respectively. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Group and their service rendered to the immediate holding company and ultimate parent company.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include one (2011: one) director whose emoluments during the year have been included in note (c) above. The emoluments payable to the five highest individuals during the year are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Salaries and fee	**3,557**	3,103
Bonuses	**12,057**	11,191
Employer's contribution to pension scheme	**338**	320
	15,952	14,614

The emoluments fell within the following bands:

	Year ended 31 December	
	2012	2011
	Number	*Number*
Emolument bands (in HK dollars)		
HKD2,500,001 – HKD3,000,000	**1**	1
HKD3,000,001 – HKD3,500,000	**1**	1
HKD3,500,001 – HKD4,000,000	**1**	1
HKD4,000,001 – HKD4,500,000	**1**	2
HKD5,000,001 – HKD5,500,000	**1**	–

(e) In 2012 and 2011, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

34 FINANCE INCOME AND COSTS

The Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Interest income on bank deposits	**301,905**	259,283
Others	**2,544**	3,634
Total finance income	**304,449**	262,917
Interest expenses on borrowings	**(308,470)**	(326,621)
Interest expenses on notes and receivables discounted	**(163,911)**	(135,175)
Other costs	**(24,361)**	(54,537)
Total finance cost	**(496,742)**	(516,333)
Net finance costs	**(192,293)**	(253,416)

35 TAXATION

The Group

(a) *Income tax expense*

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Current income tax, PRC enterprise income tax	**652,438**	476,058
Deferred income tax	**(25,299)**	113,014
	627,139	589,072

35 TAXATION (continued)

The Group (continued)

(a) Income tax expense (continued)

(i) The Group was not subject to Hong Kong profits tax during the years presented as there was no assessable income arising in or derived from Hong Kong.

(ii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which is with effect from 1 January 2008. The New CIT Law reduces (increases) the CIT rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008.

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

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

- Shanghai WaiGaoQiao Pharmaceutical Business and Distribution Centre, Shanghai SiFu Pharmaceutical Co., Ltd., Shanghai Far-east Pharmaceutical Machinery Co., Ltd., Shanghai XinLing Pharmaceutical Co., Ltd., and Shanghai Hua Cheng Property Management Co., Ltd. used to enjoy the preferential CIT rate of 15% applicable to the domestic enterprises established in Pudong New Area, Shanghai. According to the New CIT Law and "the Circular of the State Council on the Implementation of Transitional Preferential Enterprise income Tax Policies" (GuoFa [2007] No.39), the applicable CIT rate for the subsidiaries abovementioned is 24% and 25% for 2011 and 2012, respectively.

- Shanghai New Asiatic Pharmaceutical Co., Ltd., Shanghai Dehua Traditional Chinese Medicines Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Shanghai Fuda Pharmacy Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai Zhongxisunve Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Changzhou Pharmaceutical Factory Co., Ltd. and Changzhou Kony Pharm Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise, and had enjoyed a preferential CIT rate of 15% for 2011 and 2012.

35 TAXATION (continued)

The Group (continued)

(a) Income tax expense (continued)

(iii) The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates of 25% applicable to the years as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**3,087,727**	3,035,102
Tax calculated at the domestic CIT rate applicable	**771,932**	758,776
Income not subject to taxation	**(110,005)**	(115,709)
Cost not deductible for taxation purposes	**71,569**	77,798
Preferential tax rate of certain subsidiaries	**(124,599)**	(117,097)
Additional deduction on research and development expenses	**(27,984)**	(17,584)
Utilisation of tax losses for which no deferred income tax asset was recognised	**(10,450)**	(26,114)
Tax losses for which no deferred income tax asset was recognised	**56,676**	29,002
Income tax expenses	**627,139**	589,072
Effective tax rate	**20.3%**	19.4%

The tax (charge)/credit relating to component of other comprehensive income is as follows:

	Year ended 31 December					
	2012			2011		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale financial assets	**1,342**	**(335)**	**1,007**	(86,562)	21,531	(65,031)
Currency translation differences, net	**(11,288)**	**–**	**(11,288)**	(5,538)	–	(5,538)
Others	**–**	**–**	**–**	10,550	–	10,550
	(9,946)	**(335)**	**(10,281)**	(81,550)	21,531	(60,019)
Current tax		**–**			–	
Deferred tax *(note 26)*		**(335)**			21,531	
		(335)			21,531	

35 TAXATION (continued)

The Group (continued)

(b) *Business tax ("BT") and related taxes*
Certain of the Group's revenues are subject to BT at rate of 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1%, 5% or 7% and 1% to 5% of the amount of BT payable.

(c) *Value-added tax ("VAT") and related taxes*
Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 6%, 13% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 5% of the net VAT payable.

