



# 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)

ANNUAL 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 annual report is true, accurate and complete and contains no false information, misleading statement or material omission and assume joint and several responsibilities therefor.
- (II) All directors of the Company attended the meeting of the board of directors aimed at approving the 2013 annual report and convened on 28 March 2014.
- (III) PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers issued standard unqualified auditor's reports for the financial reports prepared by the Group based on the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards respectively.
- (IV) Mr. 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 annual report.
- (V) The plan for profit distribution or conversion of capital reserve fund into share capital for the Reporting Period considered by the board of directors: Shanghai Pharmaceuticals intends to distribute to all shareholders a cash dividend of RMB2.60 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares as at the end of 2013, which is subject to the approval by the annual general meeting of the Company for 2013.
- (VI) Risk statements regarding the forward – looking statements: the forward-looking statements, such as future plans, contained in this annual report do not constitute any substantive commitment by the Company to the investors. Investors are advised to be aware of the investment risks involved.
- (VII) Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation? No
- (VIII) Is there any instance of providing external guarantee that is in breach of the established decision making procedure? No





## Contents

0	<b>Important Notice</b>	
1	<b>Contents</b>	
2	<b>Chapter 1</b>	Definitions and Warnings of Significant Risks
5	<b>Chapter 2</b>	Basic Corporate Information
8	<b>Chapter 3</b>	Summary of Accounting Data and Financial Indicators
12	<b>Chapter 4</b>	Report of the Board of Directors
45	<b>Chapter 5</b>	Significant Events
56	<b>Chapter 6</b>	Changes in Share Capital and Information about Shareholders
70	<b>Chapter 7</b>	Directors, Supervisors, Senior Management and Employees
92	<b>Chapter 8</b>	Corporate Governance
108	<b>Chapter 9</b>	Internal Control
109	<b>Chapter 10</b>	Financial Report (attached)
110	<b>Chapter 11</b>	Catalogue of Documents Available for Inspection

# Definitions and Warnings of Significant Risks

## I. DEFINITIONS

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

### Definitions of Common Terms

“Group”, “Company” or “Shanghai Pharmaceuticals”	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), or Shanghai Pharmaceuticals and its subsidiaries, where applicable
“Articles of Association” or “Articles”	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
“Reporting Period”	the 12-month period from 1 January 2013 to 31 December 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

## Definitions and Warnings of Significant Risks

“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會), serving as a strategic reserve fund accumulated by the central government to support future social security expenditures
“SFO”	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended)
“Controlling Shareholders”	unless otherwise stated, has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group)
“Shanghai SASAC”	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“SIIC”	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
“Shanghai Shangshi”	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
“Shanghai Pharmaceutical (Group)”	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
“Shanghai Guosheng”	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司)
“Shanghai Shengrui”	Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)
“Shenergy Group”	Shenergy (Group) Co., Ltd. (申能(集團)有限公司)

## Definitions and Warnings of Significant Risks

### II. WARNINGS OF SIGNIFICANT RISKS

For the detailed description of the potential risks involved, please refer to the potential risk factors discussed in the section headed “Board of Directors’ Discussion and Analysis on the Outlook and Prospects of the Company” set out in the Report of the Board of Directors, Chapter 4 of this annual report.

# Basic Corporate Information

## I. CORPORATE INFORMATION

Name of the Company in Chinese	上海醫藥集團股份有限公司
Chinese abbreviation of the name of the Company	上海醫藥
Name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd.
Legal representative of the Company	Mr. 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	+8621-63730908
Facsimile	+8621-63289333
E-mail	pharm@sphchina.com

## III. BASIC INFORMATION

Registered address of the Company	No. 92 Zhangjiang Road, Pudong New Area, Shanghai
Postal code of the registered address of the Company	201203
Office address of the Company	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Postal code of the office address of the Company	200020
Principal place of business in Hong Kong	8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
Website of the Company	<a href="http://www.sphchina.com">http://www.sphchina.com</a>
E-mail	pharm@sphchina.com
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai, the PRC
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

## Basic Corporate Information

### IV. INFORMATION DISCLOSURE AND PLACE WHERE INFORMATION IS AVAILABLE FOR INSPECTION

Newspapers designated by the Company for disclosure of information (A Shares)	Shanghai Securities News, Securities Times
Designated website for publishing announcements about A Shares (including annual reports)	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Designated website for publishing announcements about H Shares (including annual reports)	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
Place where the Company's annual report is available for inspection	Office of the board of directors

### V. STOCK INFORMATION OF THE COMPANY

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

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

#### (I) Basic Information

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

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

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

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

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



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

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

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

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

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

## VII. OTHER RELEVANT INFORMATION

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

# Summary of Accounting Data and Financial Indicators

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

### (I) Major Accounting Data

Unit: RMB

Major accounting data	2013	2012	Change compared to the corresponding period last year (%)	2011
Operating revenue	<b>78,222,817,357.35</b>	68,078,117,819.19	14.90	54,899,872,504.11
Net profit attributable to equity holders of the Company	<b>2,242,925,141.06</b>	2,052,871,698.55	9.26	2,042,238,482.84
Net profit after deduction of non-recurring profit or loss attributable to equity holders of the Company	<b>2,067,125,810.03</b>	1,794,965,958.94	15.16	1,424,034,687.07
Net cash flows from operating activities	<b>973,449,693.95</b>	1,150,774,970.90	-15.41	1,772,438,011.82

	End of 2013	End of 2012	Change compared to the end of the corresponding period last year (%)	End of 2011
Net assets attributable to equity holders of the Company	<b>25,953,812,431.68</b>	24,639,299,336.20	5.34	23,078,472,247.95
Total assets	<b>56,311,521,570.36</b>	51,069,037,985.13	10.27	47,667,822,923.30

### (II) Major Financial Indicators

Major financial indicators	2013	2012	Change compared to the corresponding period last year (%)	2011
Basic earnings per share (RMB per share)	<b>0.8341</b>	0.7635	9.26	0.8437
Diluted earnings per share (RMB per share)	<b>0.8341</b>	0.7635	9.26	0.8437
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	<b>0.7688</b>	0.6675	15.16	0.5883
Weighted average return on net assets (%)	<b>8.87</b>	8.62	increase of 0.25 percentage point	11.82
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	<b>8.17</b>	7.53	increase of 0.64 percentage point	8.04

## Summary of Accounting Data and Financial Indicators

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

#### (I) Results

Unit: RMB'000

	2009	For the year ended 31 December			2013
		2010	2011	2012	
Revenue	31,228,163	38,692,157	54,899,873	68,078,118	<b>78,222,817</b>
Profit before income tax	2,130,044	2,283,250	3,035,102	3,087,727	<b>3,260,847</b>
Income tax expenses	(464,854)	(415,885)	(589,072)	(627,139)	<b>(634,228)</b>
Profit for the year	1,665,190	1,867,365	2,446,030	2,460,588	<b>2,626,619</b>
Attributable to:					
Equity holders of the Company	1,296,789	1,456,195	2,042,239	2,052,872	<b>2,242,926</b>
Non-controlling interests	368,401	411,170	403,791	407,716	<b>383,693</b>

#### (II) Assets and Liabilities

Unit: RMB'000

	2009	As at 31 December			2013
		2010	2011	2012	
Total assets	21,874,562	30,163,469	47,667,824	51,069,038	<b>56,311,522</b>
Total liabilities	11,439,418	17,335,241	21,686,359	23,368,164	<b>27,310,542</b>
Total equity	10,435,144	12,828,228	25,981,465	27,700,874	<b>29,000,980</b>
Attributable to:					
Owners of the Company	8,282,010	10,009,718	23,078,471	24,639,299	<b>25,953,813</b>
Non-controlling interests	2,153,134	2,818,510	2,902,994	3,061,575	<b>3,047,167</b>

- Notes: 1. The financial information for 2010, 2011, 2012 and 2013 is extracted from the financial statements prepared under the Hong Kong Financial Reporting Standards in the annual reports.
2. The financial information for 2009 is extracted from the accounts' report of the Company as set out in the H Shares prospectus issued on 6 May 2011. No retrospective adjustments were made.

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

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

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

## Summary of Accounting Data and Financial Indicators

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

Unit: RMB

Non-recurring Profit and Loss Item	Amount in 2013	Amount in 2012	Amount in 2011
Profit or loss on disposal of non-current assets	<b>62,773,676.93</b>	52,059,379.56	454,032.49
Government grants recognised in profit or loss for the current period excluding those closely related to the Group's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume	<b>145,389,308.56</b>	154,957,223.51	96,781,630.41
Profit or loss on debt restructuring	<b>29,087,237.27</b>	10,033,519.30	3,816,450.74
Net profit or loss of the subsidiaries acquired in business combination involving entities under common control for the period from the beginning of the period to the combination date			50,867,928.00
Except for the effective hedging activities related to the Group's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	<b>682,554.69</b>	677,638.39	118,813,494.58
Reversal of provisions on receivables assessed for impairment on an individual basis	<b>4,144,095.43</b>	22,577,426.66	32,879,590.75
Other non-operating income and expenses other than the aforesaid items	<b>-40,960,037.18</b>	123,151,323.76	46,359,797.45
Other profit or loss items that meet the definition of non-recurring profit or loss	<b>37,436,143.42</b>		519,117,011.95
Effect on minority interests	<b>-17,361,218.01</b>	-20,243,277.65	-32,877,329.36
Effect on income tax	<b>-45,392,430.08</b>	-85,307,493.92	-218,008,811.24
Total	<b>175,799,331.03</b>	257,905,739.61	618,203,795.77

## Summary of Accounting Data and Financial Indicators

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

Unit: RMB

Item	Balance at beginning of period	Balance at end of period	Change during the period	Effect on the profit for the period
Financial assets held for trading	2,920,478.96	339,985.80	-2,580,493.16	-73,689.20
Available-for-sale financial assets	19,812,137.59	73,589,989.23	53,777,851.64	-
Total	22,732,616.55	73,929,975.03	51,197,358.48	-73,689.20



# Report of the Board of Directors

## I. BOARD DISCUSSION AND ANALYSIS OF THE OVERALL OPERATION OF THE COMPANY DURING THE REPORTING PERIOD (UNLESS OTHERWISE STATED, THE MANAGEMENT DISCUSSION AND ANALYSIS IS BASED ON THE FINANCIAL STATEMENTS DATA PREPARED BY THE COMPANY UNDER THE CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES)

In 2013, against the backdrop of slowing macro-economic growth, the revenue and profit growth of the pharmaceutical industry slowed down as compared with 2012 as affected by the administrative intervention on drug prices imposed by the National Development and Reform Commission (“NDRC”) in the People’s Republic of China (“PRC”) as well as the GSK incident initiated in the third quarter. However, in view of the inelastic demand for medical services and escalating government spending on medical care as a result of aging population, progressing urbanization and rising chronic disease incidence, the whole industry still shows robust growth momentum. In respect of industrial policies, the release of the Bioindustry Development Plan, the new good supplying practice (the new “GSP”) standards and the 2012 National Essential Drug List, as well as the price adjustment implemented by the NDRC and the drug tenders carried out across the nation, have all exerted a growing influence on the pharmaceutical industry.

