



Shanghai Pharmaceuticals Holding Co., Ltd.*

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

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



Interim Report 2013

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 interim 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 third meeting of the fifth session of the board of directors on 22 August 2013, at which resolutions including the interim results of the Company for the six months ended 30 June 2013 were approved.
- III. The interim financial report of the Company is unaudited. The board of directors and the audit committee of the Company have reviewed and confirmed this financial report.
- IV. Mr. Lou Dingbo, the person in charge of the Company, Mr. Cho Man, 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 interim report.
- V. The forward-looking statements, such as future plans, contained in this interim report do not constitute any substantive commitment by the Company to the investors. Investors are advised to be aware of the investment risks involved.
- VI. Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation? No
- VII. Is there any instance of providing external guarantee that is in breach of the established decision making procedure? No

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CHAPTER 1 DEFINITIONS

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 Holding Co., Ltd. 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 6-month period from 1 January 2013 to 30 June 2013
“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)

CHAPTER 1 DEFINITIONS

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Companies 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 People’s Republic of China (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)

CHAPTER 2 BASIC CORPORATE INFORMATION

I. CORPORATE INFORMATION

Legal name of the Company in Chinese	上海醫藥集團股份有限公司
Legal Chinese abbreviation of the name of the Company	上海醫藥
Legal name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd.
Legal representative of the Company	Mr. Lou Dingbo
Authorised representatives of the Company	Mr. Lou Dingbo, 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	+86 21-63730908
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E-mail	pharm@sphchina.com

III. CHANGES IN BASIC CORPORATE INFORMATION

Website of the Company	http://www.sphchina.com
E-mail	pharm@sphchina.com

IV. CHANGES IN INFORMATION DISCLOSURE AND PLACE WHERE INFORMATION IS AVAILABLE FOR INSPECTION

During the Reporting Period, there was no change in information disclosure and place where information is available for inspection.

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

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

CHAPTER 3 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

(I) Major Accounting Data Prepared in accordance with the Chinese Accounting Standards for Business Enterprises

Unit: RMB

Major accounting data	Reporting Period (January to June)	Corresponding period last year	Increase (decrease) during the Reporting Period as compared to the corresponding period last year (%)
Operating revenue	38,717,901,798.14	33,621,195,553.46	15.16
Net profit attributable to equity holders of the Company	1,189,609,405.94	1,147,716,010.84	3.65
Net profit after deduction of non-recurring profit or loss attributable to equity holders of the Company	1,131,579,157.01	1,069,856,443.84	5.77
Net cash flows from operating activities	338,690,231.09	610,226,035.29	-44.50

	As at the end of the Reporting Period	As at the end of last year	Increase (decrease) as at the end of the Reporting Period as compared to the end of last year (%)
Net assets attributable to equity holders of the Company	24,916,854,336.27	24,639,299,336.20	1.13
Total assets	54,201,618,384.49	51,069,037,985.13	6.13

(II) Major Financial Indicators Prepared in accordance with the Chinese Accounting Standards for Business Enterprises

Major financial indicators	Reporting Period (January to June)	Corresponding period last year	Increase (decrease) during the Reporting Period as compared to the corresponding period last year (%)
Basic earnings per share (RMB per share)	0.4424	0.4268	3.65
Diluted earnings per share (RMB per share)	0.4424	0.4268	3.65
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.4208	0.3979	5.77
Weighted average return on net assets (%)	4.76	4.87	decrease of 0.11 percentage point
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	4.52	4.54	decrease of 0.02 percentage point

CHAPTER 3 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

(III) Major Accounting Data and Financial Indicators Prepared in accordance with the Hong Kong Financial Reporting Standards

Unit: RMB'000

	As at the end of the Reporting Period	As at the end of last year	Increase (decrease) as at the end of the Reporting Period as compared to the end of last year (%)
Total assets	54,201,618	51,069,038	6.13
Equity attributable to equity holders of the parent	24,916,854	24,639,299	1.13
Net assets per share attributable to equity holders of the parent (RMB per share)	9.27	9.16	1.13

	Reporting Period (January to June)	Corresponding period last year	Increase (decrease) during the Reporting Period as compared to the corresponding period last year (%)
Profit before income tax	1,709,183	1,697,668	0.68
Net profit attributable to equity holders of the parent	1,189,609	1,147,718	3.65
Basic and diluted earnings per share (RMB)	0.44	0.43	3.65
Weighted average return on net assets (%)	4.76	4.87	decrease of 0.11 percentage point

II. 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 interim report are extracted from the financial report of the Company prepared under the Chinese Accounting Standards for Business Enterprises.

CHAPTER 3 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

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

Unit: RMB

Non-recurring Profit or Loss Item	Reporting Period (January to June)	Corresponding period last year
Profit or loss on disposal of non-current assets	9,071,738.62	27,531,609.63
Government grants included in profit or loss for the current period (except those closely related to the Group's operations and granted in accordance with national unified standards for a fixed amount or quota)	24,366,497.27	77,120,235.00
Except for the effective hedging activities related to the Group's ordinary operations, 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	756,246.70	723,649.38
Reversal of provisions on receivables assessed for impairment on an individual basis	2,761,932.53	7,461,768.04
Other non-operating income and expenses other than the aforesaid items	-5,099,459.45	-4,999,388.20
Other profit or loss items that meet the definition of non-recurring profit or loss	36,814,698.47	-
Effect on income tax	-7,550,259.65	-26,121,243.84
Effect on non-controlling interests (after tax)	-3,091,145.56	-3,857,063.01
Total	58,030,248.93	77,859,567.00

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

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

In the first half of 2013, against the backdrop of slowing macro-economic growth, the growth of the pharmaceutical industry slowed down slightly but remained robust on the strength of certain inherent driving forces such as the long-term tendency of an aging population, the upgrade of pharmacy structures and consumption, and a more comprehensive coverage of medical insurance. The pharmaceutical industry also presented a more positive and steady growth trend as compared with other industries. In respect of industrial policies, the announcement of the pharmaceutical industry blueprints such as the Bio-industry Development Plan and the new good supplying practice (“GSP”) standards, the price adjustment implemented by the National Development and Reform Commission, the release of the 2012 National Essential Drug List and the drug tenders carried out across the nation all exerted a growing influence on the pharmaceutical industry.

During the Reporting Period, the Company focused closely on its budget planning at the beginning for the year, proactively responded to the changing market, promoted all key projects firmly, and continued to deepen its internal consolidation, resulting in satisfactory achievement of its operating goal for the first half of the year. The re-election of the new board of directors and the new board of supervisors of the Company was also smoothly completed. The development plan for the following three years (years ending 2013 to 2015) was established, targeting a three-year development goal of “realizing an operational scale of over RMB100 billion, continuous improvement and enhancement of competitiveness, as well as mutual growth among the Company, shareholders and employees”. With the vision of becoming “a respected and reputable leading pharmaceutical manufacturer and healthcare services provider” and the core values of “innovation, integrity, cooperation, inclusiveness and sense of responsibility”, the development plan is expected to lay a solid foundation for the sustainable long-term growth of the Company.

During the Reporting Period, the Company’s operating revenue was RMB38.718 billion (denominated in RMB, the same hereinafter), up by 15.16% on a YOY basis. Net profit attributable to the equity holders of the listed Company was RMB1.190 billion, representing an increase of 3.65% as compared with the corresponding period of last year and a YOY increase of 9.08% after deducting the impact of foreign exchange gains from the balance of funds raised in the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 4.03%, down by 0.31 percentage point from the corresponding period of last year. Basic earnings per share amounted to RMB0.4424 and basic earnings per share after deducting non-recurring profits and losses were RMB0.4208. During the Reporting Period, the Company’s net cash flows from operating activities amounted to RMB339 million. As at 30 June 2013, the owners’ equity of the Company was RMB27.935 billion, its owners’ equity after deducting minority interest was RMB24.917 billion and its total assets were RMB54.202 billion.

■ Pharmaceutical manufacturing and Research and Development (“R&D”)

1. *Pharmaceutical manufacturing*

During the Reporting Period, the Company’s sales revenue from the pharmaceutical business was RMB5.507 billion, representing a growth of 10.93% as compared with the corresponding period of last year; its gross profit margin was 47.16%, increased by 0.61 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 12.11%, declined by 0.94 percentage point as compared with the corresponding period of last year. The Company continued to implement its strategy to focus on key products, adjust the product portfolio and devote greater efforts to sales and marketing of its key products. Meanwhile, the Company reduced the production and sales of products with negative gross profit or low profit margins, therefore improving the gross profit margin and further optimizing its product portfolio.

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During the Reporting Period, the Company's sales revenue from biological drugs was RMB174 million, up by 37.61% as compared with the corresponding period of last year; sales revenue from chemical and biochemical drugs was RMB2,373 million, up by 12.73% as compared with the corresponding period of last year; sales revenue from Chinese medicines was RMB2,245 million, up by 9.51% as compared with the corresponding period of last year; and sales revenue from other industrial products (active pharmaceutical ingredients (APIs) and medical devices, etc.) was RMB715 million, increased by 4.84% on a YOY basis. During the Reporting Period, 19 products attained a sales revenue of RMB50 million or more, representing 41.04% of the manufacturing sales revenue from sales of pharmaceutical products, and among which 11 products achieved a sales revenue of RMB100 million or more.

The Company completed the acquisition of intangible assets from Shanghai Asia Pioneer Pharmaceutical Co., Ltd. in 2012, and then streamlined the key products. During the Reporting Period, the number of key products of the Company increased from 58 as at the end of 2012 to 64. The realized sales revenue from these 64 key products was RMB3.221 billion, representing a YOY increase of 17.34% and accounting for 58.49% of the revenue from sales of pharmaceutical products with an average gross profit margin of 62.91%. The realized sales revenue from the original 58 key products was RMB3,042 million. Among such key products, 27 achieved a growth rate higher than or equivalent to that of similar products of IMS Health Inc. The major key products that recorded a sales revenue exceeding RMB50 million in the first half of the year are as follows:

No.	Product name	Therapeutic area
1	Shenmai injection	Cardiovascular disease
2	Tanshinone IIA	Cardiovascular disease
3	Divine elephant series	Healthcare products
4	Live combined bifidobacterium	Digestive and metabolic disease
5	Ceftriaxone Sodium for Injection	Systemic anti-infective medicine
6	Tatin-based medicine	Cardiovascular disease
7	Hydroxychloroquine	Immunomodulator
8	Cefotiam	Systemic anti-infective medicine
9	Qingchunbao anti-caducity tablets	Healthcare products
10	Yangxinshi	Cardiovascular disease
11	Calcium dibutyryladenine cyclophosphate	Cardiovascular disease
12	Wangbi tablets	Immunomodulator
13	Chymotrypsin	Respiratory system
14	Soothing ointment	Others
15	Weifuchun tablets	Digestive and metabolic disease
16	Xinhuang tablets	Respiratory system
17	Rupixiao tablets	Systemic anti-infective medicine
18	Cefotaxime sodium for injection	Systemic anti-infective medicine
19	Aripiprazole	Neurological system

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The nine major key products exclusively owned by the Company in the PRC include:

- Cardiovascular drugs: Tanshinone IIA, Yangxinshi, Calcium Dibutyryladenine Cyclophosphate
- Digestive drugs: Live Combined Bifidobacterium, Weifuchun, Babaodan
- Antineoplastic drug and immunomodulator: Wangbi Tablet
- Respiratory drugs: Xinhuang Tablet
- Neurological drugs: Duloxetine Hydrochloride

The Company owns 8 major national proprietary Chinese medicine products with secret formulas, namely Xinhuang Tablet, Babaodan Capsule, Liushen Pill, Soothing Ointment (Brown), Soothing Ointment (White), Haikesu I (Active Pharmaceutical Ingredients), Haikesu II (Active Pharmaceutical Ingredients) and Shexiang Baoxin Pill. Meanwhile, the Company's products feature better quality assurance. For example, the project "Computer-based Analysis Technology of the Quality of Chinese Medicine and Its Application in the Industrial Production of Shenmai Injection" was awarded the State Science and Technology Improvement Award (Second Class).

As at the end of the Reporting Period, 9 of the Company's subsidiaries were granted 10 new version of good manufacturing practice ("GMP") Certificates (6 of which were aseptic), and another 6 subsidiaries (2 aseptic and 4 non-aseptic) had passed the on-site inspection for new GMP certification. It is expected that all of the manufacturing subsidiaries adopting aseptic processing will pass the new GMP certification by the end of this year except Zhongxi Pharmaceuticals Co., Ltd.(中西製藥有限公司), which is expected to pass the new GMP certification by the first quarter of next year. During the reform for new GMP, the Company enhanced on-site production management to ensure the quality of our pharmaceutical products. In the Announcement on Pharmaceutical Quality (Phase II) released by the China Food and Drug Administration, 355 batches from 26 products of the Company were all qualified during random checks.

2. *Pharmaceutical R&D*

During the Reporting Period, the Company invested a total of RMB187,384,900 in R&D, representing 3.40% of the Company's manufacturing sales revenue, of which, 21% was used for the R&D of innovative medicine, 37% was used for the R&D of first generic drugs and other generic drugs and 42% was used for the secondary development of existing products.