36 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year 2012 has been dealt with in the financial statements of the Company to the extent of approximately RMB856,024,000 (2011: RMB493,096,000).

37 EARNINGS PER SHARE

For years ended 31 December 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.

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	**2,052,872**	2,042,239
Number of ordinary shares (thousands)	**2,688,910**	2,420,563
Basic earnings per share (RMB)	**0.76**	0.84

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during the years presented.

38 DIVIDENDS

The dividends paid in 2012 and 2011 were approximately RMB430,226,000 (RMB0.16 per share) and RMB278,970,000 (RMB0.14 per share) respectively. A dividend in respect of the year ended 31 December 2012 of RMB0.24 per share, amounting to a total dividend of RMB645,339,000, is proposed by the directors of the Company and subject to the shareholders' approval at the annual general meeting. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.24 (2011: RMB0.16) per share	**645,339**	430,226

The aggregate amounts of the dividends proposed in respect of 2012 and 2011 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(i) Cash generated from operations

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**3,087,727**	3,035,102
Adjustments for:		
– Share of profit from associates	**(267,720)**	(246,791)
– Share of profit from jointly controlled entities	**(70,673)**	(56,959)
– Depreciation of PP&E and investment properties	**493,607**	443,622
– Amortisation of land use rights and intangible assets	**88,662**	69,502
– Financial assets at fair value through profit or loss	**(262)**	1,075
– (Gain)/loss on disposals of		
– investment property	**–**	(4,129)
– PP&E	**13,906**	(454)
– land use rights and intangible assets	**26**	329
– investment in subsidiaries and associates	**(46,710)**	(521,612)
– available-for-sale financial assets	**(19,685)**	(119,412)
– Reversal for impairment of long-term receivables	**(7,462)**	(20,684)
– Provisions for impairment of		
– trade and other receivables	**24,382**	11,106
– inventories	**9,360**	4,339
– investment in associate	**12,530**	–
– PP&E	**3,558**	4,184
– available-for-sale financial assets	**4,297**	6,291
– intangible assets	**–**	1,038
– Dividend income on available-for-sale financial assets	**(4,452)**	(6,122)
– Financial cost – net	**167,932**	198,879
– Foreign exchange gain and loss – net	**(22,717)**	210,616
– Other gains – others, net	**10,097**	23,121
	3,476,403	3,033,041
Changes in working capital:		
– Inventories	**(1,466,409)**	(1,565,903)
– Trade and other receivables	**(2,324,466)**	(1,210,110)
– Trade and other payables	**1,734,015**	1,808,863
– Restricted cash	**71,149**	(21,777)
Cash generated from operations	**1,490,692**	2,044,114

Notes to the Consolidated Financial Statements

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(ii) In the cash flow statements, proceeds from disposals of PP&E and investment property comprise:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Net book amount	**25,499**	67,544
(Loss)/Gain on disposal *(Note 30)*	**(13,906)**	4,583
	11,593	72,127
Net decrease/(increase) in receivables in respect of disposal of PP&E and investment property	**8,474**	(30,708)
Proceeds from disposal	**20,067**	41,419

(iii) In the cash flow statements, proceeds from disposals of land use rights and intangible assets (excluding goodwill) comprise:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Net book amount	**26**	519
Loss on disposal *(Note 30)*	**(26)**	(329)
Proceeds from disposal	**–**	190

(iv) In the cash flow statements, proceeds from disposals of available-for-sale financial assets comprise:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Net book amount	**31,575**	22,692
Gain on disposal *(Note 30)*	**19,685**	119,412
	51,260	142,104
Cash receipt in respect of disposal of available-for-sale financial assets in prior year	**–**	89,068
Proceeds from disposal	**51,260**	231,172

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(v) In the cash flow statements, proceeds from disposals of subsidiaries and associates:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Net book amount	**27,939**	871
Gain on disposal	**46,710**	42,417
	74,649	43,288
Cash receipt in respect of disposal of associates in prior year	**–**	44,072
Cash and cash equivalents in subsidiaries disposed	**(16,188)**	(18,607)
Receivables in respect of disposal of subsidiaries	**(30,420)**	–
Proceeds from disposal	**28,041**	68,753

(vi) In 2011, the Group has entered into certain assignments with Shanghai Pharma Group and Shanghai Asia Pioneer Pharmaceutical Co., Ltd., pursuant to which, part of the total consideration (approximately RMB1,488,022,000) in respect of acquisition of Anti-biotic Businesses (as disclosed in Note 1) amounting to RMB417,570,000 due to Shanghai Pharma was settled by the Group through the current receivable account with Shanghai Asia Pioneer Pharmaceutical Co., Ltd..