During the Reporting Period, the Company overcame the effects from the slackening drug market, declining drug price, control of medical insurance reimbursement, restrictive policies on antibiotics and GSK incident, focused on the overall work deployment set forth at the beginning of the year, carried forward the optimization of organizational structure, advanced the consolidation of internal resources, effectively controlled the operating risk, and achieved the annual operating budget targets in general. The re-election of the new board of directors and the new board of supervisors of the Company was also smoothly completed, establishing a new operating management team. The Company devised new 2013-2015 three-year development plan, actively advocated the establishment of a V-shaped collaborative team among its employees with strong sense of cooperation and responsibility and initiated optimization of marketing system and Lean Six Sigma management, which are strategic management modes, so as to lay a solid foundation for the Company’s sustainable development in the long run.

During the Reporting Period, the Company’s operating revenue was RMB78.223 billion (denominated in RMB, the same hereinafter), up by 14.90% on a year-on-year (“YOY”) basis. Net profit attributable to the equity holders of the listed Company was RMB2.243 billion, representing an increase of 9.26% on a YOY basis. The operating profit margin after deducting sales and administration costs was 3.71%, down by 0.21 percentage point from the corresponding period of last year. Basic earnings per share amounted to RMB0.8341 and basic earnings per share after deducting non-recurring profits and losses were RMB0.7688. During the Reporting Period, the Company’s net cash flows from operating activities amounted to RMB973 million. As at 31 December 2013, the owners’ equity of the Company was RMB29.001 billion, its owners’ equity after deducting minority interest was RMB25.954 billion and its total assets were RMB56.312 billion.

- **Pharmaceutical Research & Development (the “R&D”) and manufacture**

### 1. Pharmaceutical R&D

During the Reporting Period, the Company’s R&D expenses amounted to a total of RMB454,710,000 with expenditure on acquisition of assets for research and development of RMB23,590,000. R&D expenses accounted for 4.25% of the Company’s manufacturing sales revenue, of which 26.30% was used for R&D of innovative medicine, 58.63% was used for R&D of first generic drugs and other generic drugs and 15.07% was used for secondary development of existing products. Sales revenue from the Company’s new products launched in recent years through R&D amounted to RMB1.019 billion, representing 9.51% of the Company’s manufacturing sales revenue.

During the Reporting Period, the Company was granted 4 clinical approvals for 2 drugs and 7 manufacturing approvals for 5 drugs, of which the Company was the fourth manufacturer in China qualified to produce the new drug named Mitiglinide Calcium Hydrate Tablets as a new drug under class 3.1 of chemical drugs, and the Company launched 7 drugs in the market. During the Reporting Period, the Company filed 32 invention patent applications and was granted 17 invention patents. As at the end of the Reporting Period, Shanghai Pharmaceuticals has accumulated 189 invention patents in total.

The research and development of innovative drugs proceeded 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 application for phase II clinical trial is underway. Deuteroporphyrin, a drug invented through cooperation with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (“Fudan Zhangjiang”), is still in the clinical trial phase. The Company has formulated a preliminary plan for its antibody project. High affinity recombinant human TNF receptor 2-Fc fusion protein mutant, another drug invented through cooperation with Fudan Zhangjiang, is still pending clinical approval and is anticipated to be approved in the first half of 2014. The research on humanised monoclonal antibody against CD20 is continuing while the preclinical pharmaceutical and biological evaluations on the project were substantially finished, and application for clinical approval has been submitted. The Company introduced compound Her2 antibody in August 2013 and started preclinical research on it. During the Reporting Period, the Company introduced antibody-drug conjugates T-DM1 and CD30-DMI, which were still under R&D, by acquiring the entire equity interest in Shanghai Jiaolian Drug Development Co. Ltd to further enhance the Group’s R&D capabilities in bio-pharmaceuticals. The Company also entered into a co-operation agreement, “Translational Medicine Alliance”, with the People’s Liberation Army Second Military Medical University of China (“Second Military Medical University”), pursuant to which the Company planned to invest RMB10 million annually for conducting research projects such as innovation of new drugs with the Second Military Medical University, and 5 innovation co-operation projects have been preliminarily confirmed.



## Report of the Board of Directors

During the Reporting Period, the projects “Construction Project of Shanghai Pharmaceuticals Antibody Industrialisation Base” and “Capability Building Project for Shanghai Pharmaceuticals Central Research Institute” submitted by the Company were selected as technology innovation and ramp up projects by the State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government in 2013 and were granted subsidies of RMB41 million and RMB75 million respectively. The Company has already received the first payments of 50% of the subsidies. The Company also participated in the state research project on significant scientific instrument and equipment, led by the Second Military Medical University and was responsible for the research sub-topic on National Essential Drug Data Storage of Shanghai Pharmaceuticals Group and Applicability of Spectral Data under Changes in Technologies. Moreover, the key technological project for the development of major new drugs during 2010 undertaken by the Group, “The Construction of an Industry-University-Research Institute Alliance for Research and Development of New Drugs by Shanghai Pharmaceuticals”, received official acceptance. “The Construction of an Open Platform for Innovative Drugs and Research on Types of Drugs” submitted by the Company was selected as a new major specialised project under “Major New Drug Innovation” for 2014. The project jointly submitted 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  $\beta$ -monobactams Drugs”, was honoured with the 2012 Shanghai Science and Technology Progress Award (Third Class).

In order to implement its three-year Chinese medicine action plan, the Company has established the Chinese Medicine Research Institute at the Group level to conduct secondary development of existing Chinese medicine products and development of new Chinese medicine products. Currently, the Group focuses on projects involving secondary development of Chinese medicine, including research on the effects and mechanism of Babaodan and quality improvement to and clinical evaluation of Wanbi Tablets, of which the Wanbi Tablet project was selected as a new specialised project of technology enhancement in Chinese medicine under “Development of Major New Drugs” in 2014. On chemical drugs, the Company is expected to be among the first three domestic manufacturers to obtain production approvals for the new class 3.1 drugs under research, including Rasagiline Mesylate and Manidipine Hydrochloride.

During the Reporting Period, in order to raise the intrinsic quality of the generic drugs, the Company streamlined the types of existing generic drugs, established a corresponding working plan and embarked on phased evaluations of the quality consistency of generic drugs. The evaluations of some of the key generic drugs have basically been completed and are ready to be submitted for approval as required once relevant policies have been introduced.



### 2. Pharmaceutical manufacturing

During the Reporting Period, the Company's sales revenue from the pharmaceutical business was RMB10.709 billion, representing a growth of 8.04% as compared with the corresponding period of last year; its gross profit margin was 48.07% (Gross profit margin = (Operating income – Operating cost – Business tax & subcharge)/Operating income x 100%), an increase of 1.76 percentage points as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 11.68%, an increase of 0.41 percentage point as compared with the corresponding period of last year. The Company continued to implement its strategy to focus on key products and adjust its product portfolio, therefore improving the gross profit margin and further optimizing its product portfolio.

During the Reporting Period, the Company's sales revenue from biological drugs was RMB368 million, up by 22.26% as compared with the corresponding period of last year; sale revenue from chemical and biochemical drugs was RMB4.691 billion, up by 14.79% as compared with the corresponding period of last year; sales revenue from Chinese medicines (including Chinese patent medicine, healthcare products and Chinese herbal medicine) was RMB4.321 billion, up by 7.78% as compared with the corresponding period of last year; and sales revenue from other industrial products (including active pharmaceutical ingredients (APIs) and medical devices, etc.) was RMB1.329 billion, down by 10.75% as compared with the corresponding period of last year. During the Reporting Period, 21 products attained a product sales revenue of over RMB100 million, one more than the product number in 2012, representing 44.28% of the revenue from industrial sales.



## Report of the Board of Directors

During the Reporting Period, the Company realized sales revenue of RMB6.392 billion from its 64 key products, an increase of 15.71% compared to the corresponding period of last year and accounting for 59.69% of the revenue from industrial sales with an average gross profit margin of 62.99%. Among the key products, 26 achieved a growth rate higher than or equivalent to that of similar products of IMS Health Inc. Each major product of which the sales revenue for the year exceeds RMB100 million is a key product. The average growth rate of the top five fastest growing products is 43.12%, while that of the bottom five is -11.40%; specifically:

No.	Product name	Therapeutic area	Sales revenue in 2013 (RMB10,000)
1	Shenmai injection	Cardiovascular system disease	68,614
2	Tanshinone IIA	Cardiovascular system disease	35,586
3	Live combined bifidobacterium	Digestive and metabolic disease	35,084
4	Divine elephant series	Healthcare products	34,702
5	Ceftriaxone Sodium for Injection	Systemic anti-infective medicine	29,543
6	Hydroxychloroquine	Antineoplastic drug and immunomodulator	28,428
7	Cefotiam	Systemic anti-infective medicine	23,150
8	Calcium dibutyladenosine cyclophosphate	Cardiovascular system disease	22,180
9	Wangbi tablets	Musculo-skeletal system	20,474
10	Tatin-based medicine	Cardiovascular system disease	19,585
11	Yangxinshi	Cardiovascular system disease	17,628
12	Chymotrypsin	Respiratory system	16,783
13	Soothing ointment	Others	16,148
14	Qingchunbao anti-caducity tablets	Healthcare products	15,409
15	Xinhuang tablets	Respiratory system products	14,676
16	Weifuchun tablets	Digestive and metabolic disease	13,750
17	Cefotaxime sodium for injection	Systemic anti-infective medicine	13,441
18	Rupixiao tablets	Genito-urinary system and sex hormones	12,770
19	Trichosanthes peel injection	Cardiovascular system disease	12,730
20	Thalidomide	Antineoplastic drug and immunomodulator	12,612
21	Aripiprazole	Neurological system	10,839

As of the first half of March 2014, 23 of the Company's subsidiaries were granted 37 new version of good manufacturing practice ("GMP") Certificates, of which 16 were aseptic and 21 were non-aseptic. As such, all of the manufacturing subsidiaries adopting aseptic processing have already passed the new GMP certification by the end of 2013, except for Zhongxi Pharmaceuticals Co., Ltd., which will start the new GMP certification (except for some GMP with special requirements) application process to Drug Administration Department in the first quarter of 2014 and is expected to pass the new certification by the second quarter of 2014. Twenty-one new GMP certificates were granted to subsidiaries adopting non-septic processing, setting the foundation for all such subsidiaries passing the new certification before the end of 2015. By reforming and passing the new GMP certification, the Company has comprehensively enhanced its technological equipments, production management, quality management among others in pharmaceutical manufacturing in order to ensure the safety and quality of its pharmaceutical products. In 2013, in a total of four phases of Announcement of Pharmaceutical Quality released by the China Food and Drug Administration, 837 batches from 49 of the Company's products were all qualified in the sampling test.