During the Reporting Period, the Company was granted 5 manufacturing approvals for new drugs and 1 new drug certificate. The Company was the fourth manufacturer in China qualified to produce the new drug named Mitiglinide Calcium Hydrate Tablets as new drug under class 3.1 of chemical drugs. During the Reporting Period, the Company filed 14 invention patent applications and was granted 15 invention patents. During the Reporting Period, the sales revenue from new products of the Company launched to markets in recent years was RMB402 million, representing 7.3% of the Company's manufacturing sales revenue.

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The research and development of innovative drugs progressed as scheduled, of which the phase I project for the clinical trial of LLTD-8, a new drug under class 1.1, was completed, and the Company is currently applying for phase II/III clinical trial. The Company has basically formulated a preliminary plan for its antibody project. The research on humanized monoclonal antibody against CD20 is continuing while the preclinical pharmaceutical and biological evaluations on the project were substantially finished and is scheduled to apply for clinical approval in the third quarter of 2013.

During the Reporting Period, among the key technological projects for the development of major new drugs during the 11th Five-year Plan period undertaken by the Group, the phase III project – “The Construction of an Industry-University-Research Institute Alliance for Research and Development of New Drugs in Shanghai Pharmaceuticals” passed the on-site technical inspection. The project on “Research and Industrialization of Neuropsychiatry Chemicals” committed by the Company has filed an application for national specialized projects for the development of generic drugs in 2013. Following first round selection and expert review and interrogation in Beijing, the project will hopefully be qualified for final selection. The project jointly proposed by Shanghai New Asiatic Pharmaceuticals Co., Ltd., a subsidiary of the Company, and the National Institute for Food and Drug Control – “Key Technology Innovation and Industrialization of β -monobactams Drugs” was awarded 2012 Shanghai Science and Technology Progress Award (Third Class).

During the Reporting Period, the Company streamlined its generic drug portfolio and drew up a corresponding working plan to improve the quality of generic drugs. Evaluations on the consistency of generic drug quality were initiated by stage and by batch.

■ Pharmaceutical services

1. *Pharmaceutical distribution*

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB33.436 billion, up by 15.97% as compared with the corresponding period of last year, with a gross profit margin of 6.11%, representing a decrease of 0.37 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 2.53%, down by 0.29 percentage point as compared with the corresponding period of last year. During the Reporting Period, upholding the cultural concept of “Being Proud of Serving Customers”, the Company participated in the medical reform proactively, thus achieving a leading position in the pilot reform of the pharmacy supply chain outsourcing service of the newly-built “5+3+1” hospitals in Shanghai. The Company also strived to build model hospitals and related service brands, and reinforced service innovation. Focusing on the operating theme of “enhancing sales, lowering costs, and heightening efficiency through synergy integration”, the Company experimented with lean management represented by “Lean Six Sigma” to reduce operating costs and improve efficiency.

In the first half of the year, among the distribution regions of the Company, the proportion of sales in the areas of East China, North China and South China was 69.26%, 22.81% and 5.66% respectively. The distribution business of the Company maintained reasonable proportions, 48.48% for sales of joint ventures manufactured and imported products and 62.58% for direct hospital sales in the first half of the year, representing a YOY decrease of 5.17 percentage points and a YOY increase of 2.78 percentage points respectively.

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As at the end of the Reporting Period, the Company's distribution business covered 9,884 medical institutions, of which 9,535 were hospitals (356 were class 3), and 349 were centres of disease control ("CDC"). During the Reporting Period, in order to expand and enrich the product line, the Company introduced 809 new products, of which 350 were imported and joint venture manufactured, and 459 were domestically manufactured.

In the first half of the year, new businesses such as high value medicines direct to patients (DTP), vaccines and high value consumables kept expanding rapidly with a sales revenue of RMB1.961 billion, of which:

- DTP: Sales revenue amounted to RMB729 million, representing a YOY growth of 48.54%. During the Reporting Period, the Company accelerated its network construction and management-control integration, and set up a service-oriented commercial model. As at the end of the Reporting Period, 9 DTP designated drugstores were under the DTP business, spanning 6 cities.
- Vaccines: Sales revenue amounted to RMB912 million, representing a YOY increase of 54.73%. The Company introduced 3 new products and expanded its network coverage with 29 newly covered CDC, bringing the total number of centres to 257. The Company is at the forefront of vaccines distribution in the PRC.
- High value consumables: Sales revenue amounted to RMB320 million, representing a YOY growth of 25.87%.

2. *Pharmaceutical Retail*

During the Reporting Period, the sales revenue from the Company's pharmaceutical retail was RMB1.481 billion, up by 12.59% YOY; gross profit margin was 19.67%; and operating profit margin after deducting sales and administration costs was 1.33%.

As at the end of the Reporting Period, the Company had 1,887 chain retail pharmacies under its brand family, including 1,082 directly operated pharmacies.

■ External Merger and Acquisition and Internal integration

1. *External mergers and acquisitions*

During the Reporting Period, as for industrial merger and acquisition, the Company completed the merger and acquisition of 79% equity interests of Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. (please refer the Company's announcement Lin No. 2013-020 for details) and the acquisition of 20% equity interests and obtaining 75% controlling equity interests in Chiatai Qingchunbao Pharmaceutical Co., Ltd. (please refer the Company's announcement Lin No. 2013-003 for details), and also approved the merger and acquisition of Shandong Pingyuan Pharmaceutical Factory (山東省平原製藥廠). As for commercial merger and acquisition, the Company approved projects such as the establishment of companies in Shiyan, Jingzhou and Wuhan by Shanghai Pharma Keyuan Xinhai Hubei Pharmaceutical Co., Ltd., the merger and acquisition of Shandong Guolin Pharmaceutical Co., Ltd. (山東國林醫藥有限公司) by Shanghai Pharmaceutical Distribution Co., Limited and the establishment of Xinrenxiang Pharmacy in Hangzhou (杭州欣仁祥藥房) and Eastern China Hongen Pharmacy in Shanghai (上海華東宏恩大藥房).

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

2. *Optimizing the establishment of cash pooling*

Through the effective operation of the cash pool, the Company further expanded the extent of fund collection and the scale of internal financing, leading to a decrease of RMB42.79 million in finance cost during the Reporting Period. On the basis of the launch of the capital management platform in all of the Company's wholly-owned enterprises, the process of improving system functionality will be further promoted and extended to enterprises in which the Company has controlling shareholdings.

3. *Implementing centralised procurement*

During the Reporting Period, the Company continued to carry out centralised procurement of 13 types of major medicinal herbs. The centralised procurement was conducive to controlling costs and securing supplies. During the Reporting Period, the Company also initiated centralised procurement of some raw and auxiliary materials as well as centralised booking of air tickets and hotels and centralised purchase of office supplies. In particular, the centralised procurement of master cartons for drugs has started to see positive effects.

4. *Promoting the synergy between manufacturing and distribution segments*

In order to further strengthen the government affairs function and to promote the sharing of its internal resources, the Company standardized and coordinated the medicine bidding process in various regions and allocated resources based on the market-oriented principle. Leveraging on the platform advantages of leading commercial enterprises in the regions in which the Company operates its business, the Company strived to boost the sales of its products and advance the merging of pipelines.

5. *Pushing forward internal business integration*

After the acquisition of Dongying (Jiangsu) Pharmaceuticals Co., Limited (東英(江蘇)藥業有限公司), the Company conducted resources docking in, among other things, research and development, production, marketing and financial management and immediately launched the 100-day integration plan. This will serve as a model for the Company's integration of the newly-acquired enterprises.

The Company initiated integration of retail resources, with Shanghai Huashi Pharmacy Co., Ltd (上海華氏大藥房有限公司), a subsidiary of the Company, as the strategic focus during the Reporting Period.

In addition to the implementation of "3 in 2" and "1+2" adjustments to Shanghai New Asiatic Pharmaceuticals Co., Ltd. (上海新亞藥業有限公司) and Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥業有限公司) respectively, the Company pushed forward the distribution adjustment of pharmaceutical manufacturing as well as transfer of products, including the relocation of the base of active pharmaceutical ingredients of Changzhou Pharmaceutical Co., Ltd. (常州藥業股份有限公司) to Nantong, Jiangsu Province, and the transfer of the products of Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司) and Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥業有限公司) to Nantong, Jiangsu Province and Pingyuan, Shandong Province, respectively.

In addition, in response to the latest notice on relevant matters in relation to transfer of pharmaceutical technology issued by the China Food and Drug Administration, the Company initiated the internal transfer of the technological approval relating to pharmaceutical products.

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

(I) Analysis of principal business

1. Analysis on changes in relevant items of the financial statements

Unit: RMB

Item	Amount for the Reporting Period	Amount for the corresponding period last year	Change percentage (%)	Reasons for changes
Operating income	38,717,901,798.14	33,621,195,553.46	15.16	Increase in sales revenue during the Reporting Period was mainly due to the increase in existing business
Operating costs	33,583,070,263.47	28,982,427,947.15	15.87	Increase in sales revenue during the Reporting Period
Sales costs	2,214,763,275.74	1,933,383,448.02	14.55	Increase in sales revenue during the Reporting Period
Management costs	1,255,182,241.69	1,155,264,382.41	8.65	The scaled-up operations increased the administration costs during the Reporting Period
Finance costs	84,209,752.69	48,578,447.26	73.35	Decrease in interest income and exchange gain during the Reporting Period
Net cash flows generated from operating activities	338,690,231.09	610,226,035.29	-44.50	Increase in the demand for liquidity due to business growth during the Reporting Period
Net cash flow generated from investing activities	-1,229,202,578.63	-379,162,119.66	/	Increase in investment amounts for acquiring subsidiaries during the Reporting Period
Net cash flow generated from financing activities	-94,310,131.77	-496,698,818.15	/	Increase in net cash inflow from financing activities during the Reporting Period

Unit: RMB10,000

Item	Amount for the Reporting Period	Amount for the corresponding period last year	Change percentage (%)	Reasons for changes
Research and development expenses	18,738.49	17,164.50	9.17	Increase in R&D investment during the Reporting Period

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

2. Others

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

During the Reporting Period, there were no major changes in the Company's constituents or sources of profit.

- (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 "Use of Proceeds" below.

- (3) *Progress on the implementation of operational plan, and the business development plan and measures to handle risks for the second half of the year*

The year 2013 is a tough year to advance the healthcare reform in terms of breadth and depth; in the second half of the year, numerous uncertainties remain in the pharmaceutical industry, and policies will shift the focus to the reforms of tendering process of essential and non-essential drugs in each province, price adjustment of Chinese patent medicine and control of medical insurance reimbursement, etc.

In the second half of the year, Shanghai Pharmaceuticals will continue the path of sustainable development with science and technology taking the lead, so as to build a highly effective system for R&D.

In respect of pharmaceutical manufacturing business, the Company will optimize its internal marketing resources in light of its actual conditions, enhance its marketing capabilities and put more emphasis on the control of sales and administration costs, so as to ensure timely fulfillment of the Company's fixed assets investment plan as scheduled and boost profitability. In addition, the Company will also carry out further industrial mergers and acquisitions that centre on products, implement the subsequent integration plan of Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. for 100 days, and strengthen the cooperation on international business with a view to sharpening the competitive edge of affiliated industrial enterprises in the market.

In respect of medical services business, the Company will step up the management of accounts receivable and sales and administration costs, reduce inventory level, conduct more commercial mergers and acquisitions that are strategically oriented, timely formulate renovation and certification plans on new GSP according to the relevant national provisions, accelerate the construction of regional logistics centres and information systems, press ahead with new businesses such as DTP and vaccines in a faster clip, deepen the trusteeship cooperation between hospital and pharmacy and explore the operational model of e-commerce in the pharmaceutical industry, so as to boost the competitive advantage in medical services business.

The Company will ensure the fulfillment of the objectives set out in the annual operating budget through the abovementioned tailor-made measures.

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

(II) Analysis of operation by industry, product or region

1. Principal business by industry and product

Unit: RMB

Principal business by industry						
By Industry	Operating income	Operating costs	Gross profit margin (%)	Increase/decrease in operating income YOY (%)	Increase/decrease in operating costs YOY (%)	Increase/decrease in gross profit margin YOY
Manufacturing	5,507,141,459.63	2,857,936,118.13	48.10	10.93	9.66	Increased by 0.6 percentage point
Distribution	33,435,549,181.75	31,346,729,849.31	6.25	15.97	16.41	Decreased by 0.36 percentage point
Retail	1,481,000,375.21	1,182,853,585.79	20.13	12.59	18.83	Decreased by 4.19 percentage points
Others	9,000,629.46	4,806,320.81	46.60	-50.89	1,229.35	Decreased by 51.43 percentage points
Offsetting	-1,931,345,335.23	-1,912,081,745.04				

2. Principal business by region

Unit: RMB

Region	Operating income	Increase/decrease in operating income YOY (%)
Domestic	37,856,887,644.82	15.59
Overseas	644,458,666.00	-9.87

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

(III) Analysis on assets, liabilities and capital

1. *Capital structure*

As at 30 June 2013, the Company's debt asset ratio (total liabilities divided by total assets) was 48.46% (31 December 2012: 45.76%), representing an increase of 2.70 percentage points as compared with the beginning of the year. Interest coverage ratio (EBIT divided by interest expenses) was 10.03 times (from January to June 2012: 7.92 times).