In 2011, the Group has entered into certain assignments with Shanghai Pharma Group, pursuant to which, trade payables amounting to RMB100,000,000 due to Shanghai Pharma Group was settled by the Group through the current receivable account.

40 CONTINGENCIES AND GUARANTEES

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

(b) Outstanding loan guarantees

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Outstanding loan guarantees provided to related parties	**198,970**	176,000

As of 31 December 2012, outstanding loan guarantees of approximately RMB198,970,000 (2011: RMB176,000,000) provided by the Group to certain related parties of the Group (Note 44(d)).

The management has assessed that it is not probable for the Group to repay the guarantees and thus has not made any provision for the outstanding balance of the guarantees.

41 COMMITMENTS

(a) Capital commitments

(i) *Constructions*
Capital expenditure contracted for at the end of year but not yet incurred is as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
PP&E	**17,827**	21,556

(b) Operating lease commitments

(i) The Group is the lessee:
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
No later than 1 year	**90,515**	88,124
Later than 1 year and no later than 2 years	**80,336**	71,765
Later than 2 years and no later than 5 years	**128,506**	71,894
Later than 5 years	**84,216**	70,058
	383,573	301,841

41 COMMITMENTS

(b) Operating lease commitments (continued)

(ii) The Group is the lessor:

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
No later than 1 year	**31,251**	32,668
Later than 1 year and no later than 2 years	**24,548**	28,205
Later than 2 years and no later than 5 years	**28,796**	41,852
Later than 5 years	**6,605**	10,395
	91,200	113,120

42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Significant transactions with non-controlling shareholders of certain subsidiaries relate to acquisition of additional interest in subsidiaries as follows:

(i) Transaction with non-controlling interests of Changzhou Pharmaceutical Co., Ltd. (常州藥業股份有限公司, "Changzhou Pharmaceutical")

From August to December 2012, the Group acquired additional 11.27% equity interests of Changzhou Pharmaceutical in total for a purchase consideration of approximately RMB151,651,000. The carrying amount of the non-controlling interests in Changzhou Pharmaceutical of acquisition was up to approximately RMB108,392,000. The Group recognised a decrease in non-controlling interests of approximately RMB108,392,000 and a decrease in equity attributable to owners of the Company of approximately RMB43,259,000. The effect of changes in the ownership interests of Changzhou Pharmaceutical on the equity attributable to owners of the Company during the year is summarised as follows:

	2012
	RMB'000
Carrying amount of non-controlling interests acquired	108,392
Consideration paid to non-controlling interests	(151,651)
Excess of consideration paid recognised within equity	(43,259)

42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(ii) Transaction with non-controlling interests of Shanghai Sine Wanxiang Pharmaceutical Co Ltd. (上海信誼萬象藥業股份有限公司, "Sine Wanxiang")

On 24 December 2012, the Group acquired additional 15% equity interests of Sine Wanxiang for a purchase consideration of approximately RMB34,512,000. The carrying amount of the non-controlling interests in Sine Wanxiang on the date of acquisition was approximately RMB25,371,000. The Group recognised a decrease in non-controlling interests of approximately RMB25,371,000 and a decrease in equity attributable to owners of the Company of approximately RMB9,141,000. The effect of changes in the ownership interests of Sine Wanxiang on the equity attributable to owners of the Company during the year is summarised as follows:

	2012 *RMB'000*
Carrying amount of non-controlling interests acquired	25,371
Consideration paid to non-controlling interests	(34,512)
Excess of consideration paid recognised within equity	(9,141)

43 BUSINESS COMBINATION

(a) Significant business combinations not under common control

(i) In 2012, the Group acquired 70% equity interests in Changzhou Kony Pharm Co., Ltd. ("Changzhou Kony") from an independent third party for a cash consideration of approximately RMB210,000,000. The acquisition was completed in May 2012, on which the Group effectively obtained the right to control Changzhou Kony.

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:

Acquisition consideration – cash	210,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	12,486
PP&E	70,248
Intangible assets	52,881
Other non-current assets	2,178
Inventories	20,022
Trade and other receivables	28,508
Deferred tax liabilities	(16,903)
Trade and other payables	(20,804)
Current income tax liabilities	(1,881)
Total identifiable net assets	146,735
Non-controlling interests	(44,021)
Goodwill	107,286
	210,000

Note:

Had Changzhou Kony been consolidated from 1 January 2012, the consolidated revenue and profit of the Group would be increased by approximately RMB47,698,000 and RMB16,147,000, respectively.