- **Pharmaceutical services**

1. **Pharmaceutical distribution**

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB68.01 billion, up by 15.42% as compared with the corresponding period of last year, with a gross profit margin of 6.05%, marking a decrease of 0.34 percentage point as compared with the corresponding period of last year. The margin of sales and administration costs was 3.59%, representing a decrease of 0.14 percentage point as compared with the corresponding period of last year. The operating profit margin after deducing sales and administration costs was 2.46%, down by 0.20 percentage point as compared with the corresponding period of last year.

During the Reporting Period, in the challenging environment of decelerated industry growth, less-than-optimal marketing atmosphere, fiercer competition and graver-than-expected impact of the flattening of the pipelines, the Company has promoted the culture of services, held the three notions of "expanding sales, reducing costs while optimizing efficiency, streamlining and strengthening coordination" close to its heart, innovated restlessly and spared no efforts in pushing forward with the trustee business as led by the pharmacy outsourcing service of the "5+3+1" hospitals in Shanghai. Currently, the Company is entrusted with 54 hospital pharmacies, and in 2014 the Company will continue paying attention to reforms in the pharmaceutical industry and further exploring for breakthroughs in hospital supply chain services. During the Reporting Period, the Company's ability to protect its logistics has been enhanced. With construction works completing at Keyuan Airport Logistics Center in Beijing (北京科園空港物流中心) and Modern Logistics Center of Shanghai Pharmaceutical Co., Ltd. and Ningbo Pharmaceutical Co., Ltd. (上藥分銷控股寧波醫藥現代物流中心), close to 50,000 square meters of new warehousing area were added, supporting the growth of the Company's distribution of its own businesses. As at this stage, the Company has been granted 18 of the new version of the GSP certificates.

## Report of the Board of Directors

During the Reporting Period, among the distribution regions of the Company, the proportion of sales in the areas of East China, North China and South China was 67.67%, 23.73% and 6.00% respectively. The distribution business of the Company maintained reasonable proportions, 44.83% for sales of joint ventures manufactured and imported products and 60.56% for direct hospital sales, representing a YOY decrease of 8.2 percentage points and a YOY increase of 1.12 percentage points respectively.

As at the end of the Reporting Period, the Company's distribution business covered 9,854 medical institutions, of which 9,500 were hospitals (478 were class 3), representing a 27.66% in number of the class 3 hospitals nationwide and 354 were centres of disease control ("CDC"). During the Reporting Period, in order to expand and enrich the product line, the Company introduced 3,443 new products, of which 432 were imported and joint venture manufactured, and 3,011 were domestically manufactured.

During the Reporting Period, new businesses such as high value medicines direct to patients (DTP), vaccines and high value consumables kept expanding rapidly with a sales revenue of RMB4.4 billion, representing a YOY increase of 26.15%, of which:

- DTP: Taking SPH Zhongxie Pharmaceutical Company Limited as the platform to integrate DTP business, the Company realized a revenue of RMB1.76 billion, representing a YOY growth of 31.34%. As at the end of the Reporting Period, 18 DTP designated drugstores were under the DTP business, spanning 20 cities and provinces.
- Vaccines: Sales revenue amounted to RMB1.79 billion, representing a YOY increase of 11.94%. The Company introduced 6 new products.
- High value consumables: Sales revenue amounted to RMB850 million, representing a YOY growth of 54.83%. During the Reporting Period, SPH Keyuan Xinhai Pharmaceutical Co., Ltd. invested RMB30 million to establish a wholly-owned company, 上藥醫療器械(北京)有限公司 (SPH Medical Device (Beijing) Co. Ltd., a tentative name), so as to expand into the medical device distribution business.

## 2. Pharmaceutical Retail

During the Reporting Period, the sales revenue from the Company's pharmaceutical retail was RMB2.992 billion, up by 8.84% YOY; gross profit margin was 19.86%, down by 0.55 percentage points YOY; and operating profit margin after deducting sales and administration costs was 1.35%, up by 0.21 percentage points YOY.

As at the end of the Reporting Period, the Company had 1,981 chain retail pharmacies under its brand family, including 1,291 directly operated pharmacies.

- External mergers and internal integration

1. External mergers and acquisitions

During the Reporting Period, on the aspect of industry acquisitions, in order to optimize product structure, the Company has acquired 89% of the shares of Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. through initial acquisition and by increasing its shareholding of the company after the first quarter of 2014. In order to resolve a production bottleneck and to realize an industrial gradient transfer, the Company has completed its acquisition of the Shandong Ping Yuan Pharmaceutical Factory (山東省平原製藥廠) and has jointly founded the Shandong Xinyi Pharmaceutical Co., Ltd (山東信誼製藥有限公司) which will become the manufacturing base of fundamental generics for the Group by leveraging on its low production cost. Furthermore, delivering a pledge in 2009 when the Company underwent a major reorganization, it has increased its shareholding of Chiatai Qingchun Bao Pharmaceutical Co., Ltd by 20%, therefore acquiring 75% of its shares.

On the aspect of commercial acquisitions, in order to expand its market share in the Shandong region, the Company has completed acquisition of the Shandong Guolin Pharmaceutical Co., Ltd (山東國林醫藥有限公司). In order to strengthen cooperation with hospital pharmacies and raise its share in the DTP market, the Company has founded Xinrenxiang Pharmacy in Hangzhou (杭州欣仁祥藥房), Eastern Hongen Pharmacy in Shanghai (上海華東宏恩大藥房), San Yuan Pharmacy (三院大藥房) and others, and has approved plans for SPH Zhongxie to establish new DTP pharmacies in Anqing and Hunan. In order to further enhance the market network deployment, the Company has approved SPH Keyuan Xinhai Hubei Pharmaceutical Co., Ltd. in setting up companies in Shiyan and Jingzhou and has completed SPH Keyuan Xinhai Hubei Pharmaceutical Co., Ltd's setting up of a company in Wuhan.

2. Optimizing cash pooling to reduce financial fees

During the Reporting Period, the Company continues to effectively play the role as a cash pool. Internal loans of the Company have further expanded to RMB1.8 billion, directly reducing financial fees by RMB89,080,000 during the Reporting Period. The Company has brought in international banking services to reduce the cost of import trades, and has through the acquisition of China International Pharmaceutical (Holding) Corporation Limited established an overseas pharmaceutical trading payment platform and reduced financial fees using financial leverage.



### 3. Implementing centralized procurement

During the Reporting Period, the Company implemented centralized procurement of raw and auxiliary materials for pharmaceutical manufacturers in the Shanghai region, and has completed centralized procurements of master cartons for drugs, laboratory reagents and industrial solvents. Compared with the original procurement price, there was a 9% drop in procurement costs on items that were centrally procured. During the Reporting Period, since “air tickets, hotels and office supplies” were centrally-procured, the average discount of air tickets for the Group’s head office and Shanghai management office dropped by 16 percentage points; procurement costs of the two accommodation suppliers were lowered by approximately 38% and 14% respectively compared with front-desk prices; and procurement costs from the supplier of office supplies dropped by 17% on average compared with internet prices.

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

During the Reporting Period, the Company has established a brand strategy and an implementation proposal, has launched the establishment of a set of market entry standards, and has preliminarily established a system of multiple-layered market entry standards that covers some ten provinces and cities. The Company has also standardized and coordinated the medicine bidding process in various regions and allocated resources based on the market-oriented principle, and has leveraged the leading commercial enterprises in the regions as platforms to advance the merging of pipelines.

### 5. Embarking on “Lean Six Sigma” management

Lean Six Sigma is a result-oriented management model centered around operational procedures that achieves a scientific high efficiency and continued improvement through a project-based progression. It is highly effective in improving product quality, cost control and customer service. In order to successfully implement the Company’s three-year development plan and raise the managerial standards, the Company is proactively introducing the model and will practically implement it top-down internally.

During the Reporting Period, the Company has piloted the Lean Six Sigma model at the Logistics Center of Shanghai Pharmaceutical Distribution Co., Ltd., and has carefully selected 7 items to comprehensively implement its lean management on a level of entire process and total factor. As at the end of 2013, logistical costs were reduced by a total of RMB1,668,500.

Moving forward, the Company will embark on projects of the Lean Six Sigma. The themes of the series of activities will comprise of four aspects, including lean production, lean service, lean research and development and lean management. In 2014, it will start with lean production by choosing 8 subsidiary manufacturing companies as the pilot companies in promoting lean production in the first half of the year, followed by all manufacturing companies embarking on Lean Six Sigma management in the second half of the year after evaluating the experience of implementing the lean production at pilot companies. This is done in order to achieve the goal of “building a production system leading domestically and comparable internationally”. The input-output ratio of implementing Lean Six Sigma management is expected to be 1:5-10.

### 6. Pushing forward internal business integration

During the Reporting Period, in order to deepen the managerial model of “focusing on management-control, supplemented by operation-control” of the Company, it has founded a Strategic Operations Department and Public Relations Department, optimized the functions of Investment and Development Department, Asset Management Department and Human Resources Department in order to enhance the Company’s management-control ability in strategic management, remuneration and performance assessment, brand management and crisis management, among others. In order to further enhance the overall operating efficiency in industrial sector and foster competitive advantages of the industrial group, the Company has established Shanghai Pharma Marketing Center (上海醫藥營銷中心), subordinated by First Sales Department (focusing on end promotion of hospital franchising), Second Sales Department (focusing on specifically-targeted agents) and Third Sales Department (focusing on retail) to realize a standardized planning, service, instruction and supervision of subsidiaries by the Company.