2. *Liquidity and financial resources of the Company*

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

As at 30 June 2013, the balance of the Company's borrowings was RMB5,114 million, of which the balances of HKD denominated and USD denominated borrowings were equivalent to RMB22 million and RMB183 million, respectively.

As at 30 June 2013, the Company had net accounts receivable and notes receivable of RMB17.147 billion (31 December 2012: RMB13.651 billion), representing an increase of 25.61% as compared with the beginning of the year. Such increase was mainly attributed to the increase in the scale of the principal business.

As at 30 June 2013, the balance of the Company's accounts payable and notes payable was RMB16.259 billion (31 December 2012: RMB14.575 billion), representing an increase of 11.55% as compared with the beginning of the year. Such increase was mainly attributed to the increased procurement resulted from the scaled-up principal business.

3. *The Company's pledge of assets*

As at 30 June 2013, the Company's land use rights with site area of 556,605.65 sq.m. (original price: RMB78,983,862.06 and book value of RMB64,978,145.19) and houses, buildings, machineries and equipment of book value of RMB205,209,573.58 (original price: RMB333,344,890.71) were pledged to secure short-term borrowings of RMB367,990,000.00 and long-term borrowings of RMB39,504,675.00.

As at 30 June 2013, accounts receivable at book value of RMB717,816,480.53 and notes receivable at book value of RMB5,021,950.81 were pledged to secure bank loans of RMB620,953,363.18.

4. *Contingent liabilities*

During the Reporting Period, the Group had no material pending litigation or arbitration required to be disclosed.

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

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

Guarantor	Guarantee	Value of guarantee (RMB in thousand)	Commencement date of guarantee	Expiry date of guarantee
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xin Hai Feng Yuan Biopharma Technology Development Co., Ltd.	25,000.00	5 February 2013	5 August 2013
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xin Hai Feng Yuan Biopharma Technology Development Co., Ltd.	20,000.00	19 December 2012	18 December 2013
Shanghai Pharmaceutical Distribution Co., Ltd.	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	9,920.00	6 September 2012	5 September 2013
Shanghai Pharmaceutical Distribution Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	9,000.00	15 April 2013	15 April 2014
Shanghai Huayu Pharmaceutical Co., Ltd.	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	2,250.00	8 January 2013	7 January 2014
Shanghai Huayu Pharmaceutical Co., Ltd.	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	2,000.00	11 January 2013	10 January 2014
Total		68,170.00		

Shanghai New Asiatic Pharmaceuticals Co., Ltd., a subsidiary of the Group, provided a guarantee to a third party, Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd. (a former associate of Shanghai New Asiatic Pharmaceuticals Co., Ltd., and now disposed of) for a bank loan of RMB40 million. The guarantee commenced on 10 September 2012 and would end on 9 September 2013. As at 30 June 2013, the guarantee obligation has yet to be discharged.

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

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

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

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

(IV) Core competitiveness analysis

1. Shanghai Pharmaceuticals has an edge in resources at infrastructure level that are essential to the development of the pharmaceutical industry. Its products have a presence in a wide range of categories with numerous types in each category.
2. The overall scale of Shanghai Pharmaceuticals in the industry and commerce field ranks second in China. The embedding of the whole industry chain and the large scale operations are conducive to bring about synergy and integration, which lay a solid foundation for future development.
3. Shanghai Pharmaceuticals has outstanding regional advantages, with strong competitiveness in the East China region in particular; one of the advantages is that the distribution business has extended its reach to form a nationwide distribution network, covering three key regions, i.e. East China, North China and South China, which provides our customers with a superior end-user network and value-added services.
4. Shanghai Pharmaceuticals owns a slew of well-known brands with long history and high market recognition, including 8 national famous trademarks (authorized trademarks included).
5. As the first dual-listed pharmaceutical company in the A-share and H-share markets, Shanghai Pharmaceuticals has concrete capital strength, sound financial structure and free access to financing channels, which provide concrete backup for its subsequent development.
6. Shanghai Pharmaceuticals establishes core enterprises in multiple cities and provinces across the country. As a result, the Company is able to leverage on the advantages of dealing with the local governments in obtaining more favorable policy support.
7. Shanghai Pharmaceuticals has groups of cadres and staff who are familiar with the industry and possess extensive experience, which forge the advantage in competition and development in the industry.



CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

(V) Employees, remuneration policy and training scheme

As at 30 June 2013, Shanghai Pharmaceuticals had a total of 38,577 employees.

The Company puts much emphasis on the recruitment, incentivisation, training and retention of talents and concerns about the fairness of the remuneration policy. We implement a market-oriented remuneration policy based on performance appraisal, and the salary of our staff comprises basic salary, subsidies and bonus.

In accordance with the applicable laws of the PRC, the Company has entered into a labour contract with each employee and the aforesaid contract includes provisions in relation to contract term, compensation, working hours, break and vacation, employee benefits, social insurance, health and safety, confidentiality obligations and termination, etc.

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

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

(VI) Analysis of Investments by the Company

1. Overall analysis of external investment in equity interests

Unit: RMB10,000

Investment in the Reporting Period	118,202
Change in the increase/decrease in amount of investment	76,546
Investment in the same period last year	41,656
Percentage increase/decrease in the amount of investment (%)	183.76

Particulars of major investees

Name of Investee	Principal operations	Percentage of equity interests in the investee (%)
Big Global Limited (Hong Kong)	Production and sale of pharmaceuticals	79
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	20
Shanghai Hutchison Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	50
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

(1) Securities investment

Number	Securities type	Stock code	Securities 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	600618	Chlor-Alkali Chemical	186,500.00	50,820	302,379.00	100	-111,296.00

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

Unit: RMB

Security code	Securities 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	6,629,700.00	0	166,050.00	Available-for-sale financial assets	Purchase
600329	Zhongxin Pharmaceuticals		1,181,818.24	0	159,161.28	Available-for-sale financial assets	Debt set-off
000931	Centek	99,300.00	116,424.00	0	-18,333.00	Available-for-sale financial assets	Purchase
600675	China Enterprise	390,000.00	3,056,596.52	0	-309,923.15	Available-for-sale financial assets	Purchase
601328	Bank of Communications	5,895,157.00	6,427,563.78	0	-1,030,463.21	Available-for-sale financial assets	Purchase
000048	Kondarl	134,547.00	1,099,243.86	0	57,914.70	Available-for-sale financial assets	Transferred in from merger
06881(HK)	China Galaxy	50,000,000.00	37,758,840.00	0	-9,180,870.00	Available-for-sale financial assets	Corporate restructuring
08231(HK)	Fudan-Zhangjiang	31,955,101.23	108,919,868.50	41,469,473.02	0.00	Long-term equity investment	Purchase
Total		90,228,105.23	165,190,054.90	41,469,473.02	-10,156,463.38	/	/

(3) Equity interests held by the Group in 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	0	0	Long-term equity investment	Subscription of legal persons shares

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

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

(1) Asset management mandates

The Company had no asset management mandate during the Reporting Period.

(2) Entrusted loans

The Company had no external entrusted loan during the Reporting Period.

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

In 2011, the Company issued H Shares to foreign investors for the first time and the H Shares were listed on the Hong Kong Stock Exchange on 20 May 2011. The Company raised net proceeds of HKD15,492.30 million (after deducting issue costs) through the issuance of H Shares. As at 5 June 2013, upon approval by the shareholders at the 2012 annual general meeting, the Company made appropriate adjustments to the use of the remaining proceeds raised as follows:

Unit: HKD10,000

Use of proceeds	Before adjustment		The adjustment	After adjustment	
	Proportion	Amount		Proportion	Amount
Expansion and enhancement of the distribution network and integration of the existing distribution network	46%	712,645	0	46%	712,645
Strategic acquisition of domestic and international pharmaceutical business and internal integration of existing pharmaceutical business	39%	604,200	-46,477	36%	557,723
Investment in the information technology system and platform	4%	61,970	-46,477	1%	15,493
Further enhancement of product portfolio and products under R&D through investment in the product R&D platform	4%	61,970	-15,493	3%	46,477
Working capital requirements and general corporate purposes	7%	108,445	108,447	14%	216,892
Total	100%	1,549,230	0	100%	1,549,230

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

As at 30 June 2013, the overall use of H Share proceeds is as follows:

Unit: HKD10,000

Total net amount of proceeds	Total proceeds used during the Reporting Period	Accumulative proceeds used	Remaining unused proceeds	Use and whereabouts of unused proceeds
1,549,230	130,568	1,032,980	516,250	Deposited in offshore wholly-owned subsidiaries by means of shareholder loans for the purpose of capital preservation and appreciation.

Unit: HKD10,000

Use of proceeds	Intended amount of proceeds to be used	Accumulative proceeds used	Percentage of proceeds used to the total	Proceeds remaining unused
Expansion and enhancement of the distribution network and integration of the existing distribution network	712,645	608,267	85%	104,378
Strategic acquisition of domestic and international pharmaceutical business and internal integration of existing pharmaceutical business	557,723	312,523	56%	245,200
Investment in the information technology system and platform	15,493	0	0%	15,493
Further enhancement of product portfolio and products under R&D through investment in the product R&D platform	46,477	17,636	38%	28,841
Working capital requirements and general corporate purposes	216,892	94,554	44%	122,338
Total	1,549,230	1,032,980	67%	516,250

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

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	Company shareholding percentage	Registered capital	Scale of assets	Owners' equity	Operating income	Net profit
Shanghai Pharmaceutical Distribution Co., Ltd.	Sale of pharmaceuticals	100%	289,312.80	2,047,661.46	542,396.69	2,385,797.22	45,130.35
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	50,000.00	733,148.75	154,681.84	697,098.89	13,214.95
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100%	84,161.13	206,828.44	126,222.97	123,631.86	5,919.18
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	22,500.00	113,091.62	86,937.90	49,216.22	13,902.71
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	96.90%	67,958.72	150,795.01	90,388.45	58,688.53	3,466.40
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	1,144.80	44,361.59	26,426.98	32,930.24	256.34
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100%	46,369.00	292,006.41	93,103.56	197,744.02	4,192.20
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75%	12,850.00	125,405.46	86,852.44	59,727.45	6,134.92
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75.89%	7,879.03	245,456.03	133,384.68	232,141.95	10,095.39
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	54,580.00	237,241.59	137,473.63	70,316.51	12,898.89
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.52%	9,300.00	88,201.16	52,690.38	36,205.20	769.62
TECHPOOL Bio-Pharma Co., Ltd.	Production and sale of pharmaceuticals	40.80%	10,000.00	93,252.93	76,691.19	53,313.77	7,259.15
Sino-American Shanghai Squibb Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	30%	USD1,844.00	183,719.29	45,555.01	170,237.81	-730.51
Shanghai Roche Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	30%	USD6,235.71	677,611.70	210,433.50	431,494.30	23,694.90

5. Projects financed by non-raised capital

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

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

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

(I) Implementation or adjustment of the profit distribution plan during the Reporting Period

As approved in the 2012 annual general meeting of the Company held on 5 June 2013, the profit distribution plan of the Company for the year 2012 was as follows: on the basis of an aggregate of 2,688,910,538 Shares in issue as at 31 December 2012, a cash dividend of RMB2.40 (tax inclusive) per ten Shares should be distributed to all Shareholders, totaling RMB645,338,529.12, accounting for 31.44% of the profit after tax for the year 2012. After the distribution, the Company's remaining consolidated undistributed profit was RMB6,072,928,857.93. There was no transfer of capital reserve fund into share capital during the year 2012. The implementation of such profit distribution plan was completed on 30 July 2013.

(II) Profit distribution proposal and proposal for the conversion of capital reserve fund into share capital during the Reporting Period

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

III. OTHER DISCLOSURE MATTERS

(I) Statement of the board of directors and board of supervisors on the "Non standard audit report" prepared by the auditors

✓ Not applicable



CHAPTER 5 SIGNIFICANT EVENTS

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

During the Reporting Period, the Company had no material litigations, arbitrations, and events that give rise to the media's general allegations.

II. ISSUES RELEVANT TO INSOLVENCY AND RESTRUCTURING

During the Reporting Period, the Company had no issues relevant to insolvency and restructuring.

III. ASSET TRANSACTIONS AND BUSINESS COMBINATIONS

(I) The Company's acquisition and disposal of assets and business combinations disclosed in provisional announcements and without subsequent changes during implementation

Overview and Type of Event	Search index
Acquisition of 79% of equity interests in Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. by Shanghai Pharmaceuticals	The Company's announcement Lin No. 2013-020. 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.