43 BUSINESS COMBINATION (continued)

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

(ii) In March 2012, the Group acquired 67% equity interests in Zhejiang Shangyao Xinxin Pharmaceutical Co. Ltd. (浙江上藥新欣醫藥有限公司, "Xinxin Pharmaceutical") from an independent third party for a cash consideration of approximately RMB102,740,000. The acquisition date of this transaction was 31 March 2012, on which the Group effectively obtained the right to control Xinxin Pharmaceutical:

The following table summarises 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:

Acquisition consideration – cash	102,740
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	85,083
PP&E	16,156
Intangible assets	6,330
Investment in an associate	245
Inventories	41,977
Trade and other receivables	144,456
Deferred income tax liabilities	(1,583)
Trade and other payables	(147,061)
Borrowings	(63,320)
Total identifiable net assets	82,283
Non-controlling interests	(27,153)
Goodwill	47,610
	102,740

Note:

Had Xinxin Pharmaceutical been consolidated from 1 January 2012, the consolidated revenue and profit of the Group would be increased by approximately RMB98,105,000 and RMB1,177,000, respectively.

43 BUSINESS COMBINATION (continued)

(b) In the cash flow statements, increase in interests in subsidiaries:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cash consideration paid for business combination not under common control	**328,217**	3,166,168
Less: cash and cash equivalents in subsidiaries acquired	**(113,486)**	(498,885)
	214,731	2,667,283
Cash consideration paid for transaction with non-controlling interests	**226,796**	156,493
	441,527	2,823,776

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS

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

The Company is controlled by Shanghai Pharma Group and Shanghai Industrial Group, the immediate holding 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.

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Pharmaceutical Advertisement Co., Ltd. (上海醫藥廣告有限公司)	Controlled by Shanghai Pharma Group
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Zhenshen Pharmaceutical Corp.,Ltd. (上海振申醫藥進出口有限公司)	Controlled by Shanghai Pharma Group
Shanghai Industrial Trade Co.,Ltd. (上海實業貿易有限公司)	Controlled by Shanghai Industrial Group
Shanghai Antibioticos Pioneer Pharmaceutical Co., Ltd. (上海安替比奧先鋒製藥有限公司)	Controlled by Shanghai Industrial Group
Shanghai Pharmaceutical Technology Development Co., Ltd. (上海醫藥科技發展有限公司)	Controlled by Shanghai Industrial Group
Shanghai 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
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai Baohua Industrial Co., Ltd. (上海保華實業公司)	Associate
Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海信誼博萊科藥業有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司)	Associate
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	Associate
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai Draeger Medical Instrument Co., Ltd. (上海德爾格醫療器械有限公司)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司)	Associate
Shanghai Beisiou Pharmaceutical Co., Ltd. (上海貝斯歐藥業有限公司)	Associate

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	Associate
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	Associate
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
TECHPOOL (廣東天普生化醫藥股份有限公司)	Associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司)	Associate
Huanren Manchu Municipality Grain Packaging Co., Ltd. (桓仁滿族自治縣格瑞恩包裝有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co.,Ltd. (上海華仁醫藥有限公司)	Associate
Shandong Ruiying Pioneer Pharmaceuticals Co.,Ltd. (山東睿鷹先鋒製藥有限公司)	Associate
Beijing Xin Hai Kang Pharmaceutical Co., Ltd. (北京信海康醫藥有限公司)	Subsidiary of associate
Henan Kangxin Pharmaceutical Co., Ltd. (河南省康信醫藥有限公司)	Subsidiary of associate

44 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 years and balances arising from related party transactions.

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

In 2012 and 2011, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parities.

	Year end 31 December	
	2012	2011
	RMB'000	*RMB'000*
Sales of goods and render of service		
Jiangxi Nanhua Medicines Co., Ltd.	**338,265**	191,187
Henan Kangxin Pharmaceutical Co., Ltd.	**126,532**	94,057
Shanghai Deyi Pharmaceutical Co., Ltd.	**66,257**	52,437
Shanghai Luoda Pharmaceutical Co., Ltd.	**60,298**	59,113
Shanghai Hutchison Pharmaceutical Co., Ltd.	**57,415**	56,812
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**46,825**	67,401
Shanghai lvyuan Pharmacy Co., Ltd.	**28,914**	26,305
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	**22,211**	14,553
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**17,786**	72,948
Shanghai Huaren Pharmaceutical Co.,Ltd.	**14,666**	–
Shanghai Roche Pharmaceutical Co., Ltd.	**12,168**	2,843
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**4,314**	4,085
Shanghai Jianer Pharmacy Co., Ltd.	**3,770**	5,588
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	**3,232**	2,508
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**2,430**	3,080
Others	**2,617**	3,181
	807,700	656,098