After the Company has acquired Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd. (“Dong Ying”), it has drafted and completed “Integration Plan for the First 100 Days” and “Integration Plan after the First 100 Days” in guaranteeing the continued production stability, satisfying the supply in the sales market and in pushing forward the accelerated integration of Dong Ying into the Shanghai Pharmaceuticals family through cultural integration, process optimization, division of labor, resources coordination, risk management and other methods. This has laid a solid foundation for Dong Yong in becoming a “manufacturing base of high-end generic drugs”.

In order to further streamline the assets and resources of Shanghai Pharmaceuticals in pharmaceutical retailing and share-holding relations, the Company has also launched an integration process in retail resources, with Shanghai Huashi Pharmacy Co., Ltd, a subsidiary of the Company, as the strategic focus during the Reporting Period. As at this moment, the process of Shanghai Huashi Pharmacy Co., Ltd transferring 100% of shares to Shanghai Leiyunshang Pharmaceutical Chain Management Co., Ltd. (上海雷允上藥品連鎖經營有限公司), and transferring 100% of shares to Shanghai Huashi Pharmacy North District Co., Ltd (上海華氏北區大藥房有限公司) has been completed.

On replacement and integration the manufacturing bases in the Shanghai region, Shanghai New Asiatic Pharmaceuticals Co., Ltd. (“New Asiatic”) has completed its replacement projects in Chuansha and Zhangjiang, has passed the new GMP certification and has fully commenced production. The original manufacturing facilities in Gaodong ceased production at the end of 2013 and were transferred to Zhangjiang, completing smoothly New Asiatic’s transition in manufacturing base to “3 in 2”. Changzhou Pharmaceutical Co., Ltd. has completed the relocation of the base of active pharmaceutical ingredients to Nantong in Jiangsu province and commenced tentative production. The “1+2” adjustment of Shanghai Sine Pharmaceutical Laboratories Co., Ltd. in manufacturing base is still in progress, and the replacement of liquid injection has been completed and has applied for the new GMP certification.



## Report of the Board of Directors

### (I) PRINCIPAL BUSINESS ANALYSIS

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

Unit: RMB

Items of consolidated income statement	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Operating Income	<b>78,222,817,357.35</b>	68,078,117,819.19	14.90	Increase of sales income during the Reporting Period
Operating Cost	<b>67,980,142,497.05</b>	58,792,600,853.73	15.63	Increase of sales income during the Reporting Period
Selling and distribution expenses	<b>4,407,225,498.04</b>	3,972,605,303.62	10.94	Increase of sales income during the Reporting Period
General and administrative expenses	<b>2,728,051,101.02</b>	2,457,312,075.06	11.02	Increase of administration costs due to expansion of scale of operations during the Reporting Period
Financial expenses	<b>233,134,777.47</b>	198,864,103.21	17.23	Decrease of interest income from deposits during the Reporting Period

Unit: RMB

Items of consolidated statement of cash flow	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Net cash flows generated from operating activities	<b>973,449,693.95</b>	1,150,774,970.90	-15.41	Expansion into new business and increasing demands for capitals in new market during the Reporting Period
Net cash flows generated from investing activities	<b>-892,799,680.30</b>	-174,475,084.37	-	Increase of expense in mergers and acquisitions during the Reporting Period
Net cash flows generated from financing activities	<b>-721,565,078.61</b>	-2,252,824,221.66	-	Increase of cash received in respect of borrowing during the Reporting Period

Unit: RMB10,000

Others	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Research and development expenses	<b>45,471</b>	41,970	8.34	Increase of R&D investment during the Reporting Period



### 2. Revenue

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

During the Reporting Period, Shanghai Pharmaceuticals's revenue was RMB78.223 billion, up by 14.90% on a YOY basis, among which, the revenue generated from distribution business was RMB68.010 billion, up by 15.42% on a YOY basis. The sales increase was mainly due to the increase in the sales volume to existing customers and sales to new customers. The revenue generated from manufacturing business was RMB10.709 billion, up by 8.04% YOY. The increase was mainly driven by the increase in the sales of key products.

#### (2) Major customers

1. The largest customer of pharmaceutical distribution accounted for 0.81% of the sales of the distribution section; the sales to the top 5 customers in aggregate accounted for 3.12% of the total sales of the distribution section of the Company;
2. The largest customer of pharmaceutical manufacturing accounted for 3.22% of the sales of the manufacturing section; the sales to the top 5 customers in aggregate accounted for 7.66% of the total sales of the manufacturing section of the Company;
3. Information on any interests in customers disclosed in 1-2 above held by any directors or their respective associates or any shareholder or no such interests: none.



## Report of the Board of Directors

### 3. Cost

#### (1) Table of Analysis of Cost

Unit: RMB10,000

By industry	Breakdown	By industry				Percentage change of the amount at the Reporting Period compared to that of the corresponding period of last year (%)
		For the Reporting Period	Percentage to the total cost of the Reporting Period (%)	For the corresponding period of last year	Percentage to the total cost of the corresponding period of last year (%)	
Industrial	Raw materials, ancillary materials and packaging materials	<b>388,386.91</b>	71.20%	376,884.30	72.18%	3.05%
	Utilities and power expenses	<b>22,341.63</b>	4.10%	21,388.84	4.10%	4.45%
	Depreciation charges	<b>24,635.47</b>	4.52%	23,332.71	4.47%	5.58%
	Salaries	<b>48,616.46</b>	8.91%	45,332.71	8.68%	7.24%
	Other manufacturing cost	<b>61,532.97</b>	11.27%	55,239.30	10.57%	11.39%
	Total industrial cost	<b>545,513.44</b>	100%	522,177.86	100%	4.47%
Commercial and others	Cost	<b>6,640,421.48</b>	100%	5,745,362.53	100%	15.58%
	Offsetting total cost	<b>-387,920.67</b>		-388,280.30		
	Total operating cost	<b>6,798,014.25</b>		5,879,260.09		

#### (2) Major suppliers

- For distribution of pharmaceutical products, the purchase from the largest supplier accounted for 1.88% of the total purchase of the distribution section; the aggregate purchase from the five largest suppliers accounted for 7.77% of the total purchase of the distribution section of the Company for the year;
- For manufacturing of pharmaceutical products, the purchase from the largest supplier accounted for 1.73% of the total purchase of the manufacturing section; the aggregate purchase from the five largest suppliers accounted for 6.27% of the total purchase of the manufacturing section of the Company for the year;
- Information of any interests in the suppliers disclosed in 1-2 above held by any directors or their respective associates or shareholders or no such interests: none.

### 4. Expenses

#### (1) Table of analysis of expenses

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

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

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

#### (3) Tax relief and exemption:

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

### 5. Research and development expenditure

#### (1) Table of research and development expenditure

Unit: RMB10,000

Expensed research and development expenditure for the period	45,471
Capitalised research and development expenditure for the period	
Total research and development expenditure	45,471
Total research and development expenditure as a percentage of net assets (%)	1.56
Total research and development expenditure as percentage of operating income (%)	0.58

#### (2) Explanation

During the period, the research and development expenditure and the expenditure on acquisition of assets for research and development of Shanghai Pharmaceuticals amounted to RMB454,710,000 and RMB23,590,000 respectively, with total research and development expenditure amounting to RMB478,300,000 and the expenditure on research and development fees represented 4.25% of the Company's manufacturing sales income. Of the total, research and development on innovative drugs accounted for approximately 26.30% of the total research and development expenditure, and that on generic drugs, such as first generic drug, generic drugs for major varieties and generic drugs from secondary development, accounted for approximately 73.70% of the total research and development expenditure.

## Report of the Board of Directors

### 6. Cash flows

During the Reporting Period, the Shanghai Pharmaceuticals' net cash flow from operating activities amounted to RMB973 million, representing 43.40% of the net profit attributable to owners of the listed Company for the year. The cash flows from the Company manufacturing business remained stable, while distribution business was expanding into new business and new market, thus requiring a certain amount of liquidity layout and generating a higher demand for liquidity, which resulted in net cash flows from operating activities lower than the profits in the Reporting Period.

### 7. Others

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

There was no material change.

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

Please refer to Application of Funds Raised below.

#### (3) Progress on development strategy and operational plan

In 2013, Shanghai Pharmaceuticals basically achieved its various operation targets set for the year.

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

### 1. Principal business by industry and product

Unit: RMB

Principal business by industry						
By industry	Operating Income	Operating Cost	Gross profit margin (%)	Change in operating income YOY (%)	Change in operating cost YOY (%)	Change in gross profit margin compared to last year (%)
Manufacturing	10,708,615,601.87	5,455,134,360.06	49.06	8.04	4.47	+1.74
Distribution	68,010,283,533.95	63,813,726,919.81	6.17	15.42	15.83	-0.34
Retail	2,992,108,950.35	2,385,280,243.78	20.28	8.84	9.54	-0.51
Other	22,455,508.35	11,883,984.46	47.08	18.29	-0.76	+10.16
Offsetting	-3,868,120,320.68	-3,860,066,205.94				

Note: Gross profit margin = (Operating income - Operating Cost)/Operating income X 100%

### 2. Principal business by region

Unit: RMB

Region	Revenue	Change in revenue YOY (%)
Domestic	76,779,179,544.18	14.78
Overseas	1,086,163,729.66	29.88