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

1. Disposal of assets

Unit: RMB10,000

Counterparty	Assets disposed of	Date of the disposal	Price of the disposal	Contribution of the assets to the net profit of the listed company from the beginning of this year to the date of the disposal	Profit and loss incurred in the disposal	Related party transaction or not? (If yes, specify pricing principle)	Pricing principle of the assets disposal	Have all the titles related to the assets been transferred?	Have all the credits and liabilities related to the assets been transferred?	Proportion of the net profit contributed by the disposal of assets to the total profit of listed company (%)	Affiliated relations
Heze Peony Investment Development Co., Ltd. (菏泽市牡丹投资发展有限公司)	42% equity interest in Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	30 January 2013	13,400	0	0	No	Appraised value	Yes	No	0	No

CHAPTER 5 SIGNIFICANT EVENTS

IV. SHARE INCENTIVES OF THE COMPANY AND ITS INFLUENCE

✓ Not applicable

V. SIGNIFICANT RELATED PARTY TRANSACTIONS

(I) Related party transactions relating to daily operations

1. *Events disclosed in provisional announcements and without subsequent development or changes during implementation*

Overview of Events	Search index
The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Continuing Related Party Transactions of the Company in 2013 was approved at the 27th meeting of the fourth session of the Board of Directors of the Company. Pursuant to the proposal, from January to December 2013, the expected amount of continuing related party transactions between the Company (and its subsidiaries) and Shanghai Pharmaceutical (Group) (and its subsidiaries) shall not exceed RMB140 million, of 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 RMB30 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 RMB10 million; and the amount payable by the Group for leasing premises and production equipments from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB100 million.	The Company's announcements Lin No. 2013-004 and Lin No. 2013-006

Note: The above related party transactions (as defined under the Listing Rules of the Shanghai Stock Exchange) also constitute "connected transactions with connected persons at the level of the Company" as defined under Chapter 14A of the Hong Kong Listing Rules. In these daily related party transactions, the relevant percentage ratios other than profits ratio corresponding to the actual amount of products sold and purchased and labour costs are expected to be less than 0.1%; while the relevant percentage ratios other than profits ratio corresponding to the actual amount of house leasing and production equipment are expected to be more than 0.1% but less than 5%.

In respect of "connected transactions with connected persons at the level of the subsidiaries of the Company" as defined under Chapter 14A of the Hong Kong Listing Rules, each of the relevant percentage ratios other than profits ratio corresponding to the amount incurred is expected to be less than 1%.

CHAPTER 5 SIGNIFICANT EVENTS

2. Events not disclosed in provisional announcements

Unit: RMB10,000

Counterparty in the related party transaction	Affiliated relations with regard to the Company	Type of related party transaction	Particulars of the related party transaction	Pricing principle of the related party transaction	Amount of the related party transaction	Proportion of the aggregate amount of transactions of the same type (%)	Settlement method of the related party transaction
Shanghai Pharmaceutical (Group)	Parent company	Property leasing	Leasing properties related to operating activities	Market price	1,346.10	10.19	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Property and equipment leasing	Leasing properties and equipment related to operating activities	Market price	1,279.81	9.69	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Commodity purchasing and receiving labour and other related services	Purchasing assets related to operating activities	Market price	255.53	-	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Commodity selling and providing labour and other related services	Ad hoc funds for scientific research	Amount approved by government authorities	150.00	-	Cash
Shanghai Indu-Land Real Estate Management Co., Ltd.	Wholly-owned subsidiary of the parent company	Commodity procuring and receiving labour and other related services etc.	Property management fees and utility fees from the properties leased in relation to operating activities	Market price	129.72	-	Cash
Shanghai Indu-Land Real Estate Management Co., Ltd.	Wholly-owned subsidiary of the parent company	Property leasing	Leasing properties related to operating activities	Market price	48.31	0.37	Cash

(II) Related party transactions relating to acquisition and disposal of assets

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

Overview of Events	Search index
The acquisition of 20% equity interests in Chiatai Qingchunbao Pharmaceutical Co., Ltd. by Shanghai Pharmaceuticals	the Company's announcement Lin No. 2013-003
Shanghai Pharmaceuticals invested in the establishment of SIIC Finance Co., Ltd. (上海實業集團財務有限公司).	the Company's announcement Lin No. 2013-013
The acquisition of minority equity interests in Mergen Biotech Limited by Shanghai No. 1 Biochemical & Pharmaceutical Co., Ltd.	the Company's announcement Lin No. 2013-019
The commitment of Shanghai Shangshi (Group) Co., Ltd. in relation to the compensation for profit forecast	the Company's announcement Lin No. 2012-025, the Company's 2012 annual report, and "Fulfillment Status of Commitments" below

CHAPTER 5 SIGNIFICANT EVENTS

VI. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Trusteeship, contracting and leasing

✓ Not applicable

(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?	Affiliated relations with regard to the Company
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	900.00		10 April 2012	9 April 2013	Joint and several liability guarantee	Yes	No		No	No	Associated company
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	900.00		15 April 2013	15 April 2014	Joint and several liability guarantee	No	No		No	No	Associated company
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Jiangxi Nanhua Medicines Co., Ltd.	1,500.00		26 April 2012	26 April 2013	Joint and several liability guarantee	Yes	No		No	No	Joint venture
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	992.00		6 September 2012	5 September 2013	Joint and several liability guarantee	No	No		No	No	Associated company
Shanghai Huayu Pharmaceutical Co., Ltd.	A controlled subsidiary	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	225.00		8 January 2013	7 January 2014	Joint and several liability guarantee	No	No		Yes	No	Associated company
Shanghai Huayu Pharmaceutical Co., Ltd.	A controlled subsidiary	Shanghai Dehua Traditional Chinese Medicines Co., Ltd.	200.00		11 January 2013	10 January 2014	Joint and several liability guarantee	No	No		Yes	No	Associated company
SPH 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 and several liability guarantee	No	No		No	No	Associated company
SPH 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 and several liability guarantee	Yes	No		No	No	Associated company

CHAPTER 5 SIGNIFICANT EVENTS

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?	Affiliated relations with regard to the Company
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,500.00		5 February 2013	5 August 2013	Joint and several liability guarantee	No	No		No	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A controlled subsidiary	Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd.	5,500.00		9 November 2012	8 May 2013	Joint and several liability guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A controlled subsidiary	Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd.	2,000.00		29 September 2012	23 March 2013	Joint and several liability guarantee	Yes	No		Yes	No	Associated company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A controlled subsidiary	Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd.	4,000.00		10 September 2012	9 September 2013	Joint and several liability guarantee	No	No		Yes	No	Others
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)											3,677.19		
Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)											10,545.19		
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)											10,545.19		
Percentage of total value guaranteed to the Company's net assets (%)											0.42		
Among which:													
Value guaranteed for shareholders, actual controller and related parties (C)											0		
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceed 70% (D)											10,545.19		
Amount of total value guaranteed exceeding 50% of net assets (E)											0		
Total of value guaranteed for the above three items (C+D+E)											10,545.19		

(III) Other material contracts or transactions

During the Reporting Period, the Company had no other material contracts or transactions.

CHAPTER 5 SIGNIFICANT EVENTS

VII. 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) and the fulfillment status of the commitments as disclosed in the Company's 2012 annual report dated 27 March 2013 for more details.

Since the disclosure date of the 2012 annual report 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:

Regarding "The commitment of Shanghai Pharmaceutical (Group) and Shanghai Shangshi in relation to the compensation for profit forecast": in 2010, the Company made an offer to Shanghai Industrial Holdings Ltd. ("Shanghai Industrial Holdings") to acquire its pharmaceutical assets (the "Acquired Assets of Shanghai Industrial Holdings") whereby Shanghai Shangshi made a commitment to the Company with regard to the profit generated from these assets, and entered into a compensation agreement with the Company. Since the profit of the Acquired Assets of Shanghai Industrial Holdings for 2012 fell short of the profit forecast, during the Reporting Period, Shanghai Shangshi had remitted the difference in cash in one lump sum to the designated account of the Company according to the compensation agreement, which was within 30 days of the disclosure date of the 2012 annual report of the Company.

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

During the Reporting Period, neither the Company nor its Directors, Supervisors, Senior Management, Shareholders holding more than 5% of shares, actual controllers and acquirers had been inspected, imposed of an administrative penalty, criticized in circulars and openly reprimanded by stock exchanges.

IX. CORPORATE GOVERNANCE

The Company has strictly complied with, and has accordingly made improvements to its corporate governance structure and policies in accordance with, the relevant laws, regulations and rules such as the Companies Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Standards on Corporate Governance of Listed Companies and the Hong Kong Listing Rules as well as the Articles of Association of the Company. During the Reporting Period, the Company has made amendments and improvements to the Articles of Association; the rules of procedure of general meetings of its Shareholders, the Board of Directors and the Board of Supervisors; and the Implementation Rules of the Remuneration and Assessment Committee of the Board of Directors. Moreover, the Company has issued a series of internal rules and systems to guarantee the legal compliance of operation and standardize decision-making of the Company in terms of system construction.

CHAPTER 5 SIGNIFICANT EVENTS

During the Reporting Period, the Company held one Shareholders' general meeting, seven meetings of the Board of Directors and three meetings of the Board of Supervisors. Relevant resolutions of the meetings are disclosed on the websites of both the Shanghai Stock Exchange and the Hong Kong Stock Exchange and via relevant information disclosure media in accordance with the regulatory requirements. In accordance with the duties conferred by the Articles of Association, general meetings of the Shareholders, the Board of Directors, the Board of Supervisors and Senior Management operated independently with fulfillment of their respective rights and obligations, and no illegal or irregular situation occurred.

There are four special committees under the Board of Directors, namely, the Strategy Committee, the Nomination Committee, the Audit Committee and the Remuneration and Assessment Committee. During the Reporting Period, the Nomination Committee held one meeting and submitted the list of proposed Directors of the Fifth Session of Board of Directors to the Board of Directors; the Audit Committee of the Board of Directors held one meeting and reviewed the Company's 2012 Annual Report, 2012 Internal Control and the Summary of 2012 Annual Audit Report; the Remuneration and Assessment Committee of the Board of Directors held three meetings and considered the resolution of allowance adjustment of the Company's independent directors as well as determined the 2013 annual remuneration standards for senior management, etc.

As a company dual-listed in the A-share and H-share markets, the Company 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.1.8 of the Corporate Governance Code, a listed company should make appropriate insurance arrangement in respect of possible legal actions against its directors. In June 2013, the Shareholders at the 2012 annual general meeting considered and passed the resolution of arranging liability insurance cover for the Company's directors, supervisors and senior management. The Company is currently actively involved in maintaining insurance cover for each of its directors in accordance with the relevant procedures. Save as disclosed above, during the Reporting Period, the Company fully complied with the principles and code provisions stipulated under the Corporate Governance Code.

CHAPTER 6 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	0	0	0	-852,407,959	-852,407,959	81,600	0.003
	1. State-held Shares	0	0.000	0	0	0	0	0	0	0.000
	2. Shares held by state-owned legal persons	852,407,959	31.701	0	0	0	-852,407,959	-852,407,959	0	0.000
	3. Other domestically held Shares	81,600	0.003	0	0	0	0	0	81,600	0.003
	Including: Shares held by domestic non-state-owned legal persons	81,600	0.003	0	0	0	0	0	81,600	0.003
	Shares held by domestic natural persons	0	0.000	0	0	0	0	0	0	0.000
	4. Foreign-held Shares	0	0.000	0	0	0	0	0	0	0.000
	Including: Shares held by foreign legal persons	0	0.000	0	0	0	0	0	0	0.000
	Shares held by foreign natural persons	0	0.000	0	0	0	0	0	0	0.000
II.	Shares without trade restrictions	1,836,420,979	68.296	0	0	0	852,407,959	852,407,959	2,688,828,938	99.997
	1. RMB common Shares	1,070,527,059	39.813	0	0	0	852,407,959	852,407,959	1,922,935,018	71.514
	2. Domestically listed foreign Shares	0	0.000	0	0	0	0	0	0	0.000
	3. Overseas listed foreign Shares	765,893,920	28.483	0	0	0	0	0	765,893,920	28.483
	4. Others	0	0.000	0	0	0	0	0	0	0.000
III.	Total number of Shares	2,688,910,538	100.000	0	0	0	0	0	2,688,910,538	100.000

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

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

(II) Changes in trade-restricted Shares

Unit: share

Name of Shareholder	Number of trade-restricted Shares at the beginning of the period	Number of Shares released from trade restrictions during the Reporting Period	Number of additional trade-restricted Shares during the Reporting Period	Number of trade-restricted Shares at the end of the Reporting Period	Reasons for trade restrictions	Date of release
Shanghai Pharmaceutical (Group)	693,006,251	693,006,251	0	0	Private placement and equity division reform arising from significant asset restructuring	18 February 2013
Shanghai Shangshi	159,401,708	159,401,708	0	0	Non-public issue arising from significant asset reorganisation	18 February 2013
Total	852,407,959	852,407,959	0	0	/	/

As at 30 June 2013, the total share capital of the Company comprised of 2,688,910,538 Shares, including 2,688,828,938 Shares without trade restrictions, being 1,922,935,018 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.