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year end 31 December	
	2012	2011
	RMB'000	*RMB'000*
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	**1,866,566**	1,052,900
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**730,655**	603,913
TECHPOOL	**176,851**	149,180
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**150,221**	108,618
Shanghai Hutchison Pharmaceutical Co., Ltd.	**143,369**	118,378
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**32,942**	30,139
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	**32,099**	26,482
Shanghai Luoda Pharmaceutical Co., Ltd.	**27,618**	21,112
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**24,510**	19,438
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**12,303**	7,764
Shandong Ruiying Pioneer Pharmaceuticals Co.,Ltd.	**8,949**	–
Shanghai Deyi Pharmaceutical Co., Ltd.	**8,217**	12,477
Shanghai Huaren Pharmaceutical Co.,Ltd.	**4,741**	–
Huanren Manchu Municipality Grain Packaging Co., Ltd.	**2,178**	2,808
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**1,996**	1,378
Shanghai Pharmaceutical (Group) Co., Ltd.	**–**	1,908
Others	**6,529**	4,033
	3,229,744	2,160,528

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	**10,114**	7,575

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	**26,921**	26,347
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**12,756**	–
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	**3,144**	–
	42,821	26,347

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**28,525**	35,065

On 23 February 2011, the Company has entered into certain agreements (the "Agreements") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to which the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. In 2012, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB28,524,000. As of 31 December 2012, the Group has cumulatively paid approximately RMB63,589,000 to Fudan Zhangjiang with respect to the Agreements.

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Purchase of PP&E, Intangible assets and inventories		
Shanghai Pharmaceutical Technology Development Co., Ltd.	**15,499**	–
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**23,147**	–
	38,646	–

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Transfer of assets

Pursuant to the agreement signed between the Group and the immediate holding company. The Group purchased all the assets of a subsidiary of the immediate holding company at the consideration of approximately RMB6,721,000.

Set up an associate with a third party

Pursuant to the agreement signed between the Group and a certain third party. The Group contributed certain construction-in-progress amounting to approximately RMB25,046,000 to an associate named Shanghai ChinaSun Far-East Pharmaceutical Machinery Co., Ltd..

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Interest income		
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	**1,953**	1,885
Others	**–**	71
	1,953	1,956

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Interest expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	**–**	8,396
Others	**–**	146
	–	8,542

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(b) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Salaries and fee	**1,844**	2,480
Bonuses	**9,766**	9,368
Others	**425**	420
	12,035	12,268

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:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**154,105**	111,252
Other receivables	**58,336**	36,421
Prepayments	**8,026**	3,780
Dividends receivables	**21,028**	15,991
	241,495	167,444

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	**66,384**	18,157
Henan Kangxin Pharmaceutical Co., Ltd.	**16,044**	11,116
Shanghai Luoda Pharmaceutical Co., Ltd.	**14,774**	12,962
Shanghai Hutchison Pharmaceutical Co., Ltd.	**14,649**	12,049
Shanghai Deyi Pharmaceutical Co., Ltd.	**9,928**	6,376
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**9,533**	4,452
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	**7,140**	6,811
Shanghai Huaren Pharmaceutical Co.,Ltd.	**3,491**	–
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**2,985**	2,765
Shanghai lvyuan Pharmacy Co., Ltd.	**2,823**	3,126
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**1,658**	27,015
Others	**4,696**	6,423
	154,105	111,252
Less: Provision for impairment	**(4,500)**	(3,817)
	149,605	107,435

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Other receivables due from		
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	**34,704**	16,542
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	**9,949**	–
Shanghai Beisiou Pharmaceutical Co., Ltd.	**5,800**	5,800
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	**3,458**	3,052
Shanghai Antibioticos Pioneer Pharmaceutical Co., Ltd.	**2,284**	10,000
Shanghai Huaren Pharmaceutical Co.,Ltd.	**1,500**	–
Others	**641**	1,027
	58,336	36,421
Less: Provision for impairment	**(8,821)**	(17,574)
	49,515	18,847

Other receivables are non-trade receivables mainly represented loan to or assets sold to related parties and will be settled upon demand of the Group.