## Report of the Board of Directors

### (III) ANALYSIS ON ASSETS AND LIABILITIES

#### 1. Table of analysis on assets and liabilities

Unit: RMB

Name of item	Amount at end of Reporting Period	Amount at end of Reporting Period as a percentage of total assets (%)	Amount at end of previous period	Amount at end of previous period as a percentage of total assets (%)	Percentage change of amount at end of Reporting Period compared to that of previous period (%)	Explanation
Financial assets held for trading	339,985.80	0.001	2,920,478.96	0.01	-88.36	Sale of financial assets held for trading during the Reporting Period
Notes receivable	1,383,034,894.41	2.46	1,046,458,427.12	2.05	32.16	Increase in the amount of notes settlement during the Reporting Period
Interest receivables	8,721,596.24	0.02	15,333,869.26	0.03	-43.12	Decrease in interest receivable on bank deposits during the Reporting Period
Dividends receivable	9,544,624.19	0.02	21,027,811.90	0.04	-54.61	Recover dividends from joint ventures and associates during the Reporting Period
Long-term receivables	118,680,121.16	0.21	-	-	100.00	Increase in payment of security deposits during the Reporting Period
Available-for-sale financial assets	73,589,989.23	0.13	19,812,137.59	0.04	271.44	Transfer from reclassification of long-term equity investment during the Reporting Period
Construction in progress	905,322,662.28	1.61	557,875,552.02	1.09	62.28	Increase in construction-in-progress projects during the Reporting Period
Construction materials	3,239,889.61	0.01	5,739,925.93	0.01	-43.56	Increase in requisition of construction materials during the Reporting Period
Long-term deferred expenses	168,827,013.47	0.30	123,233,213.48	0.24	37.00	Increase in real estate leasing during the Reporting Period
Other non-current assets	171,933,770.36	0.31	105,364,369.43	0.21	63.18	Increase in prepaid construction cost during the Reporting Period
Dividends payable	91,331,161.21	0.16	58,928,069.75	0.12	54.99	Increase in Dividends payable to minority shareholders during the Reporting Period
Non-current liabilities due within one year	26,408,904.00	0.05	730,000.00	0.001	3517.66	Increase in long-term borrowings due within one year during the Reporting Period
Long-term borrowings	125,195,461.62	0.22	40,772,765.91	0.08	207.06	Increase in long-term borrowing for projects during the Reporting Period
Other non-current liabilities	1,145,384,713.27	2.03	878,165,382.93	1.72	30.43	Increase in relocation compensation during the Reporting Period

### (1) Capital structure

As at 31 December 2013, the debt asset ratio (total liabilities divided by total assets) of Shanghai Pharmaceuticals was 48.50% (31 December 2012: 45.76%), representing an increase of 2.74 percentage points YOY. Interest coverage ratio (EBIT divided by interest expenses) was 8.88 times (2012: 7.54 times).

### (2) Information of material change YOY in asset constituents of the Company during the Reporting Period

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

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

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

## 3. Explanation on other matters

### (1) Information on loans and borrowings

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

As at 31 December 2013, the balance of the Company borrowings was RMB6,050 million, of which the balance of USD denominated borrowings was equivalent to RMB39 million and the balance of HKD denominated borrowings was equivalent to RMB42 million.

As at 31 December 2013, the Company had net accounts receivable and notes receivable of RMB16.567 billion (31 December 2012: RMB13.651 billion), representing a YOY increase of 21.36%. The increase in account receivables was mainly attributed to the increase in the scale of operation.

As at 31 December 2013, the balance of the Company's accounts payable and notes payable was RMB16.876 billion (31 December 2012: RMB14.575 billion), representing a YOY increase of 15.79%. The increase in accounts payable was mainly attributed to the increase in the scale of operation.

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



## Report of the Board of Directors

### (2) Property, Plant and Equipment and Investment Properties

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

### (3) Properties (at fair value)

As at 31 December 2013, the revalued amount of investment properties of Shanghai Pharmaceuticals amounted to RMB747,680,000.

### (4) Contingent liabilities

1. The Company does not have any material pending litigation or arbitration to be disclosed.
2. During the Reporting Period, the contingent liabilities arising from debt guarantees provided for third parties and guarantees provided for related parties by the Company and their financial impact are as follows:

Guarantor	Guarantee	Value of guarantee (RMB in thousand)	Commencement date of guarantee	Expiry date of guarantee
Shanghai Pharmaceutical Distribution Co., Ltd.	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	13,290.00	2013/9/6	2014/9/5
Shanghai Pharmaceutical Distribution Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	9,000.00	2013/4/15	2014/4/15
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xin Hai Feng Yuan Biopharma Technology Development Co., Ltd.	10,000.00	2013/12/9	2014/6/8
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xin Hai Feng Yuan Biopharma Technology Development Co., Ltd.	10,000.00	2013/12/17	2014/6/16

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



### (5) Pledge of assets

As at 31 December 2013, buildings and machinery (at cost of RMB303,425,301.37 and net book value of RMB204,796,421.20) and the land use rights with site area of 446,034.44 square meters (at cost of RMB103,920,070.69 and net book value of RMB56,428,106.94) were pledged to secure short-term borrowings of RMB378,190,000.00, long-term borrowings of RMB91,828,967.80 and long-term borrowings due within one year of RMB25,678,904.00.

As at 31 December 2013, the accounts receivable of RMB697,523,361.72 and notes receivable of RMB18,562,604.36 was pledged to secure short-term bank loans of RMB701,614,550.70.

## (IV) CORE COMPETENCE ANALYSIS

1. Shanghai Pharmaceuticals has the businesses covering R&D, manufacturing, distribution and retailing of pharmaceuticals, and creates overall core competitive edges by focusing on core superior resources for the industry chain, systematic management and effective coordination;
2. Shanghai Pharmaceuticals has a number of well-known, highly recognized brands with a long historical standing, and has broad prospects for development as a leading nationwide pharmaceutical conglomerate in terms of overall business size;
3. Shanghai Pharmaceuticals has a R&D research agency using central research institute as a platform as well as a number of national, provincial and municipal technology centres which enable it to promote the R&D of multiple therapeutic products with its first-mover advantages in resources;
4. Shanghai Pharmaceuticals has advantages in basic resources necessary for the development of the pharmaceutical industry, as well as a complete range and a large number of products and dosage forms which almost cover all therapeutic areas, and is able to produce all kinds of major pharmaceuticals and dosage forms;
5. Shanghai Pharmaceuticals has a national distribution and retail network which covers the three major regions, namely East China, North China and South China as well as the central region which was fostered with a ladder-like approach to provide partners with an excellent and reliable service and platform;
6. Shanghai Pharmaceuticals, as the first A+H-share listed company in the pharmaceutical industry, has an excellent financial structure and smooth financing channels which offer strong support for subsequent development;
7. Shanghai Pharmaceuticals has a batch of staff teams who have entrepreneurial spirit, bold vision and courage in action, who are young, energetic and familiar with the industry, and who keep making progress.

## Report of the Board of Directors

### (V) ANALYSIS OF INVESTMENTS BY THE COMPANY

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

Unit: RMB10,000

Investment in the Reporting Period	196,556.91
Change in the amount of investment	38,008.22
Investment in the same period last year	158,548.69
Percentage increase/decrease in the amount of investment (%)	23.97

Particulars of major invested company		Percentage of the equity interest in the invested company (%)
Invested Company name	Principal operations	
Big Global Limited (Hong Kong)	Production and sale of pharmaceuticals	79
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	20
Shanghai Pharmaceutical Distribution Co., Ltd.	Sale of pharmaceuticals	100

#### (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	Profit or loss during the Reporting Period (RMB)
							at the end of the period (%)	
1	Share	600618	Chlor-Alkali Chemical	186,500	50,820	339,985.80	100	-73,689.20
		Total		186,500	/	339,985.80	100	-73,689.20

### (2) Equity interests 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	6,863,400.00	360,000.00	455,100.00	Available-for-sale financial assets	Purchase
600329	Zhongxin Pharmaceuticals	91,473.00	1,154,376.64	9,147.20	184,773.44	Available-for-sale financial assets	Debt set-off
000931	Centek	99,300.00	146,160.00		5,292.00	Available-for-sale financial assets	Purchase
600675	China Enterprise	390,000.00	4,532,421.02	78,710.64	1,062,593.64	Available-for-sale financial assets	Purchase
601328	Bank of Communications	5,895,157.00	6,064,335.36	461,820.96	-1,737,179.40	Available-for-sale financial assets	Purchase
000048	Kondarl	134,547.00	1,682,176.21		660,151.96	Available-for-sale financial assets	Transferred by absorption and combination
06881(HK)	China Galaxy	50,000,000.00	53,147,120.00		3,147,120.00	Available-for-sale financial assets	Company transformation
08231(HK)	Fudan-Zhangjiang	31,955,101.23	122,641,006.25	55,190,610.77		Long-term equity investment	Purchase
	Total	90,319,578.23	196,230,995.48	56,100,289.57	3,777,851.64	/	/

### (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
Total	1,250,000.00		/	1,250,000.00	0	0	/	/

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

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

## Report of the Board of Directors

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

#### (1) Asset management mandates

The Company has no asset management mandate during the year.

#### (2) Entrusted loans

The Company has no external entrusted loan during the year.

### 3. Use of proceeds

#### (1) A Shares

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

#### (2) H Shares

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		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		100%	1,549,230

## Report of the Board of Directors

As at 31 December 2013, the overall use of H Share proceeds is as follows:

Unit: HKD10,000

Year of fund raising	Method of fund raising	Total net amount of proceeds	Total proceeds used during the Reporting Period	Accumulative proceeds used	Remaining unused proceeds	Use and whereabouts of unused proceeds
2011	Initial Public Offering	1,549,230	300,263	1,202,675	346,555	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	Remaining unused proceeds
Expansion and enhancement of the distribution network and integration of the existing distribution network	712,645	671,696	94%	40,949
Strategic acquisition of domestic and international pharmaceutical business and internal integration of existing pharmaceutical business	557,723	324,286	58%	233,437
Investment in the information technology system and platform	15,493	379	2%	15,114
Further enhancement of product portfolio and products under R&D through investment in the product R&D platform	46,477	22,527	48%	23,950
Working capital requirements and general corporate purposes	216,892	183,787	85%	33,105
Total	1,549,230	1,202,675		346,555

## 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	Shareholding	Registered capital	Scale of assets	Owners' equity	Operating income	Net profit
Shanghai Pharmaceutical Distribution Co., Ltd.	Sale of pharmaceuticals	100%	339,312.78	2,130,247.76	593,539.58	4,792,029.94	88,312.26
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	50,000.00	834,801.32	170,177.19	1,449,412.21	26,492.20
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100%	84,161.13	213,678.54	125,317.43	248,696.39	12,066.35
Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	22,500.00	121,092.29	93,020.88	103,379.99	30,723.57
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	96.90%	105,242.91	189,246.47	115,030.78	179,726.50	4,077.67
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100%	46,369.00	306,474.88	94,740.22	373,111.15	6,432.36
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75%	12,850.00	143,310.83	99,112.17	117,214.25	17,326.57
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75.89%	7,879.03	260,046.65	134,837.04	441,738.26	16,074.33
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	54,580.00	251,716.99	140,970.01	139,643.31	23,280.91
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.52%	9,300.00	87,664.42	49,619.16	67,695.41	-1,387.80
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	51.01%	5,316.00	55,941.24	26,533.20	35,980.85	1,964.82
Xiamen Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	61.00%	8,403.00	33,611.52	24,200.77	28,219.23	2,912.40
Liaoning Herbapex Pharmaceutical (group) Co., Ltd.	Production and sale of pharmaceuticals	55.00%	5,100.00	36,812.52	20,796.60	40,443.86	2,433.67
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100.00%	9,364.18	29,586.74	17,687.42	26,980.79	2,792.39
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.	Wholesale of chemical APIs	100.00%	7,139.00	12,223.13	9,346.21	21,773.36	604.88
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	12,700.00	56,096.55	39,135.49	38,293.23	3,828.48
Dongying (Jiangsu) Pharmaceuticals Co., Limited	Production and sale of pharmaceuticals	79.00%	US\$5,000,000	12,865.76	11,058.64	4,539.92	2,026.59

### 5. Projects financed by non-raised capital

The Company had no material investment project financed by non-raised capital during the Reporting Period.