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

II. INFORMATION ABOUT SHAREHOLDERS

(I) Number of Shareholders and their Shareholdings

Unit: share

Aggregate number of Shareholders during the Reporting Period	103,002 (A Shares); 3,257 (H Shares)
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Shareholding of top ten shareholders

Name of Shareholder	Nature of Shareholder	Shareholding percentage (%)	Total number of Shares held	Increase/decrease during the Reporting Period	Number of trade-restricted Shares held	Number of pledge or frozen Shares
Shanghai Pharmaceutical (Group)	State-owned legal person	27.89	749,923,539	0	0	Pledged 13,648,772
HKSCC NOMINEES LIMITED	Foreign legal person	27.84	748,519,120	40,200	0	Unknown
SIIC and its subsidiaries	State-owned legal person	7.61	204,678,698	0	0	Unknown
Shanghai Shengrui	State-owned legal person	6.04	162,399,040	0	0	Unknown
Shenergy Group	State-owned legal person	3.02	81,199,520	0	0	Unknown
Industrial and Commercial Bank of China – Guangfa Jufeng Equity Securities Investment Fund	Others	2.20	59,236,661	24,135,650	0	Unknown
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	Others	0.55	14,686,555	-542,934	0	Unknown
Taikang Life Insurance Co., Ltd. – Investment Link – Personal Insurance Investment Link	Others	0.41	11,054,842	2,655,341	0	Unknown
Hongyuan Securities – CCB – Hongyuan No.3 Bonus Growth Integrated Asset Management Plan	Others	0.32	8,694,958	3,459,958	0	Unknown
Client Credit Trading Guarantee Securities Account of Shenyin & Wanguo Securities Co., Ltd.	Others	0.28	7,540,409	2,746,941	0	Unknown

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

Shareholdings of top ten Shareholders holding Shares without trade restrictions

Name of Shareholder	Number of Shares without trade restrictions	Class and number of Shares	
Shanghai Pharmaceutical (Group)	749,923,539	A Shares	
HKSCC NOMINEES LIMITED	748,519,120	H Shares	
SIIC and its subsidiaries	204,678,698	A Shares	188,894,298
		H Shares	15,784,400
Shanghai Shengrui	162,399,040	A Shares	
Shenergy Group	81,199,520	A Shares	
Industrial and Commercial Bank of China – Guangfa Jufeng Equity Securities Investment Fund	59,236,661	A Shares	
China Life Insurance Company Ltd.– Bonus – Individual Bonus – 005L – FH002 SH	14,686,555	A Shares	
Taikang Life Insurance Co., Ltd. – Investment Link – Personal Insurance Investment Link	11,054,842	A Shares	
Hongyuan Securities – CCB – Hongyuan No.3 Bonus Growth Integrated Asset Management Plan	8,694,958	A Shares	
Client Credit Trading Guarantee Securities Account of Shenyin & Wanguo Securities Co., Ltd.	7,540,409	A Shares	
Note on connected relations or concerted actions of the above shareholders	SIIC is a Controlling Shareholder of Shanghai Pharmaceutical (Group). The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the Administrative Measures on Disclosure of Changes in Shareholders' Shareholdings in Listed Companies.		

- Notes:1. Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients. 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 provide statistics on the number of shares that have been pledged or frozen.
2. The recent 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 Pharmaceuticals 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 Pharmaceuticals 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 Pharmaceuticals 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).

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

Number of and the trade restrictions on the Shares held by the top ten Shareholders holding trade-restricted Shares

Unit: share

No.	Name of shareholders holding trade-restricted Shares	Number of trade-restricted Shares	The listing and trading of trade-restricted Shares		Trade restrictions
			Time of availability for listing and trading	Number of additional Shares available for listing and trading	
1	Hainan Zhong Wang Investment and Management Company Limited	81,600	To be decided	0	The consideration payable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding.
Note on connected relations or concerted actions of the above Shareholder		The above Shareholder has no connected relations with the Company, nor is it a person 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 during the Reporting Period (on 18 February 2013) (Please refer to the Company's announcement Lin No. 2013-013 for more details).

III. CHANGES IN CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

There is no change in the Controlling Shareholders and de facto controller of the Company during the Reporting Period.

IV. DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

(I) Interests and short positions of directors, supervisors and chief executive in Shares

As at 30 June 2013, Mr. Lou Dingbo, Chairman and an executive director of the Company, held 30,000 A Shares of the Company.

Save as disclosed in this report, as at 30 June 2013, according to the information available to the Company and to the knowledge of the directors, none of the Directors, Supervisors and Chief Executive of the Company has any interests or short positions in the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

As at 30 June 2013, 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 issued H Shares and A Shares at the shareholders' general meetings of the Company:

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

Name of shareholder	Share Class	Nature of interests in Shares	Number of Shares	Percentage of number of H Shares/A Shares held at the end of the Reporting Period to the entire outstanding H Shares/A Shares (%)	Percentage in total share capital of the Company at the end of the Reporting Period (%)
SIIC Note 1(1)	A Shares/H Shares	Interests of controlled corporations	954,602,237(L)	48.82 (A Shares)/ 2.06 (H Shares)	35.50
Shanghai Shangshi 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 corporations	162,399,040(L)	8.45	6.04
Shanghai Shengrui	A Shares	Beneficial owner	162,399,040(L)	8.45	6.04
Temasek Holdings (Private) Limited	H Shares	Interests of controlled corporations	124,023,800(L)	16.19(L)	4.61(L)
Credit Suisse (Hong Kong) Limited	H Shares	Interest held jointly 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 corporations	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
Cheah Capital Management Limited	H Shares	Interests of controlled corporations	68,997,500(L)	9.01(L)	2.57(L)
Cheah Company Limited	H Shares	Interests of controlled corporations	68,997,500(L)	9.01(L)	2.57(L)
Hang Seng Bank Trustee International Limited	H Shares	Trustee	68,997,500(L)	9.01(L)	2.57(L)
Value Partners Group Limited	H Shares	Interests of controlled corporations	68,997,500(L)	9.01(L)	2.57(L)
To Hau Yin	H Shares	Interests of spouse	68,997,500(L)	9.01(L)	2.57(L)
Cheah Cheng Hye	H Shares	Discretionary Trust settlor	68,997,500(L)	9.01(L)	2.57(L)
NSSF	H Shares	Beneficial owner	66,633,400(L)	8.70(L)	2.48(L)
JPMorgan Chase & Co.	H Shares	Beneficial owner/ Investment manager/ custodian/approved lending agent	61,472,410(L) 0(S) 37,929,041(P)	8.03(L) 0.00(S) 4.95(P)	2.29(L) 0.00(S) 1.41(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 refers to SIIC and its 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 [1998] No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC held 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.

CHAPTER 6 CHANGES IN SHARE CAPITAL AND INFORMATION ABOUT SHAREHOLDERS

- (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi refers to Shanghai Shangshi and its 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) Figures disclosed 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 conditions 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 certain conditions 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 30 June 2013, the Company was not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

V. PURCHASE, REDEMPTION OR SALES OF THE COMPANY'S LISTED SECURITIES

During the period from January to June 2013, neither the Company nor the subsidiaries of the Company purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

During the period from January to June 2013, SIIC, the Controlling Shareholder of the Company, and its subsidiary had not acquired or sold A Shares or H Shares of Shanghai Pharmaceuticals.

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 issued Shares of Shanghai Pharmaceuticals.

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. CHANGES IN SHAREHOLDINGS

(I) Changes in shareholdings of Directors, Supervisors and Senior Management, existing or resigned during the Reporting Period

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

Unit: share

Name	Position	Number of Shares held at the beginning of the Reporting Period	Number of Shares held at the end of the Reporting Period	Increase/decrease of Shares during the Reporting Period	Reasons for changes
Ren Jian	Vice President	48,000	61,500	13,500	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 Shanghai Pharmaceuticals by using 50% of their annual performance bonus for 2012 received in 2013 through open market trades.
Shen Bo	Chief financial officer	54,400	71,700	17,300	Same as above
Han Min	Secretary to the board of directors, Joint Company Secretary	40,200	53,700	13,500	Same as above
Xu Guoxiong	Ceasing to be the Executive Director and President of the Company	90,100	115,500	25,400	Same as above
Jiang Yuanying	Ceasing to be the Vice President of the Company	29,000	42,600	13,600	Same as above
Li Yongzhong	Ceasing to be the Vice President of the Company	48,500	65,700	17,200	Same as above

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Changes	Reasons for changes
Lou Dingbo	Chairman, Executive Director	Election	Re-election of directors due to expiry of term of office
Cho Man	President, Executive director	Election	Re-election of directors due to expiry of term of office
Hu Fengxiang	Executive Director	Election	Re-election of directors due to expiry of term of office
Wan Kam To	Independent Non-Executive Director	Election	Re-election of directors due to expiry of term of office
Tse Cho Che, Edward	Independent Non-executive Director	Election	Re-election of directors due to expiry of term of office
Xin Keng	Supervisor	Election	Re-election of supervisors due to expiry of term of office
Zhang Jialin	Vice Chairman, Executive Director	Resignation	Re-election of directors due to expiry of term of office
Lu Shen	Non-executive Director	Resignation	Re-election of directors due to expiry of term of office
Xu Guoxiong	President, Executive Director	Resignation	Re-election of directors due to expiry of term of office
Bai Huiliang	Independent Non-executive Director	Resignation	Re-election of directors due to expiry of term of office
Tommei Tong	Independent Non-executive Director	Resignation	Re-election of directors due to expiry of term of office
Wu Junhao	Supervisor	Resignation	Re-election of supervisors due to expiry of term of office
Liu Yanjun	Vice President	Appointment	Change of duties
Jiang Yuanying	Vice President	Resignation	Change of duties
Li Yongzhong	Vice President	Resignation	Change of duties

(I) Biographical details of the current Directors

Mr. Lou Dingbo, born in February 1962, obtained a bachelor's degree from Northeastern University (formerly Northeastern Engineering Institute), Department of Mechanical Engineering and an EMBA degree from China Europe International Business School. He is an engineer and senior economist. Mr. Lou is the chairman and an executive director of the Company and holds directorship in certain subsidiaries of the Company. Mr. Lou has extensive experience in enterprise operation management, mergers & acquisitions and reorganization, financial hedging and marketing. Since July 2012, Mr. Lou has been an executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. He has been president and chairman of Shanghai Pharmaceutical (Group) Co., Ltd. since October 2012 and July 2012, respectively. He served as legal representative, executive director and general manager of Baosteel Stainless Steel Co., Ltd., deputy general manager of Baoshan Iron & Steel Co., Ltd. ("Baosteel"), and general manager of the stainless steel business unit. He also served as assistant general manager of Baosteel, legal representative and executive director of Shanghai Baosteel International Economic and Trading Co., Ltd., director of sales department and general manager of sales center of Baosteel. He was also general manager and secretary of the communist party, deputy general manager of Guangzhou Baosteel Southern Trading Co., Ltd. Mr. Lou has also worked as president of the Stainless Steel Council of China Special Steel Enterprises Association, executive director of the International Stainless Steel Forum (ISSF), and chairman of the Economics and Statistics Committee of the International Stainless Steel Forum (ISSF).

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Cho Man, born in May 1961, has a bachelor's degree in pharmacy from Sichuan University (formerly West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho is the president and an executive director of the Company and holds directorship in certain subsidiaries of the Company. He served as vice chairman and chief executive officer of The Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, general manager and chairman of Sanjiu Economic Trading Co., Ltd., general manager and chairman of Nine Stars Printing and Packaging Co., Ltd., head of Sales Department and vice director of Shenzhen South Pharmaceutical Factory, and pharmacist, head of transfusion medicine department and head of the drug injection department of First Military Medical University Nanfang Hospital.

Mr. Hu Fengxiang, born in July 1956, obtained an associate degree in accounting of industrial enterprises from Shanghai Television University. He is an accountant. Mr. Hu is an executive director of the Company and does not hold any directorship in any subsidiary of the Company. He has been the vice president of Shanghai Pharmaceutical (Group) Co., Ltd. since July 2010. Mr. Hu previously served as the chief financial officer and deputy chief financial officer of Shanghai Pharmaceutical (Group) Co., Ltd., chairman of Shanghai Asia Pioneer Pharmaceutical Co., Ltd., deputy director-general of the financial review and audit committee of Shanghai Pharmaceutical (Group) Co., Ltd., director and deputy director of the audit office of Shanghai Pharmaceutical (Group) Corporation, and general manager, deputy general manager, deputy chief accountant and head of department of finance of Shanghai Sunve Pharmaceutical Co., Ltd.

Mr. Zhou Jie, born in December 1967, master in engineering from Shanghai Jiao Tong University. Mr. Zhou is a non-executive director of the Company and holds directorship in certain subsidiaries of the Company. Mr. Zhou has been a non-executive director of Semiconductor Manufacturing International Corporation (a company listed on The Stock Exchange of Hong Kong Limited with stock code 0981 and the New York Stock Exchange under the ticker symbol SMI) since January 2009, president and executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since April 2012 and May 2008, respectively, vice chairman, CEO and an executive director of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 0363) since April 2012 and November 2007, respectively. His previous positions include the chairman of the board of directors of Shanghai Pharmaceutical (Group) Co., Ltd., chief supervisor of the Company, executive vice president of Shanghai Industrial Investment (Holdings) Co., Ltd., executive vice CEO of Shanghai Industrial Holdings Limited, and chairman and general manager of Shanghai Industrial Asset Management Co., Ltd.

Mr. Jiang Ming, born in September 1957, obtained a bachelor's degree from the History Department of Fudan University and is a research associate. He joined the Company in March 2010 as a non-executive director and does not hold any directorship in any subsidiary of the Company. Mr. Jiang has been the vice president of Shanghai Guosheng Group Co., Ltd. since May 2008. His previous positions include clerk at the director level of the Organisation Department of the CPC Shanghai Municipal Committee, general manager of China Rural Development Trust and Investment Corporation, general manager of securities business department of China Cinda Trust and Investment Company, and deputy general manager and general manager of the Headquarters of China Galaxy Securities Co., Ltd.