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Less than 3 months	**134,866**	87,998
3 months to 6 months	**25,354**	16,772
6 months to 12 months	**20,377**	20,610
1 year to 2 years	**20,031**	268
Over 2 years	**11,813**	22,025
	212,441	147,673

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Prepayments due from		
Shanghai Pharmaceutical Advertisement Co., Ltd.	**7,000**	–
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	**678**	3,349
Others	**348**	431
	8,026	3,780

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Dividends receivable		
Shanghai Draeger Medical Instrument Co., Ltd.	**12,600**	–
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	**5,684**	6,351
Shanghai Luoda Pharmaceutical Co., Ltd.	**1,556**	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**1,000**	500
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	**–**	8,107
Others	**188**	1,033
	21,028	15,991

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade Payables	**399,232**	263,634
Other Payables	**25,623**	90,131
Advances	**2,280**	4,316
Dividends Payable	**11,131**	20,619
	438,266	378,700

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	**265,678**	144,390
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	**58,064**	54,122
TECHPOOL	**41,901**	26,470
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**14,076**	3,242
Shanghai Hutchison Pharmaceutical Co., Ltd.	**5,410**	16,608
Shanghai Luoda Pharmaceutical Co., Ltd.	**2,743**	142
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	**2,693**	1,469
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	**2,101**	–
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	**1,867**	2,560
Shanghai Deyi Pharmaceutical Co., Ltd.	**1,848**	582
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**–**	6,397
Others	**2,851**	7,652
	399,232	263,634

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Other payables due to		
Shanghai Pharmaceutical (Group) Co., Ltd.	**14,404**	65,315
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	**9,066**	9,103
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	**1,535**	–
Shanghai Roche Pharmaceutical Co., Ltd.	**–**	2,000
Shanghai Baohua Industrial Co., Ltd.	**–**	4,500
Shanghai Hutchison Pharmaceutical Co., Ltd.	**–**	3,440
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd.	**–**	2,974
Others	**618**	2,799
	25,623	90,131

Other payables are all non-trade payables mainly represented borrowings from related parties and will be settled upon demand of these related parties.

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Less than 3 months	**384,782**	341,638
3 months to 6 months	**14,222**	1,096
6 months to 12 months	**572**	6,249
1 year to 2 years	**22,113**	1,249
Over 2 years	**3,166**	3,533
	424,855	353,765

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Advances due to		
Shanghai Baohua Industrial Co., Ltd.	**2,064**	2,064
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**–**	1,530
Others	**216**	722
	2,280	4,316

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	**11,052**	20,540
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	**79**	79
	11,131	20,619

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Outstanding loan guarantees provided by the Group to		
Shandong Ruiying Pioneer Pharmaceuticals Co.,Ltd.	**115,000**	135,000
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	**45,000**	20,000
Jiangxi Nanhua Medicines Co., Ltd.	**15,000**	20,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	**14,970**	–
Shanghai Luoda Pharmaceutical Co., Ltd.	**9,000**	1,000
	198,970	176,000

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Outstanding loan guarantees given to the Group by		
Shanghai Pharmaceutical (Group) Co., Ltd.	**4,350**	90,080

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45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

As at 31 December 2012, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Pharmaceutical Distribution Co., Ltd. (上海醫藥分銷控股有限公司)	PRC, 26 April 2010	2,836,868	100	–	Distribution of pharmaceutical products in the PRC
Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥廠有限公司)	PRC, 23 October 1993	821,000	100	–	Pharmaceutical products manufacture and trading in the PRC
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. (上海第一生化藥業有限公司)	PRC, 30 July 1994	225,000	100	–	Medicine and medical equipment manufacture and trading in the PRC
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	PRC, 28 April 1992	463,690	100	–	Manufacture and distribution of Chinese medicine and property rental in the PRC
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	PRC, 6 November 1992	128,500	–	55	Medicine manufacture and trading in the PRC
Changzhou Pharmaceutical Co., Ltd. (常州藥業股份有限公司)	PRC, 1 November 1993	78,790	73.96	–	Medicine Distribution in the PRC
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	PRC, 3 November 1995	545,800	65.13	34.87	Medicines development and manufacture in the PRC
Qingdao Growful Pharmaceutical Co., Ltd. (青島國風藥業股份有限公司)	PRC, 30 June 1994	95,000	67.52	–	Traditional Chinese medicine manufacture and trading in the PRC
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	PRC, 10 Mar 2009	63,642	100	–	Medicine manufacture and trading in the PRC

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45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	84,030	–	61	Medicine manufacture and trading in the PRC
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	PRC, 1 January 1999	53,160	–	51.01	Medicine manufacture and trading in the PRC
Liaoning Herbapex Pharmaceutical (group) Co., Ltd. (遼寧好護士藥業(集團)有限公司)	PRC, 12 December 1999	51,000	–	55	Medicine manufacture and trading in the PRC
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	PRC, 10 September 1998	127,000	99.21	0.79	Medical instruments manufacture and trading in the PRC
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	PRC, 12 May 1982	71,390	100	–	Distribution of pharmaceutical products in the PRC
Shanghai Pharmaceutical Import and Export Co., Ltd. (上海醫藥進出口有限公司)	PRC, 1 October 1986	90,140	100	–	Imports and exports business on medical equipment, medicine and chemical raw materials in the PRC
Shanghai New Asiatic Pharmaceutical Co., Ltd. (上海新亞藥業有限公司)	PRC, 11 August 1993	679,587	96.9	–	Medicine manufacture and trading in the PRC
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (上海新先鋒華康醫藥有限公司)	PRC, 10 January 1994	11,448	100	–	Distribution of pharmaceutical products in the PRC
Shanghai Sunve Co., Ltd. (上海三維有限公司)	PRC, 10 February 1990	99,033	100	–	Investment holding practices in the PRC