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

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

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

Nil

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

### (I) Competitive landscape and development trend of the industry

The pharmaceutical industry will encounter both opportunities and challenges in the future:

On the one hand, the major driving force for the pharmaceutical industry is the strong terminal demand which is boosted by a number of major factors such as the long-term trend of an aging population, upgrading of drug use structure and switch of a broad healthcare insurance coverage to a deep coverage. The industry will continue to grow rapidly in the long run. As to industry policy, the implementation of the new GMP and GSP will further facilitate the restructuring of the pharmaceutical industry and improvement of the overall level; minimize low-level, repeated production facilities; and constantly increase industry concentration, which will help large-scale quality pharmaceuticals producers and distributors in the industry to grow stronger and bigger through mergers and acquisitions for carrying out large-scale, intensive and international operations.

On the other hand, against the backdrop of a deepening healthcare reform by the State, the control of medical insurance reimbursements, an expansion of the zero-markup ratio pilot scheme, escalating of GSK incident limitation on the use of antimicrobial agents and re-launch of invitation of tenders for drugs (basic drugs) across the country have curbed the amount of money for drugs used by medical institutions so that industry growth has tended to decelerate.



## Report of the Board of Directors

The focus of the healthcare reform has now turned to public hospitals. To adapt to the changing market environment, supply chain outsourcing, as demonstrated by the management of hospital pharmacies being entrusted to pharmaceutical companies, has developed into a new trend. The impact of e-commerce is further increasing on various sectors, with the emergence of various new models such as online bidding agents, third-party e-commerce platforms for pharmaceuticals, procurement electronic management, online drug retailing and electronic logistics, suggesting that pharmaceutical e-commerce is now entering a period of rapid development.

In next step, the Company will, based on its long-term development plan, take a positive approach to cope with these opportunities and challenges by setting up innovative R&D systems, operating a marketing centre and optimizing production planning in the aspect of R&D and manufacturing of pharmaceuticals, as well as by accelerating the optimization of planning, incubating potential new businesses and strengthening internal integration in the area of pharmaceutical services.

### (II) Development strategy of the Company

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

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

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

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

### (III) Business plan

In 2014, the Company will continue to deepen the implementation of the three-year development plan, further improve its medium-to-long-term incentive mechanism, fully motivate the management backbone and staff of the Company, further integrate the internal resources of the Company, optimize the marketing, research and production system, implement the Lean Six Sigma management which are strategic and innovative management modes, and continue to enhance the management standard of the Company and its market competitiveness, striving to procure a double-digit growth in both revenue and net profit attributable to shareholders, and to maintain fine business quality.



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

In 2014, the capital for major business development will be generated mainly from the Company's balance of its own funds and partly from debt financing including bank loans.

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

In 2014, the Company will stick to the acquisition strategy focusing on both commerce and industry. In respect of medical services, the Company will not only focus on the key areas such as East China, South China and North China, but also will strategically penetrate the north-eastern and south-western regions; in respect of pharmaceutical manufacturing, the emphasis will be laid on the perfection of product structure in key therapeutic areas, transformation of production gradient, control of the key raw materials, and entry into the bio-tech pharmaceutical industry when appropriate. The Company's existing proceeds raised will be the main capital source.

### (VI) Possible risks

1. Some pharmaceutical products of the Company face the risk of price reduction;
2. During pharmaceutical tendering, some products of the Company may lose the tenders due to excessive price competition;
3. The price fluctuation in bulk medicinal materials will put the costs for the Company's Chinese medicine products under pressure;
4. Foreign currencies in the remaining proceeds raised by the Company may face foreign exchange risks.

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



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

- (I) Statement of the board of directors and the board of supervisors on the 'Non-standard audit report' prepared by the Auditor
  - ✓ Not applicable
  
- (II) Board of director's analysis on the cause and impact of changes in accounting policies and methods of accounting estimation or calculation
  - ✓ Not applicable
  
- (III) Board of director's analysis on the cause and impact of material errors correction in the previous period
  - ✓ Not applicable

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

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

Pursuant to Article 245 of the Articles of Association, the profit distribution policy of the Company states that the Company implements a consistent and stable profit distribution policy, and that the Company's profit distribution stresses the importance of reasonable reward to the investors as well as the sustainable development of the Company. The dividend may be distributed by the Company by way of cash, shares or the combination of both. When the profit for the year and the accumulated undistributed profit are positive, the Company shall distribute dividend by way of cash if there are no events such as significant investment plan or major cash expenses. The cumulative cash dividends of the Company for the latest three (3) years shall not be less than 30% of the average annual distributable profit for the same three-year period. The detailed distribution plan will be determined by the shareholders' general meeting of the Company in accordance with the Company's actual operating results for the year.

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

Calculated on the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2013 was RMB808,160,000 based on the financial statements prepared under the Hong Kong Financial Reporting Standards. In addition, details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2013 are set out in the financial statements.

According to the profit distribution plan of the Company for 2013 as resolved at the 7th meeting of the fifth session of the board of directors of Shanghai Pharmaceuticals, the profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB2.60 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares of Shanghai Pharmaceuticals as at the end of 2013, subject to approval by the shareholders' annual general meeting of the Company for 2013. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, fully protected the legal interests of small and medium investors. The independent non-executive directors of the Company have provided their view in this regard.

About withholding of tax for non-PRC resident shareholders:

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



## Report of the Board of Directors

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

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

✓ Not applicable

(III) Plan or Proposal for the Distribution of Profit for the Latest Three Years (including the Reporting Period) of the Company:

Unit: RMB

Year of dividends	Bonus share for every 10 Shares	Dividend for every 10 Shares (tax inclusive)	Conversion into share capital for every 10 Shares	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company based on the consolidated statement for the year of dividends	Percentage in net profit attributable to shareholders of the Company based on the consolidated statement (%)
2013	0	2.6	0	699,116,739.88	2,242,925,141.06	31.17
2012	0	2.4	0	645,338,529.12	2,052,871,698.55	31.44
2011	0	1.6	0	430,225,686.08	2,042,238,482.84	21.07

## V. POSITIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

### (I) Performing social responsibilities

Details are set out in the 2013 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd. disclosed by the Company.

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

During the Reporting Period, the Group commenced special inspection work, including “three concurrent inspections” on corporate construction projects and disposal of hazardous waste, and conducted on-site inspections on corporate environmental management in nearly 30 pharmaceuticals production enterprises and research and development units, sending written requests for rectifications and improvements on any problematic issues discovered. In addition, the Group organised a two-day environmental management training for national pharmaceuticals production enterprises in May 2013 to improve the professional skills of corporate environmental management personnel, regulate corporate environmental management, and enhance the ability of enterprises in preventing environmental risks. The Group invited lecturers from the School of Environmental Engineering of Shanghai University to give lectures for corporate environmental management staff to enrich their knowledge in laws and regulations, pollution prevention and treatment as well as corporate environmental management. In addition, the Group issued three fundamental documents for corporate environmental management, namely Selected Standards on Environmental Protection Regulations, Training Materials on Environmental Protection for the Staff of Shanghai Pharmaceuticals, and Technical Guidelines on On-site Inspections for Environment Management, guiding enterprises to implement environmental management more comprehensively. At present, the Group has 8 pharmaceuticals production enterprises receiving certificates for ISO14000 Environmental Management System; and 3 pharmaceuticals production enterprises preparing the Corporate Environmental Report to disclose corporate environmental information. Save for one environmental protection inspection rectification and improvement commitment made during the listing, which is still in progress, all other issues have been fully addressed.

## VI. OTHER DISCLOSURE MATTERS

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

There were no material changes during the year.

### (II) Charity and other donations

Details are set out in the 2013 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd. disclosed by the Company.



## Report of the Board of Directors

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

Details are set out in the section below headed "Directors, Supervisors, Senior Management and Employees".

### (IV) Share capital

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

### (V) Information about directors, supervisors and senior management

The information about the Company's directors, supervisors and senior management as at 31 December 2013 is set out in the section below headed "Directors, Supervisors, Senior Management and Employees".

### (VI) Management service contracts

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

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

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

### (VIII) Directors and supervisors' rights to share subscription

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

### (IX) Directors and supervisors' interests in competing business

As at 31 December 2013, none of the Company's directors or supervisors had any competing interests that constitute or may constitute direct or indirect competition with the Group's business.

# Significant Events

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

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

Nil

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

Nil

(III) Other explanations

Nil

## II. APPROPRIATION AND SETTLEMENT OF FUNDS DURING THE REPORTING PERIOD

✓ Not applicable

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

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



## Significant Events

### IV. ASSET TRANSACTIONS AND BUSINESS COMBINATIONS

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

Overview and Type of Events	Search Index
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 has also been published on the website of the Hong Kong Stock Exchange at http://www.hkexnews.hk and the Company's website.

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

1. Acquisition of assets

There was no significant asset acquisition for the year.