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Naiwei, born in August 1957, obtained a bachelor's degree in economic law from East China University of Political Science and Law and a doctorate in 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 does not hold any directorship in any subsidiary of the Company. 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 Stock Exchange of Hong Kong Limited 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, independent non-executive director of Shanghai Kinlita Chemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 300225) since July 2013, 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 include the head of the Faculty of Law and the director of the Center for the Study of Intellectual Property at Shanghai Jiao Tong University.

Mr. Wan Kam To, born in January 1953, graduated from the accounting department of Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma. He is a certified accountant in Hong Kong, and a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Hong Kong Institute of Directors. He is an independent non-executive director of the Company and does not hold any directorship in any subsidiary of the Company. Mr. Wan has extensive experience in auditing, finance, advisory and management for over 30 years. He has been an independent non-executive director of S. Culture International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 1255) since July 2013. He has been an independent non-executive director of KFM Kingdom Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 3816) since October 2012, an independent non-executive director of Dalian Port (PDA) Company Limited (a company listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange with stock code 2880 and 601880 respectively) since June 2011, an independent non-executive director of GreaterChina Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 8193) since June 2011, independent director of RDA Microelectronics, Inc. (a company listed on NASDAQ under the ticker symbol RDA) since November 2010, independent non-executive director of Huaneng Renewables Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 958) since August 2010, independent non-executive director of Fairwood Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 52) since September 2009, independent non-executive director of China Resources Land Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 1109) since March 2009, and independent director of Mindray Medical International Limited (a company listed on the New York Stock Exchange under the ticker symbol MR) since September 2008. His previous positions include independent non-executive director of Real Gold Mining Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 246) and a partner of PricewaterhouseCoopers in Hong Kong (May 1992 to June 2008).

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tse Cho Che, Edward, born in June 1956, holds a bachelor's degree and a master's degree in civil engineering from the Massachusetts Institute of Technology, the United States, and holds a master of business administration as well as a Ph.D. in civil engineering from the University of California, Berkeley, the United States. Mr. Tse is an independent non-executive director of the Company and does not hold any directorship in any subsidiary of the Company. He has been engaged in management consultancy and corporate senior management for nearly 30 years, with extensive experience and expertise in definition and implementation of corporate transformation, establishment of organizations, business strategy and overseas expansion. Since 2009, he has served as director of Shanghai Automotive Industry Corporation (Group). He was the chairman of the Board in Greater China region of Booz & Company, an independent director of Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600019), executive vice president of Corporate Planning and Development Division and president of Greater China Business of Hong Kong Telecommunications (HKT) Limited, a part-time member of the Central Policy Unit of the Hong Kong Special Administrative Region, and president of Greater China region of Boston Consulting Group.

Mr. Li Zhenfu, born in July 1963, has a bachelor's degree of science from Beihang University and a master's 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 and does not hold any directorship in any subsidiary of the Company. Mr. Li is the founder and CEO of GL Capital Group and has been the chief executive officer of GL Capital Group since 2010. Mr. Li is a board member of the China Entrepreneur Club, a member of the Committee of 100 of the 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 was the president of Novartis China. Prior to such appointments, Mr. Li 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.

(II) Biographical Details of the Current Supervisors

Mr. Zhang Zhenbei, born in June 1954, graduated from Shanghai University, majoring in politics. Mr. Zhang also obtained 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) Co., Ltd. since October 2012, secretary of the Communist Party of the Company since April 2012, and the vice president of Shanghai Shangshi (Group) Co., Ltd. since January 2010. Mr. Zhang held positions including deputy director for personnel training of Shanghai Foreign Economic Relations & Trade Commission, human resources director of Shanghai Overseas Company, vice president of Shanghai International Holding Corp. GMBH (Europe), vice president of Shanghai Overseas Company, general manager of the human resources department of Shanghai Industrial Investment (Holding) Co., Ltd., assistant president of Shanghai Industrial Investment (Holding) Co., Ltd., executive vice president of Shanghai Industrial Holdings Limited and director of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600607, which merged with the Company).

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Xin Keng, born in December 1967, has a bachelor's degree in engineering and a master's degree in engineering from Shanghai Jiao Tong University. He is an engineer. He is currently the supervisor of the Company and holds no concurrent office of director in any of the Company's subsidiaries. He has served as principal of the finance management department of Shenergy (Group) Co., Ltd. since August 2009. His previous positions include principal of securities department of Shenergy Company Limited, investment principal of state-owned assets department of Wenhui Xinmin United Press Group, deputy general manager of Wenxin Investment Co., Ltd., and deputy manager of financing division of investment banking department of Haitong Securities.

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 joined the Company 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 since February 2003. Her previous positions included director of the department of organisation of Shanghai Pharmaceutical (Group), vice chairman of Shanghai Pharmaceutical Trade Union and member of the standing committee of Shanghai Federation of Trade Unions.

(III) Biographical details of the current senior management

Mr. Cho Man is currently the president of the Company. Please refer to the above section headed "Biographical Details of the Current Directors" for his biographical details.

Mr. Liu Yanjun, born in February 1965, holds a bachelor's degree in Naval Medicine, a master degree in surgery and a PhD in surgery from Second Military Medical University. He is currently a vice president of the Company and general manager of Shanghai Jiaolian Drug Development Co., Ltd. He holds no concurrent office of director in any of the Company's subsidiaries. Mr. Liu was previously deputy general manager of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on Hong Kong Stock Exchange with stock code 08231), research director and research associate in cancer research office of molecular biology institute of Second Military Medical University, visiting scholar at San Diego Sidney Kimmel Cancer Center in California, United States, and attending physician and lecturer in Eastern Hepatobiliary Surgery Hospital subordinated to 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 from China Europe International Business School is an engineer. He is currently a vice president of the Company and holds a concurrent office of director with the Company's subsidiaries. Mr. Ren was previously 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..

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 Department of Economics of 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 previously 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, chief investment and development officer and deputy general manager of Finance Affairs Department 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 the Company's subsidiaries. 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 previously 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 certain subsidiaries of the Company. 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 include the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., 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 concurrently holds office of director in a subsidiary of the Company. Her previous positions include 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.

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Assets			
Non-current assets			
Land use rights	7	909,833	905,359
Investment properties	7	308,449	312,740
Property, plant and equipment	7	4,679,391	4,423,573
Intangible assets	7	4,269,875	3,674,866
Investments in jointly controlled entities	8	313,553	309,020
Investments in associates	9	2,201,149	2,236,288
Deferred income tax assets	14	193,891	191,744
Available-for-sale financial assets		135,515	149,057
Other long-term prepayments		58,305	64,461
		13,069,961	12,267,108
Current assets			
Inventories		9,263,618	9,809,700
Trade and other receivables	10	19,362,342	15,329,912
Financial assets at fair value through profit or loss		302	2,920
Restricted cash		198,005	224,497
Cash and cash equivalents		12,307,390	13,300,901
		41,131,657	38,667,930
Assets classified as held for sale		–	134,000
		41,131,657	38,801,930
Total assets		54,201,618	51,069,038
Equity attributable to owners of the Company			
Share capital	11	2,688,910	2,688,910
Share premium		14,396,727	14,396,727
Other reserves		574,455	835,395
Retained earnings			
– Proposed final dividends		–	645,339
– Others		7,256,762	6,072,928
		24,916,854	24,639,299
Non-controlling interests		3,018,348	3,061,575
Total equity		27,935,202	27,700,874

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	13	64,100	40,773
Deferred income tax liabilities	14	305,316	282,349
Termination benefit obligations		50,209	52,353
Other non-current liabilities		1,045,324	894,629
		1,464,949	1,270,104
Current liabilities			
Trade and other payables	12	19,538,855	16,959,537
Current income tax liabilities		213,198	237,750
Borrowings	13	5,049,414	4,900,773
		24,801,467	22,098,060
Total liabilities		26,266,416	23,368,164
Total equity and liabilities		54,201,618	51,069,038
Net current assets		16,330,190	16,703,870
Total assets less current liabilities		29,400,151	28,970,978

The notes on pages 55 to 88 are an integral part of these interim condensed consolidated financial statements.

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Revenue	6	38,717,901	33,621,196
Cost of sales		(33,688,223)	(29,074,183)
Gross profit		5,029,678	4,547,013
Distribution and selling expenses		(2,214,763)	(1,933,383)
General and administrative expenses		(1,339,073)	(1,191,650)
Operating profit	15	1,475,842	1,421,980
Other income		65,682	77,257
Other (losses)/gains – net	16	(3,015)	68,693
Gains on disposal of subsidiaries and associates	17	12,776	19,823
Finance income		118,646	157,220
Finance costs		(200,414)	(260,052)
Share of profit of jointly controlled entities		58,243	45,169
Share of profit of associates		181,423	167,578
Profit before income tax		1,709,183	1,697,668
Income tax expense	18	(312,046)	(354,925)
Profit for the period		1,397,137	1,342,743
Profit attributable to:			
Owners of the Company		1,189,609	1,147,718
Non-controlling interests		207,528	195,025
		1,397,137	1,342,743
Earnings per share attributable to owners of the Company during the period (expressed in RMB per share)			
– Basic and diluted	19	0.44	0.43

The notes on pages 55 to 88 are an integral part of these interim condensed consolidated financial statements.

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Dividends	20	–	–

**CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Profit for the period		1,397,137	1,342,743
Other comprehensive income:			
Available-for-sale financial assets			
– Gross		(13,542)	1,365
– Tax	14	3,386	(341)
Currency translation differences, net		1,368	(18,801)
Other comprehensive income for the period, net of tax		(8,788)	(17,777)
Total comprehensive income for the period		1,388,349	1,324,966
Attributable to:			
– Owners of the Company		1,180,266	1,129,804
– Non-controlling interests		208,083	195,162
Total comprehensive income for the period		1,388,349	1,324,966

The notes on pages 55 to 88 are an integral part of these interim condensed consolidated financial statements.

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED)

INTERIM CONDENSED 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		
Balance at 1 January 2013		2,688,910	14,396,727	835,395	6,718,267	24,639,299	3,061,575	27,700,874
Comprehensive income								
Profit for the period		-	-	-	1,189,609	1,189,609	207,528	1,397,137
Other comprehensive income								
Available-for-sale financial assets								
- Gross		-	-	(13,634)	-	(13,634)	92	(13,542)
- Tax		-	-	3,409	-	3,409	(23)	3,386
Currency translation differences, net		-	-	882	-	882	486	1,368
Others		-	-	-	-	-	-	-
Total other comprehensive income		-	-	(9,343)	-	(9,343)	555	(8,788)
Total comprehensive income		-	-	(9,343)	1,189,609	1,180,266	208,083	1,388,349
Transactions with owners								
Capital injections from non-controlling interests		-	-	-	-	-	25,278	25,278
Acquisitions of subsidiaries	23	-	-	-	-	-	81,392	81,392
Disposal of subsidiaries		-	-	-	-	-	(7,872)	(7,872)
Transaction with non-controlling interests		-	-	(274,897)	-	(274,897)	(193,422)	(468,319)
Dividends		-	-	-	(645,339)	(645,339)	(148,729)	(794,068)
Appropriation to staff welfare		-	-	-	(5,775)	(5,775)	(4,725)	(10,500)
Others		-	-	23,300	-	23,300	(3,232)	20,068
Total transaction with owners		-	-	(251,597)	(651,114)	(902,711)	(251,310)	(1,154,021)
Balance at 30 June 2013		2,688,910	14,396,727	574,455	7,256,762	24,916,854	3,018,348	27,935,202

The notes on pages 55 to 88 are an integral part of these interim condensed consolidated financial statements.

**CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED)
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Cash flows from operating activities		
Cash generated from operations	545,180	987,886
Interest paid	(189,037)	(252,144)
Income tax paid	(327,795)	(377,660)
Net cash generated from operating activities	28,348	358,082
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(533,953)	(203,356)
Increase in interests in subsidiaries	(469,115)	–
Purchases of property, plant and equipment (“PP&E”) and investment properties	(413,146)	(242,861)
Proceeds from disposal of PP&E and investment properties	5,747	12,258
Purchases of land use rights and intangible assets	(846)	(285)
Dividends received	2,387	5,524
Proceeds from disposal of available-for-sale financial assets	–	41,170
Proceeds from disposal of financial assets at fair value through profit or loss	3,263	–
Proceeds from disposal of subsidiaries, associates and jointly controlled entities	72,924	32,381
Proceeds from Government grant of plant relocation, net	161,304	–
Other cash flows generated from/(used in) investing activities	63,537	(23,993)
Net cash used in investing activities	(1,107,898)	(379,162)
Cash flows from financing activities		
Proceeds from non-controlling interests of certain subsidiaries	25,278	9,000
Proceeds from borrowings	5,884,550	4,237,051
Repayments of borrowings	(5,700,634)	(4,399,101)
Dividends paid by the Group	(110,199)	(58,055)
Others cash flows generated from financing activities	(4,268)	(33,450)
Net cash generated from financing activities	94,727	(244,555)
Net increase in cash and cash equivalents	(984,823)	(265,635)
Cash and cash equivalents at beginning of the period	13,300,901	14,554,709
Exchange losses on cash and cash equivalents	(8,688)	78,005
Cash and cash equivalents at end of the period	12,307,390	14,367,079

The notes on pages 55 to 88 are an integral part of these interim condensed consolidated financial statements.