45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
SIIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司)	Cayman Islands, 17 September 1999	HKD4,250,893	100	–	Investment holding practices in the PRC
Shanghai United International Limited (香港上聯國際有限公司)	Hong Kong, 2 June 1999	HKD50,000	100	–	International trading in Hong Kong
Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. (上海實業聯合集團藥業有限公司)	PRC, 19 January 2000	257,130	100	–	Investment holding practices in the PRC
Huarui Shanghai Investment Co., Ltd. (上海華瑞投資有限公司)	PRC, 15 November 2000	200,000	90	10	Assets management and investment consultation within pharmaceutical system in the PRC
Shanghai Industrial United Holdings Pharmaceutical Research Center Co., Ltd. (上海實業聯合集團藥物研究所有限公司)	PRC 18 December 2002	50,600	100	–	Medicine and medical equipment research and development in the PRC
Ningbo Pharmaceutical Co., Ltd. (寧波醫藥股份有限公司)	PRC, 5 July 1994	250,000	–	63.61	Distribution of pharmaceutical products in the PRC
Shanghai Suzuken Chinese Medicine Co., Ltd. (上海鈴謙滬中醫藥有限公司) *(Note)*	PRC, 10 November 1999	84,460	–	50	Distribution of pharmaceutical products in the PRC
Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高橋醫藥分銷中心有限公司)	PRC, 9 August 2001	20,000	–	65	Distribution of pharmaceutical products in the PRC

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45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司)	PRC, 27 May 1994	12,000	–	60	Distribution of pharmaceutical products in the PRC
Shangqiu Xin Xian Feng Pharmaceutical Co., Ltd. (商丘市新先鋒藥業有限公司)	PRC, 5 April 2005	50,000	–	52	Distribution of pharmaceutical products in the PRC
Shanghai Sine United Medical Material Co., Ltd. (上海信誼聯合醫藥藥材有限公司)	PRC, 28 January 1994	20,653	–	81.60	Pharmaceutical products trading in the PRC
Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	PRC, 21 May 1998	335,070	–	97.58	Pharmaceutical products manufacture and trading in the PRC
Shanghai Huayu Pharmaceutical Co., Ltd. (上海華宇藥業有限公司)	PRC, 17 December 1998	60,600	–	65.22	Manufacture and distribution of traditional Chinese medicine in the PRC
Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	PRC, 14 December 2001	108,000	–	77.78	Medicine manufacture in the PRC
Shanghai Fahrenheit Pharmacy Distribution Co., Ltd. (上海華氏大藥房配送中心有限公司)	PRC, 7 November 2002	5,000	–	100	Distribution of pharmaceutical products in the PRC
Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (上藥青島國風醫藥有限責任公司)	PRC, 27 September 2003	76,667	–	100	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	PRC, 14 June 1993	500,000	–	100	Distribution of pharmaceutical products in the PRC

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45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Fuda Pharmaceutical Co., Ltd. (上海福達製藥有限公司)	PRC, 15 June 1994	16,000	70	–	Pharmaceutical products manufacture and trading in the PRC
Shanghai Zhongxi Pharmaceutical (Group) Co., Ltd. (上海中西三維醫藥有限公司)	PRC, 28 September 1993	50,000	–	100	Pharmaceutical products manufacture and trading in the PRC
Fujian Pharmaceutical Co., Ltd. (福建省醫藥有限責任公司) *(Note)*	PRC, 1 August 2010	109,716	–	49	Pharmaceutical products trading in the PRC
Beijing Xinhai Keyuan Pharmacy Co., Ltd (北京科園信海醫藥經營有限公司)	PRC, 8 March 1999	300,000	–	100	Pharmaceutical products trading in the PRC
Keyuan Xinhai (Beijing) Medical Products Trade Co.,Ltd (科園信海(北京)醫療用品貿易有限公司)	PRC, 4 January 2009	30,000	–	100	Pharmaceutical products trading in the PRC
Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (廣州中山醫醫藥有限公司)	PRC, 8 January 1998	76,880	–	51	Pharmaceutical products trading in the PRC
Taizhou Pharmaceutical Co., Ltd. (台州上藥醫藥有限公司)	PRC, 31 December 2010	65,000	–	60	Pharmaceutical products trading in the PRC
Beijing Aixin Weiye Medicine Co., Ltd. (北京上藥愛心偉業醫藥有限公司)	PRC, 29 November 2010	100,000	–	52.24	Pharmaceutical products trading in the PRC
Shanghai Shanhe Wuxi Pharmaceutical Co., Ltd. (上藥山禾無錫醫藥股份有限公司)	PRC, 1 July 2011	62,720	–	80	Pharmaceutical products trading in the PRC