2. Disposal of assets

Unit: RMB10,000

Counterparty (ies)	Assets disposed of	Disposal date	Transaction consideration	Contribution of the assets to the net profit of the listed company from the beginning of the year to the disposal date	Profit or loss arising from the disposal	Connected transaction or not (If yes, please specify pricing basis)	Pricing basis of asset disposal	Relevant asset title transferred or not	Relevant liability transferred or not	Ratio of the net profit contribution to the listed Company of the asset disposal over total profit (%)	Affiliated Relations
Heze Peony Investment Development Co., Ltd (菏泽市牡丹投資發展有限公司)	42% equity interest in Shangdong Puiying Pioneer Pharmaceutical Co., Ltd	31 January 2013	13,400	0	0	No	Appraised value	Yes	No	0	No



### 3. Assets swap

There was no significant asset swap for the year.

### 4. Business combination

There was no significant business combination for the year.

## V. SHARE INCENTIVES OF THE COMPANY AND ITS INFLUENCE

✓ Not applicable

## VI. SIGNIFICANT CONNECTED TRANSACTIONS

### (I) Connected transactions relating to daily operations

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

Overview of Events	Search Index
<p>The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Continuing Connected Transactions in 2013 was approved at the 27th meeting of the fourth session of the Board of Directors on 26 March 2013. Pursuant to the proposal, from January to December 2013, the estimated amount of continuing connected transactions between the Company (and its subsidiaries) and Shanghai Pharmaceutical (Group) (and its subsidiaries) shall not exceed RMB140 million, in which the amount receivable by the Group from the sale of raw materials and products and the provision of distribution agency services to Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed 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; the amount payable by the Group for leasing premises and production equipments from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB100 million.</p> <p>The actual amount of the continuing connected transactions of the Company and its subsidiaries in 2013 did not exceed the amount approved at the meeting of the Board stated above.</p>	<p>The Company's announcements Lin No. 2013-006</p>

Note: The above connected transactions (as defined under the Listing Rules of the Shanghai Stock Exchange) also constitute the "connected transactions with connected persons at the level of the Company" defined under Chapter 14A of the Hong Kong Listing Rules. During the period from January to December 2013, among these daily transactions: (1) the relevant percentage ratios other than profits ratio corresponding to the actual amount of the transactions in relation to the sale of raw materials and products and the provision of distribution agency services were less than 0.1%; (2) the relevant percentage ratios other than profits ratio corresponding to the actual amount of the transactions in relation to the procurement of raw materials and products and the commissioned processing services were less than 0.1%; (3) the relevant percentage ratios other than profits ratio corresponding to the actual amount from leasing premises and production equipments were more than 0.1% but less than 5%.

## Significant Events

In respect of the “connected transactions with connected persons at the level of the subsidiaries of the Company” defined under Chapter 14A of the Hong Kong Listing Rules, during the period from January to December 2013, each of the relevant percentage ratios other than profits ratio corresponding to the actual amount was less than 1%.

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

None for the year.

### 3. Events not disclosed in interim announcements

Unit: RMB10,000

Connected party	Connected relationship	Type of the connected transaction	Particulars of the connected transaction	Pricing principle of the connected transaction	Amount of the connected transaction	Proportion in the amount of transactions of the same type (%)	Settlement method of the connected transaction
Shanghai HuaJiu Material Supply and Marketing Co., Ltd.	A wholly-owned subsidiary of the parent company	Procurement of merchandises, receiving labour	Pharmaceutical packaging	Market price	463.88	0.01	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	A wholly-owned subsidiary of the parent company	Procurement of merchandises	Merchandises	Market price	285.44	0.004	Cash
Shanghai Pharmaceutical (Group) Co., Ltd.	The parent company	Leasing	Properties	Market price	2,692.21	43.80	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	A wholly-owned subsidiary of the parent company	Leasing	Properties and equipment	Market price	2,591.15	42.15	Cash
Shanghai Indu-Land Property Co., Ltd.	A wholly-owned subsidiary of the parent company	Leasing	Properties	Market price	439.14	7.14	Cash

Note: The above transactions also constituted “connected transactions with connected persons at the level of the Company” under Chapter 14A of the Hong Kong Listing Rules. During the period from January to December 2013, except for transactions related to leasing of premises and production equipment, the relevant percentage ratios corresponding to other connected transactions, other than profits ratios, were less than 0.1%, and therefore exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under the Hong Kong Listing Rules.

#### 4. Confirmation of continuing connected transactions between Shanghai Pharmaceuticals and Shanghai Pharmaceutical (Group) and its subsidiaries in 2013

The continuing connected transactions related to leasing of premises and production equipment between the Company and Shanghai Pharmaceutical (Group) and its subsidiaries are exempt from the independent shareholders' approval requirements but subject to the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

##### (1) Amount of Continuing Connected Transactions

*Unit: RMB10,000*

	<b>2013</b>
Property and equipments rented by the Group as tenant (please refer to "Events not disclosed in interim announcements" as above for more details)	5,722.50

##### (2) Confirmation of Continuing Connected Transactions

The directors of the Company (including independent non-executive directors) confirm that, all of the above connected transactions are conducted in the daily and ordinary course of business of the Group on normal commercial terms in compliance with the relevant connected transaction agreement, and are fair and reasonable and in the interest of the shareholders of the Company as a whole. PricewaterhouseCoopers, the overseas auditor of the Company, has been engaged to report on the continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information) issued by the Hong Kong Institute of Chartered Public Accountants and with reference to Practice Note No.740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules). It has also confirmed that any of the above continuing connected transactions was (1) approved by the board of directors of the Company; (2) carried out in accordance with the relevant agreement regulating the transaction in material aspects; and (3) a transaction the amount of which has not exceeded the total annual cap amount for such continuing connected transactions as announced on 27 March 2013.

## Significant Events

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

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

Overview of Events	Search Index
The acquisition of 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.	The Company's announcement Lin No. 2013-013
The acquisition of 10.99% equity interests in Mergen Biotech Limited by Shanghai No. 1 Biochemical & Pharmaceutical Co., Ltd., a wholly-owned subsidiary of Shanghai Pharmaceuticals	The Company's announcement Lin No. 2013-19
The acquisition of 100% equity interests in China International Pharmaceutical (Holding) Corporation Limited by Shanghai Pharmaceuticals	The Company's announcement Lin No. 2013-029
The acquisition of 100% equity interests in Shanghai Jiaolian Drug Development Co., Ltd. by Shanghai Pharmaceuticals	The Company's announcement Lin No. 2013-033
The commitment of Shanghai Shangshi 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

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

None for the year.

#### 3. Events not disclosed in interim announcements

None for the year.

### (III) Material connected transaction relating to joint external investment

None for the year.

(IV) Credits and liabilities with related parties

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

None for the year.

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

None for the year.

3. Events not disclosed in interim announcements

None for the year.

(V) Significant related parties

Save as disclosed above, significant related party transactions which do not constitute connected transactions under the Listing Rules in the year are disclosed in Note 7 of the annual financial statements prepared under the Hong Kong Financial Reporting Standards.

## VII. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Trusteeship, contracting and leasing

1. Trusteeship

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

2. Contracting

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

3. Leasing

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



## Significant Events

### (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	Guarantee	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter guarantee	Guarantee provided to related parties	Connected relationship
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.	1,497.00		06 September 2012	05 September 2013	Joint and several liability guarantee	Yes	No		No	No	Associated Company
Shanghai Pharmaceutical Distribution Co., Limited	A wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	1,329.00		06 September 2013	05 September 2014	Joint and several liability guarantee	No	No		No	No	Associated Company
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,000.00		19 December 2012	18 December 2013	Joint and several liability guarantee	Yes	No		No	No	Associated Company
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,500.00		20 February 2012	05 February 2013	Joint and several liability guarantee	Yes	No		No	No	Associated Company
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	1,000.00		09 December 2013	08 June 2014	Joint and several liability guarantee	No	No		No	No	Associated Company

## Significant Events

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between guarantor and the listed company	Guarantee	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	1,000.00		17 December 2013	16 June 2014	Joint and several liability guarantee	No	No		No	No	Associated Company
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	A wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,500.00		05 February 2013	05 August 2013	Joint and several liability guarantee	Yes	No		No	No	Associated Company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,500.00		09 November 2012	08 May 2013	Joint and several liability guarantee	Yes	No		Yes	No	Associated Company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		29 September 2012	23 March 2013	Joint and several liability guarantee	Yes	No		Yes	No	Associated Company
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	A subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	4,000.00		10 September 2012	09 September 2013	Joint and several liability guarantee	Yes	No		Yes	No	Associated Company
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													6,729.00
Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)													4,229.00
<b>Guarantees provided by the Company to its subsidiaries</b>													
Total value guaranteed for its subsidiaries during the Reporting Period													0.00
Total balance guaranteed for its subsidiaries at the end of the Reporting Period (B)													0.00
<b>Total value guaranteed by the Company (including those provided to its subsidiaries)</b>													
Total value guaranteed (A+B)													4,229.00
Percentage of total value guaranteed in the Company's net assets (%)													0.15
Among which:													
Value guaranteed for shareholders, de facto controller and connected parties (C)													0.00
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D)													2,900.00
Amount of total value guaranteed exceeding 50% of net assets (E)													0.00
Total of value guaranteed for the above three items (C+D+E)													2,900.00



## Significant Events

### (III) Other material contracts

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

## VIII. FULFILLMENT STATUS OF COMMITMENTS

For details, please refer to the Announcement of Shanghai Pharmaceuticals in relation to the Fulfillment Status of Commitments by De facto Controller, Shareholders, Related Parties, Acquirers and the Company (Company's announcement No. Lin 2014-001), Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment of Shanghai Pharmaceuticals (Group) regarding Land and Premises (Company's announcement No. Lin 2014-006), Announcement of Shanghai Pharmaceuticals in relation to the Amendments to the Commitment of Shanghai Pharmaceuticals (Group) regarding Shares held by Employees and the Employee Share Ownership Committee (Company's announcement No. Lin 2014-007), and Announcement of Shanghai Pharmaceuticals on the Progress of Commitment Resolution (Company's announcement No. Lin 2014-008).