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Shanghai Pharmaceuticals Holding Co., Ltd. (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in following activities:

- Research and development, manufacturing and sale 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.

The Company was incorporated in the People’s Republic of China (the “PRC”). The address of the Company’s registered office is No. 92 Zhangjiang Road, Pudong New District, Shanghai, PRC.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited since 20 May 2011.

This interim condensed consolidated financial statement is presented in RMB, unless otherwise stated. This financial statement was approved for issue by the Board of Directors on 22 August 2013.

These interim condensed consolidated financial statements have not been audited.

2 BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six month ended 30 June 2013 have been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with the consolidated financial statements for the year ended 31 December 2012.

- (a) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total profit for the year.

3 ACCOUNTING POLICIES (continued)

(b) 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 on 1 January 2013:

- HKFRS 10 “Consolidated financial statements”. Under HKFRS 10, subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. The group has applied HKFRS 10 retrospectively in accordance with the transition provisions of HKFRS 10.
- HKAS 1 (Amendment) “Presentation of financial statements”. 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 new amendments on presentation of financial statements have been adopted by the Group, which are set out in the statement of comprehensive income.
- HKFRS 11 “Joint arrangements”. Under HKFRS 11 Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.
- HKFRS 13 “Fair value measurement”. HKFRS 13 measurement and disclosure requirements are applicable for the December 2013 year end. The group has included the disclosures for financial assets and non-financial assets. The new disclosure requirements on fair value measurement have been adopted by the Group, which are set out in Note 5.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

(c) New and amended standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2013 and have not been early adopted.

- HKFRS 9 “Financial Instruments” addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group’s accounting for its available-for-sale financial assets, as IFRS/HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

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.

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

There have been no changes in the risk management department and risk management policies since 31 December 2012.

5.2 Liquidity risk

Compared to the previous year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

As at 30 June 2013 the contractual maturities of financial liabilities were as follows:

	Within 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>
At 30 June 2013				
Bank borrowings	5,049,414	28,448	16,200	19,452
Interest payables	107,646	1,139	492	80
Trade and other payables	18,617,637	–	–	–
At 31 December 2012				
Bank borrowings	4,900,773	120	21,200	19,453
Interest payables	100,584	633	623	162
Trade and other payables	16,012,091	–	–	–

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2013.

	Unaudited 30 June 2013 Level 1 RMB'000	Audited 31 December 2012 Level 1 RMB'000
Financial assets at fair value through profit or loss	302	2,920
Available-for-sale financial assets		
– Listed equity investment, at fair value	56,270	19,812
	56,572	22,732

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:

- Pharmaceutical manufacturing business (Production segment) – research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;
- 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;
- Pharmaceutical retail (Retail segment) – operation of a network of retail pharmacy stores; and
- Other businesses (Others) – assets management, investment holding and etc.

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 relevant period is as follows:

For the six months ended 30 June 2013

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Merger elimination RMB'000	Total RMB'000
External revenue	4,771,617	32,270,873	1,461,292	214,119	-	38,717,901
Inter-segment revenue	735,524	1,164,677	19,708	9,092	(1,929,001)	-
Segment revenue	5,507,141	33,435,550	1,481,000	223,211	(1,929,001)	38,717,901
Segment operating profit	624,901	793,378	16,788	52,333	(11,558)	1,475,842
Other income						65,682
Other gains – net						(3,015)
Gains on disposal of subsidiaries and associates						12,776
Finance costs – net						(81,768)
Share of profit of jointly controlled entities	49,912	8,331	-	-	-	58,243
Share of profit of associates	164,182	17,241	-	-	-	181,423
Profit before income tax						1,709,183
Income tax expense						(312,046)
Profit for the period						1,397,137

**CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED)
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6 SEGMENT INFORMATION (continued)

For the six months ended 30 June 2012

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

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION (continued)

Other segment items included in the interim condensed consolidated financial statements for the six months ended 30 June 2013 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Merger elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	156,943	48,529	10,466	20,144	–	236,082
Amortisation of intangible assets and land use rights	14,742	27,265	370	4,118	–	46,495
Capital expenditure	294,276	94,014	10,804	34,526	–	433,620

Other segment items included in the interim condensed consolidated financial statements for the six months ended 30 June 2012 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Merger elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	159,403	45,747	13,652	6,015	–	224,817
Amortisation of intangible assets and land use rights	11,157	35,677	377	1,853	–	49,064
Capital expenditure	139,293	81,384	22,492	28,948	–	272,117

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6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 30 June 2013 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	187,207	126,346	–	–	–	313,553
Investment in associates	1,892,894	308,255	–	–	–	2,201,149
Other assets	14,454,307	33,380,445	870,462	25,016,633	193,891	73,915,738
Merger elimination						(22,228,822)
Total assets						54,201,618
Segment liabilities	5,321,488	22,882,547	511,685	3,279,082	518,514	32,513,316
Merger elimination						(6,246,900)
Total liabilities						26,266,416

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after Merger elimination	54,007,727	25,747,902
Unallocated:		
Current income tax liabilities	–	213,198
Deferred tax assets/liabilities – net	193,891	305,316
Total	54,201,618	26,266,416

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2012 are as follows:

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

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

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

**CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE
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7 LAND USE RIGHTS, INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT (“PP&E”) AND INTANGIBLE ASSETS

	Land use rights <i>RMB'000</i>	Investment properties <i>RMB'000</i>	PP&E <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
Six months ended 30 June 2013				
Opening net book amount 1 January 2013	905,359	312,740	4,423,573	3,674,866
Additions	17,979	–	524,513	628,180
Depreciation and amortisation charge (Note 15)	(13,505)	(3,359)	(232,723)	(32,990)
Internal transfer	–	–	(110)	110
Disposals	–	(932)	(35,862)	(291)
Closing net book amount 30 June 2013	909,833	308,449	4,679,391	4,269,875
Six months ended 30 June 2012				
Opening net book amount 1 January 2012	818,338	384,548	4,171,765	3,447,509
Additions	11,616	–	333,693	261,980
Depreciation and amortisation charge (Note 15)	(10,788)	(7,848)	(216,969)	(38,276)
Internal transfer	–	(2,012)	2,012	–
Disposals	(12,624)	(22,882)	(93,045)	(54)
Closing net book amount 30 June 2012	806,542	351,806	4,197,456	3,671,159

Note:

- (1) The addition of intangible assets includes the goodwill of approximately RMB463,025,000 and RMB21,409,000 which is arising from the acquisition of Big Global Limited (Hong Kong) and Shanghai Jinhe Bio-technology Co., Ltd respectively.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	<i>RMB'000</i>
Six months ended 30 June 2013	
Opening net book amount 1 January 2013	309,020
Additions	70,500
Share of profit for the period	58,243
Dividends	(124,210)
Closing net book amount 30 June 2013	313,553
Six months ended 30 June 2012	
Opening net book amount 1 January 2012	250,109
Share of profit for the period	45,169
Closing net book amount 30 June 2012	295,278

9 INVESTMENTS IN ASSOCIATES

	<i>RMB'000</i>
Six months ended 30 June 2013	
Opening net book amount 1 January 2013	2,236,288
Additions	12,851
Share of profit for the period	181,424
Declaration of dividends	(167,461)
Deductions	(61,953)
Closing net book amount 30 June 2013	2,201,149
Six months ended 30 June 2012	
Opening net book amount 1 January 2012	2,204,408
Additions	14,532
Share of profit for the period	167,578
Declaration of dividends	(9,801)
Closing net book amount 30 June 2012	2,376,717

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 TRADE AND OTHER RECEIVABLES

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade receivables from third parties		
Accounts receivable	16,586,264	13,200,582
Less: Provision for impairment	(781,609)	(745,872)
Accounts receivable – net	15,804,655	12,454,710
Notes receivable	1,070,685	1,046,458
Trade receivables – net	16,875,340	13,501,168
Other receivables from third parties		
Less: Provision for impairment	(686,129)	(701,483)
Other receivables – net	953,836	641,863
Amount due from related parties (Note 24(d))	582,083	241,495
Less: Provision for impairment	(12,232)	(13,321)
Amount due from related parties – net	569,851	228,174
Prepayments	643,504	621,980
Value-added tax recoverable	307,136	321,393
Interest receivables	12,675	15,334
Trade and other receivables	19,362,342	15,329,912

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 TRADE AND OTHER RECEIVABLES (continued)

- (a) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, sales are made on credit terms of within 180 days. Aging analysis of gross trade receivables from third parties (accounts receivable and notes receivable) at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Less than 3 months	12,769,909	10,510,624
3 months to 6 months	3,196,877	2,570,337
6 months to 12 months	739,899	397,918
1 year to 2 years	273,512	120,593
Over 2 years	676,752	647,568
	17,656,949	14,247,040

11 SHARE CAPITAL

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 par value of each share RMB'000	H Shares of RMB1 par value of each share RMB'000	Total shares of RMB1 par value of each share RMB'000
Issued and fully paid:					
At 1 January 2013	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of A Shares	-	-	-	-	-
At 30 June 2013	1,923,016	765,894	1,923,016	765,894	2,688,910
At 1 January 2012	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of A Shares	-	-	-	-	-
At 30 June 2012	1,923,016	765,894	1,923,016	765,894	2,688,910

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12 TRADE AND OTHER PAYABLES

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Accounts payable to third parties	13,289,550	11,745,049
Notes payable	2,538,007	2,430,635
Advances received from customers	304,207	403,147
Payables for purchase of PP&E	85,952	137,938
Staff welfare and salary payables	368,251	363,901
Tax liabilities other than income tax	246,603	178,117
Amounts due to related parties (<i>Note 24(c)</i>)	699,188	438,266
Accrued expenses	515,639	442,043
Deposits	291,509	217,698
Dividends payable	510,708	47,797
Others	689,241	554,946
	19,538,855	16,959,537

As at 30 June 2013 and 31 December 2012, aging analysis of the accounts payables to third parties and notes payables is as follows:

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Less than 3 months	11,300,080	9,270,386
3 months to 6 months	3,490,674	3,987,437
6 months to 12 months	692,509	479,805
1 year to 2 years	192,276	285,116
2 years to 3 years	42,454	33,403
Over 3 years	109,564	119,537
	15,827,557	14,175,684

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13 BORROWINGS

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Non-current	64,100	40,773
Current	5,049,414	4,900,773
Total borrowings	5,113,514	4,941,546

Movement in borrowings is analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2013	
Opening net book amount 1 January 2013	4,941,546
Additions	5,757,635
Acquisition of subsidiaries	13,000
Deduction	(5,589,667)
Disposal of subsidiaries	(9,000)
Closing net book amount 30 June 2013	5,113,514
Six months ended 30 June 2012	
Opening net book amount 1 January 2012	5,727,770
Additions	4,145,220
Acquisition of subsidiaries	71,820
Deduction	(4,404,100)
Disposal of subsidiaries	(25,541)
Closing net book amount 30 June 2012	5,515,169

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

14 DEFERRED INCOME TAX

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

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Deferred income tax assets	193,891	191,744
Deferred income tax liabilities	305,316	282,349
Deferred income tax liabilities – net	(111,425)	(90,605)

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

	As at 30 June 2013 RMB'000	2012 RMB'000
At 1 January	(90,605)	(87,659)
Recognised in the consolidated income statements (<i>Note 18</i>)	13,267	4,142
Disposal of subsidiaries	–	(72)
Acquisition of subsidiaries	(37,473)	(15,638)
Recognised in equity	3,386	(341)
Deferred income tax assets – net	(111,425)	(99,568)

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15 OPERATING PROFIT

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Depreciation of PP&E	232,723	216,969
Depreciation of investment properties	3,359	7,848
Amortisation of		
– land use rights	13,505	10,788
– intangible assets	32,990	38,276
Employee benefit expenses	1,513,181	1,172,408
Provision for impairment of trade and other receivables	36,708	20,313
Write-down of inventories to net realisable value	35,447	553

16 OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Gains/(losses) of financial assets at fair value through profit or loss, net	(111)	585
Gain on disposals of financial assets at fair value through profit or loss	756	–
Losses on disposals of PP&E	(1,476)	(3,961)
Reversal for impairment of long aging receivables	–	7,462
Foreign exchange gains/(losses)	7,653	65,989
Others – net	(9,837)	(1,382)
	(3,015)	68,693

17 GAINS ON DISPOSAL OF SUBSIDIARIES

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Others	12,776	19,823

CHAPTER 8 FINANCIAL REPORT (PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS, UNAUDITED) NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current income tax, PRC enterprise income tax	325,313	359,067
Deferred income tax	(13,267)	(4,142)
	312,046	354,925

19 EARNINGS PER SHARE

For the six months ended 30 June 2013 and 2012, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2013	2012
Profit attributable to equity holders of the Company (RMB'000)	1,189,609	1,147,718
Number of ordinary shares (thousands)	2,688,910	2,688,910
Basic earnings per share (RMB)	0.44	0.43

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during for the six months ended 30 June 2013 and 2012.

20 DIVIDENDS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Dividends declared by the Company	–	–

No interim dividend was proposed by the directors of the Company for the six months ended 30 June 2013 and 2012.