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45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Changzhou Kony Pharmaceutical Co., Ltd. (常州康麗製藥有限公司)	PRC, 3 January 2000	14,946	–	70	Pharmaceutical products manufacture and trading in the PRC
Xinxin Pharmaceutical Co. Ltd. Of Zhejiang On The Drug (浙江上藥新欣醫藥有限公司)	PRC, 5 January 2005	37,880	–	67	Pharmaceutical products trading in the PRC
Shanghai Pharmaceutical North Investment Co., Ltd. (上藥北方投資有限公司)	PRC, 16 January 2012	USD80,000	–	100	Assets management and investment consultation within pharmaceutical system in the PRC
SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司) *(Note)*	PRC, 11 January 2011	82,000	–	50	Pharmaceutical products trading in the PRC

Principal jointly controlled entities

As at 31 December 2012, the Company has indirect interests in the following principal jointly controlled entities:

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	PRC, 30 April 2001	88,000	–	50	Traditional Chinese medicine manufacture and trading in the PRC
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	PRC, 31 December 2001	180,000	–	50	Distribution of pharmaceutical products in the PRC

45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal associates

As at 31 December 2012, the Company has indirect interests in the following principal jointly controlled entities:

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	PRC, 6 May 1994	460,079 (USD62,357,143)	–	30	Pharmaceutical products manufacture and trading in the PRC
Sino-American Shanghai Squibb Pharmaceutical Ltd. (中美上海施貴寶製藥有限公司)	PRC, 14 October 1982	126,814 (USD18,440,000)	30	–	Pharmaceutical products manufacture and trading in the PRC
TECHPOOL	PRC, 25 March 1993	100,000	39.28	1.52	Development, manufacture and distribution of chemical medicine in the PRC
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	PRC, 11 November 1996	71,000	19.66	9.94	Development, manufacture and trading of pharmaceutical products in the PRC
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd (杭州胡慶餘堂國藥號有限公司)	PRC, 18 June 2001	13,158	–	24	Pharmaceutical products trading in the PRC
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. (北京信海豐園生物醫藥科技有限公司)	PRC, 9 November 1998	50,000	–	50	Distribution of pharmaceutical products in the PRC
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	PRC, 28 August 1997	50,000	–	44.24	Distribution of pharmaceutical products in the PRC

45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal associates (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Ajinomoto Amino Acid Co., Ltd. (上海味之素氨基酸有限公司)	PRC, 24 February 1998	99,352 (USD12,000,000)	39	–	Amino acids in bulk drugs manufacture in the PRC
Shanghai Tsumura Pharmaceutical Co., Ltd. (上海津村製藥有限公司)	PRC, 26 July 2001	171,336 (USD36,200,000)	–	34	Traditional Chinese medicine manufacture and trading in the PRC
Shanghai Sine Promod Pharmaceutical Co.,Ltd. (上海信誼百路達藥業有限公司)	PRC, 25 July 1997	38,000	–	25	Pharmaceutical products manufacture and trading in the PRC

Note：

The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of these subsidiaries although its equity interests in these subsidiaries were not greater than 50%, after considering the facts that the majority of the executive directors of these subsidiaries were representatives of the Group.

46 EVENTS AFTER THE BALANCE SHEET DATE

(a) Acquisition of Chiatai Qingchunbao Pharmaceuticals Co., Ltd. ("Chiatai Qingchunbao")

On 12 March 2013, as approved by the Board of the Company, the Group announced it would acquire additional 20% equity interests in Chiatai Qingchunbao at a consideration of RMB444,400,000 from its other equity holders. After the acquisition, the Group's equity interests in Chiatai Qingchunbao will increase from 55% to 75%.

(b) Proposed dividend of the Company

As approved by the board of directors on 26 March 2013, the Company proposed a final dividend for 2012 of approximately RMB645,339,000 to its shareholders, representing RMB0.24 per share. This proposal is subject to the shareholders' approval.

Shanghai Pharmaceuticals Holding Co., Ltd.*

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