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21 CONTINGENCIES AND GUARANTEES

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

(b) Outstanding loan guarantees

	30 June 2013 RMB'000	31 December 2012 RMB'000
Outstanding loan guarantees provided to related parties	68,170	198,970
Outstanding loan guarantees provided to a third party	40,000	–
	108,170	198,970

The management has assessed that it is not probable for the Group to repay the guaranty and thus has not made any provision for the outstanding balance of the guaranty.

22 COMMITMENTS

(a) Capital commitments

(i) Constructions

Capital expenditure contracted for at the end of 30 June 2013 and 31 December 2012 but not yet incurred is as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
PP&E	144,647	17,827
Intangible assets	21,766	–
	166,413	17,827

(ii) Other commitments

On 23 February 2011, the Company has entered into agreement (the "Agreement") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to the Agreement, the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. Up to 30 June 2013, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB63,590,000.

22 COMMITMENTS (continued)

(b) Operating lease commitments

(i) *The Group is the lessee:*

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
No later than 1 year	93,536	90,515
Later than 1 year and no later than 2 years	112,189	80,336
Later than 2 years and no later than 5 years	116,661	128,506
Later than 5 years	97,292	84,216
	419,678	383,573

(ii) *The Group is the lessor:*

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
No later than 1 year	29,308	31,251
Later than 1 year and no later than 2 years	22,672	24,548
Later than 2 years and no later than 5 years	26,633	28,796
Later than 5 years	911	6,605
	79,524	91,200

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23 BUSINESS COMBINATION

- (i) In the end of June 2013, the Group acquired 79% equity interests in Big Global Limited (Hong Kong) from an independent third party, on which the Group effectively obtained the right to control its pharmaceutical business and consolidated it into the consolidated financial statements.

The following table summarises the consideration paid for acquisition of Big Global Limited (Hong Kong) is approximately RMB615,235,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration	Big Global Limited (Hong Kong) RMB'000
At 30 June 2013	
Acquisition consideration	615,235
Total consideration	615,235
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	67,619
PP&E	28,782
Intangible assets	146,848
Inventories	14,224
Trade and other receivables	30,781
Deferred income tax liabilities	(35,703)
Trade and other payables	(58,666)
Current income tax liabilities	(1,214)
Total identifiable net assets	192,671
Non-controlling interests	(40,461)
Goodwill	463,025
	615,235

23 BUSINESS COMBINATION (continued)

- (ii) During the year 2012, the Group acquired 51.10% equity interest in Shanghai Jinhe Bio-technology Co., Ltd (“Jinhe Bio-tech”). The Group did not have the power to govern the financial and operating policies of Jinhe Bio-tech in accordance with the Articles of Association as of the year ended 31 December 2012. Thus, the investment was accounted for using the equity method of accounting. From 1 January 2013, the Group obtained the substantial control over Jinhe Bio-tech through relevant agreements with other shareholders. Hence, Jinhe Bio-tech was consolidated in the Group when the Group prepared its consolidated financial statements for the period ended 30 June 2013.

The following table summarizes the consideration for acquisition of approximately RMB64,182,000 the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	Jinhe Bio-tech RMB'000
At 1 January 2013	
Fair value of the 51.10% equity investment in Jinhe Bio-tech	64,182
Total consideration	64,182
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	1,865
PP&E	67,528
Intangible assets	7,291
Deferred income tax assets	78
Inventories	31,300
Trade and other receivables	34,244
Deferred income tax liabilities	(1,848)
Trade and other payables	(43,152)
Current income tax liabilities	(602)
Borrowings	(13,000)
Total identifiable net assets	83,704
Non-controlling interests	(40,931)
Goodwill	21,409
	64,182

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

Name of related party	Nature of relationship
Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)	Ultimate controlling party
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Pharmaceutical Advertisement Co., Ltd. (上海醫藥廣告公司)	Controlled by Shanghai Pharma Group
shanghai indu-land property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd. (上海安替比奧先鋒製藥有限公司)	Controlled by Shanghai Industrial Group
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾藥房有限公司)	Jointly controlled entity
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Jointly controlled entity

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Hangzhou Huqingyutang Medicine Planting Co, Ltd (杭州胡慶餘堂藥業種植有限公司)	Associate
Shanghai Ajinomoto Amino Acid Co., Ltd. (上海味之素氨基酸有限公司)	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
Shanghai Dehua Chinese Medicine Co., Ltd. (上海德華國藥製品有限公司)	Associate
Sino-American Shanghai Squibb Pharmaceuticals Ltd (中美上海施貴寶製藥有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司)	Associate
Shanghai Bracco Sine Pharmaceutical Corp. Ltd. (上海信誼博萊科藥業有限公司)	Associate
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	Associate
Shanghai Beisiou Pharmaceutical Co., Ltd. (上海貝斯歐藥業有限公司)	Associate
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司)	Associate
Shanghai Draeger Medical Instrument Co., Ltd. (上海德爾格醫療器械有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司)	Associate
Shanghai Baohua Industrial Co., Ltd. (上海保華實業公司)	Associate
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	Associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司)	Associate
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Associate
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
Henan Kangxin Pharmaceutical Co., Ltd. (河南省康信醫藥有限公司)	Subsidiary of associate
Beijing Xin Hai Kang Pharmaceutical Co., Ltd. (北京信海康醫藥有限公司)	Subsidiary of associate

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

For the six months ended 30 June 2013 and 2012, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Six month ended 30 June	
	2013 RMB'000	2012 RMB'000
Sales of goods and render of service		
Jiangxi Nanhua Medicines Co., Ltd.	268,601	152,244
Henan Kangxin Pharmaceutical Co., Ltd.	84,183	41,373
Shanghai Hutchison Pharmaceutical Co., Ltd.	40,713	36,252
Shanghai Deyi Pharmaceutical Co., Ltd.	35,349	16,627
Shanghai Luoda Pharmaceutical Co., Ltd.	32,396	17,199
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	29,551	10,829
Shanghai Ivyuan Pharmacy Co., Ltd.	15,998	12,074
Shanghai Huaren Pharmaceutical Co., Ltd	6,820	–
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	4,576	7,376
Shanghai Jianer Pharmacy Co., Ltd.	2,481	2,312
Shanghai Roche Pharmaceutical Co., Ltd.	1,728	10,090
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	1,500	7,105
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	1,461	1,095
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	1,453	1,030
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd	1,183	–
Sino-American Shanghai Squibb Pharmaceuticals Ltd	1,119	1,750
Others	1,773	2,980
	530,885	320,336

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	1,128,199	680,648
Sino-American Shanghai Squibb Pharmaceuticals Ltd	328,013	358,431
Shanghai Hutchison Pharmaceutical Co., Ltd.	88,720	63,728
TECHPOOL Bio-Pharma Co., Ltd.	54,467	66,277
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	22,117	10,185
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	21,000	15,709
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	16,634	–
Shanghai Luoda Pharmaceutical Co., Ltd.	12,008	13,930
Shanghai Deyi Pharmaceutical Co., Ltd.	7,059	4,419
Hangzhou Huqingyutang Medicine Planting Co, Ltd	5,093	–
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	2,555	143,930
Others	12,976	8,424
	1,698,841	1,365,681

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	5,057	4,227

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	13,462	13,174
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	12,798	–
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,181	–
shanghai indu-land property Co., Ltd.	483	–
	28,924	13,174

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	–	14,262

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Interest income		
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	967	950

(b) Key management compensation

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Salaries and fee	2,430	856
Bonuses	–	1,295
Retirement plans contributions	299	190
	2,729	2,341

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.

24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

(c) Other related parties transactions

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Compensation and others	23,300	–

The above related party transactions were mainly related to the Group's acquisition of certain pharmaceutical assets from Shanghai Industrial Holdings Co., Ltd. ("Shanghai Industrial Holdings") in 2010. Pursuant to the asset purchase agreement the Group entered into with Shanghai Shangshi (Group) Co., Ltd. (Shanghai Shangshi) and Shanghai Industrial Holdings, Shanghai Shangshi had made commitments in respect of the above-mentioned acquired assets. As the actual net profit of the acquired assets was lower than the profit forecast by RMB22,250,000 ("the difference"), Shanghai Shangshi has paid off the difference by cash in this period in respect of the commitments.

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

Amount due from related parties:

	30 June 2013	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	277,323	154,105
Other receivables	56,836	58,336
Prepayments	12,044	8,026
Dividends receivables	235,880	21,028
	582,083	241,495

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	140,309	66,384
Henan Kangxin Pharmaceutical Co., Ltd.	37,383	16,044
Shanghai Hutchison Pharmaceutical Co., Ltd.	25,682	14,649
Shanghai Dehua Chinese Medicine Co., Ltd.	14,022	–
Shanghai Luoda Pharmaceutical Co., Ltd.	13,537	14,774
Shanghai Deyi Pharmaceutical Co., Ltd.	13,489	9,928
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	9,229	9,533
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	6,450	7,140
Shanghai Ivyuan Pharmacy Co., Ltd.	4,576	2,823
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	3,175	2,985
Shanghai Huaren Pharmaceutical Co., Ltd.	2,273	3,491
Shanghai Roche Pharmaceutical Co., Ltd.	1,177	642
Shanghai Jianer Pharmacy Co., Ltd.	1,176	1,119
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	1,147	1,658
Sino-American Shanghai Squibb Pharmaceuticals Ltd	818	403
Others	2,880	2,532
	277,323	154,105
Less: Provision for impairment	(5,679)	(4,500)
	271,644	149,605

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Other receivables due from		
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	35,241	34,704
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd	9,949	9,949
Shanghai Beisiou Pharmaceutical Co., Ltd.	5,800	5,800
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	3,624	3,458
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd.	–	2,284
Shanghai Huaren Pharmaceutical Co., Ltd	1,500	1,500
Others	722	641
	56,836	58,336
Less: Provision for impairment	(6,553)	(8,821)
	50,283	49,515

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Less than 3 months	186,074	134,866
3 months to 6 months	72,752	25,354
6 months to 12 months	28,244	20,377
1 year to 2 years	19,011	20,031
Over 2 years	28,078	11,813
	334,159	212,441

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	8,128	678
Hangzhou Huqingyutang Medicine Planting Co, Ltd	3,090	–
Shanghai Hutchison Pharmaceutical Co., Ltd.	826	348
Shanghai Pharmaceutical Advertisement Co., Ltd.	–	7,000
	12,044	8,026

	30 June 2013 RMB'000	31 December 2012 RMB'000
Dividends receivable		
Shanghai Roche Pharmaceutical Co., Ltd.	62,638	–
Sino-American Shanghai Squibb Pharmaceuticals Ltd	53,250	–
Shanghai Hutchison Pharmaceutical Co., Ltd.	50,000	–
TECHPOOL Bio-Pharma Co., Ltd.	35,969	–
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	14,515	5,684
Shanghai Draeger Medical Instrument Co., Ltd.	12,600	12,600
Shanghai Ajinomoto Amino Acid Co., Ltd.	3,404	–
Shanghai Luoda Pharmaceutical Co., Ltd.	1,556	1,556
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,000	1,000
Shanghai Dehua Chinese Medicine Co., Ltd.	760	–
Others	188	188
	235,880	21,028

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Amount due to related parties:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade Payables	430,987	399,232
Other Payables	32,769	25,623
Advances	2,157	2,280
Dividends Payable	233,275	11,131
	699,188	438,266

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	346,450	265,678
Sino-American Shanghai Squibb Pharmaceuticals Ltd	28,917	58,064
Shanghai Hutchison Pharmaceutical Co., Ltd.	21,579	5,410
TECHPOOL Bio-Pharma Co., Ltd.	11,366	41,901
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	5,384	1,867
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	4,906	14,076
Shanghai Deyi Pharmaceutical Co., Ltd.	2,812	1,848
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,540	2,101
Shanghai Luoda Pharmaceutical Co., Ltd.	1,218	2,743
Others	5,815	5,544
	430,987	399,232

	30 June 2013 RMB'000	31 December 2012 RMB'000
Other payables due to		
Shanghai Pharmaceutical (Group) Co., Ltd.	22,729	14,404
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,103	9,066
Others	937	2,153
	32,769	25,623

Other payables are all non-trade payables and will be settled upon demand of these related parties.

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Less than 3 months	367,465	384,782
3 months to 6 months	71,052	14,222
6 months to 12 months	2,382	572
1 year to 2 years	536	22,113
Over 2 years	22,321	3,166
	463,756	424,855

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Advances due to		
Shanghai Baohua Industrial Co., Ltd.	2,064	2,064
Others	93	216
	2,157	2,280

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	187,982	11,052
Shanghai Shangshi	45,214	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	233,275	11,131

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24 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	45,000	45,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	9,920	14,970
Shanghai Luoda Pharmaceutical Co., Ltd.	9,000	9,000
Shanghai Dehua Chinese Medicine Co., Ltd.	4,250	–
Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd	–	115,000
Jiangxi Nanhua Medicines Co., Ltd.	–	15,000
	68,170	198,970

Note: The Group had disposed Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd in 2013, so this company is not regarded as related party in this period.

	30 June 2013 <i>RMB'000</i>	31 December 2012 <i>RMB'000</i>
Outstanding loan guarantees given to the Group by		
Shanghai Pharmaceutical (Group) Co., Ltd.	4,350	4,350



Shanghai Pharmaceuticals Holding Co., Ltd.*

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