## IX. APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

*Unit: RMB10,000*

<b>Change of Appointment:</b>	No
	Current engagement
<b>Name of the domestic accounting firm engaged by the company</b>	PricewaterhouseCoopers Zhong Tian LLP
<b>Remuneration for the domestic accounting firm</b>	Charged a total of RMB19.5 million together with the overseas accounting firm (relevant reimbursed expenses and taxation expenses inclusive)
<b>Number of years of service of the domestic accounting firm</b>	3 years
<b>Name of the overseas accounting firm engaged by the Company</b>	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong
<b>Remuneration for the overseas accounting firm</b>	Charged a total of RMB19.5 million together with the domestic accounting firm (relevant reimbursed expenses and taxation expenses inclusive)
<b>Number of years of service of the overseas accounting firm</b>	3 years



## Significant Events

Unit: RMB10,000

	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP	RMB1.5 million (relevant reimbursed expenses and taxation expenses inclusive)

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

Nil

### XI. EXPLANATION ON OTHER SIGNIFICANT EVENTS

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

# Changes in Share Capital and Information about Shareholders

## I. CHANGES IN SHARE CAPITAL

### (I) Table of changes in share capital

#### 1. Table of changes in share capital

Unit: share

	Before current change		Current increase or decrease (+,-)					After current change	
	Number of Shares	Percentage (%)	Issue of new Shares	Bonus Share	Conversion of capital reserve fund into share capital	Others	Subtotal	Number of Shares	Percentage (%)
I. Trade-restricted Shares	852,489,559	31.704				-852,407,959	-852,407,959	81,600	0.003
1. State-held Shares									
2. Shares held by state-owned legal persons	852,407,959	31.701				-852,407,959	-852,407,959	0	0
3. Other domestically held Shares	81,600	0.003						81,600	0.003
Of which: Shares held by domestic non-state-owned legal persons	81,600	0.003						81,600	0.003
Shares held by domestic natural persons									
4. Foreign-held Shares									
Of which: Shares held by foreign legal persons									
Shares held by foreign natural persons									
II. Shares without trade restrictions	1,836,420,979	68.296				852,407,959	852,407,959	2,688,828,938	99.997
1. RMB common Shares	1,070,527,059	39.813				852,407,959	852,407,959	1,922,935,018	71.514
2. Domestically listed foreign Shares									
3. Overseas listed foreign Shares	765,893,920	28.483						765,893,920	28.483
4. Others									
III. Total number of Shares	2,688,910,538	100.000						2,688,910,538	100.000

## Changes in Share Capital and Information about Shareholders

On 18 February 2013, Shanghai Pharmaceutical (Group) Co., Ltd., Shanghai Shangshi (Group) Co., Ltd. held a total of 852,407,959 trade-restricted Shares in issue of Shanghai Pharmaceuticals. In addition, the lock-up period of 36 months for the 56,917,288 Shares without trade restrictions, which was voluntarily undertaken by Shanghai Pharmaceutical (Group) Co., Ltd., expired on 18 February 2013. (Please refer to the Company's announcement No. Lin 2013-001 for more details. Unless otherwise specified hereinafter, such announcement has been published on the Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn). The relevant information has also been published on the website of the Hong Kong Stock Exchange at <http://www.hkexnews.hk> and the Company's website.)

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

### (II) Changes in trade-restricted Shares

Unit: share

Name of Shareholder	Number of trade-restricted Shares at the beginning of the year	Number of Shares released from trade restrictions during the year	Number of additional trade restricted Shares during the year	Number of trade restricted Shares at the end of the year	Reasons for trade restrictions	Date of release
Shanghai Pharmaceutical (Group) Co., Ltd.	693,006,251	693,006,251	0	0	Private placement and share reform arising from significant asset reorganisation	18 February 2013
Shanghai Shangshi (Group) Co., Ltd.	159,401,708	159,401,708	0	0	Private placement arising from significant asset reorganisation	18 February 2013
Total	852,407,959	852,407,959	0	0	/	/

As at 31 December 2013, the total share capital of the Company was 2,688,910,538 Shares, including 2,688,828,938 Shares without trade restrictions, comprising 1,922,935,018 A Shares and 765,893,920 H Shares). As at the date of this annual report, 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.

## Changes in Share Capital and Information about Shareholders

### II. ISSUE AND LISTING OF SECURITIES

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

Unit: share

Class of Share and its derivative securities	Date of issue	Issue price (\$)	Volume of issue	Listing date	Number of Shares approved for listing and trading	Date of termination of trading
Shares						
Public offering of H Share	20 May 2011	HKD23.00	664,214,000	20 May 2011	664,214,000	/
Public offering of H Share	11 June 2011	HKD23.00	32,053,200	11 June 2011	32,053,200	/

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

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

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

- (III) Existing internal employee shares

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

## Changes in Share Capital and Information about Shareholders

### III. SHAREHOLDERS AND DE FACTO CONTROLLER

#### (I) Number of shareholders and their shareholdings

Unit: share

Aggregate number of shareholders during the Reporting Period	88,572 (A Shares)	Aggregate number of shareholders as at the end of the 5th trading day prior to the disclosure date of the annual report	96,031 (A shares)			
	3,163 (H Shares)		3,112 (H Shares)			
<b>Shareholding of top ten shareholders</b>						
Name	Nature	Shareholding percentage (%)	Total number of Shares held	Increase/decrease during the Reporting Period	Number of trade-restricted Shares held	Number of pledged or frozen Shares
HKSCC NOMINEES LIMITED	Foreign shareholder	27.83	748,259,820	-219,100	0	Unknown
Shanghai Pharmaceutical (Group)	State-owned legal person shareholder	26.65	716,516,039	-33,407,500	0	Pledged 13,648,772
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	State-owned legal person shareholder	8.85	238,086,198	33,407,500	0	Unknown
Shanghai Shengrui	State-owned legal person shareholder	5.26	141,521,751	-20,877,289	0	Unknown
Shenergy (Group) Co., Ltd.	State-owned legal person shareholder	3.02	81,199,520	0	0	Unknown
Agricultural Bank of China-China Post Core Preferred Stock Securities Investment Fund	Other	1.09	29,345,729	/	0	Unknown
Bank of China-ICBC Credit Suisse Securities Investment Fund	Other	0.90	24,298,811	/	0	Unknown
Industrial and Commercial Bank of China-Guangfa Jufeng Equity Securities Investment Fund	Other	0.54	14,500,000	-20,601,011	0	Unknown
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	Other	0.49	13,234,492	-1,994,997	0	Unknown
Shanxi Trust Co., Ltd. – Xinhai No. 4 Assembly Funds Trust	Other	0.43	11,630,000	/	0	Unknown

## Changes in Share Capital and Information about Shareholders

Shareholding of top ten shareholders						
Name	Nature	Shareholding percentage (%)	Total number of Shares held	Increase/decrease during the Reporting Period	Number of trade-restricted Shares held	Number of pledged or frozen Shares
<b>Shareholdings of top ten shareholders holding Shares without trade restrictions</b>						
<b>Name</b>			<b>Number of Shares without trade restrictions</b>		<b>Class and number of Shares</b>	
HKSCC NOMINEES LIMITED			748,259,820		H Shares	
Shanghai Pharmaceutical (Group)			716,516,039		A Shares	
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi			238,086,198		A Shares 222,301,798	
					H Shares 15,784,400	
Shanghai Shengrui			141,521,751		A Shares	
Shenergy (Group) Co., Ltd.			81,199,520		A Shares	
Agricultural Bank of China–China Post Core Preferred Stock Securities Investment Fund			29,345,729		A Shares	
Bank of China-ICBC Credit Suisse Securities Investment Fund			24,298,811		A Shares	
Industrial and Commercial Bank of China-Guangfa Jufeng Equity Securities Investment Fund			14,500,000		A Shares	
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH			13,234,492		A Shares	
Shanxi Trust Co., Ltd. – Xinhai No. 4 Assembly Funds Trust			11,630,000		A Shares	
Note on affiliation or concerted actions of the above shareholders			SIIC is a De Facto Controller of Shanghai Shangshi, which 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 of Listed Companies.			

Note: 1. Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 15,784,400 H Shares held by SIIC and its wholly-owned subsidiaries. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to count or provide the number of shares pledged or frozen.

## Changes in Share Capital and Information about Shareholders

2. The latest information of the 13,648,772 pledged Shares of Shanghai Pharmaceutical (Group): Pursuant to the equity transfer agreement entered into between Shanghai Pharmaceutical (Group) and China Great Wall Asset Management Corporation ("Great Wall") (the vendor) in relation to the acquisition of 39.01% equity interest of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. by Shanghai Pharmaceuticals (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. On 27 March 2014, Shanghai Pharmaceutical (Group) and Great Wall entered into the second supplementary equity transfer agreement, pursuant to which, the parties agreed to further 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 2015. In accordance with the share pledge agreement entered into between Shanghai Pharmaceutical (Group) and Great Wall, the pledge will be released upon payment of consideration by Shanghai Pharmaceutical (Group).

Unit: share

Number of and the trade restrictions on the Shares held by the top ten shareholders holding trade-restricted shares					
No.	Name of shareholders holding trade-restricted shares	Number of trade-restricted shares	The listing and trading of the trade-restricted Shares		Trade restrictions
			Time of availability for listing and trading	Number of additional Shares available for listing and trading	
1	Hainan Zhong Wang Investment and Management Company Limited	81,600	To be decided	0	The consideration repayable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding
Note on affiliation or concerted actions of the above shareholders		/			



## Changes in Share Capital and Information about Shareholders

### IV. CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

#### (I) Controlling Shareholders

##### 1. Legal persons

Unit: HKD

Name	Shanghai Industrial Investment (Holdings) Co., Ltd.
Person in charge of the company or legal representative	Wang Wei (王偉)
Date of establishment	17 July 1981
Organisation code	Enterprise registered in Hong Kong; the organisation code of its Shanghai Representative Office is X0725582-3
Registered capital	10,000,000
Principal business	Enhancing the five core businesses – pharmaceuticals (whole industrial chain), infrastructure (highways, water treatment, solid waste disposal and new energy), real estate, financial investment and consumer goods, and actively developing new businesses such as elderly care and environmental protection.
Operating result	Operating revenue: HK103.6 billion Net profit attributable to the parent company: HK\$3.059 billion
Financial position	Total assets: HK\$227.1 billion Net assets attributable to the parent company: HK\$44.86 billion
Cash flow and future development strategy	SIIC will keep setting footholds in Hong Kong and Shanghai, orient itself towards the entire country, open up overseas markets, benefit from the exclusive advantages of its dual background of “non-domestic, state-owned assets” and cross-border capital channels, emphasise the principles of “integrated innovation” and “integration of industry and finance”, implement “capital operation, asset management, value management” concurrently, and optimise business portfolio dynamically. Recently, SIIC has been strengthening pharmaceuticals, reinforcing infrastructure, improving property development and developing consumer product business steadily, proactively opening up new-frontier business and focusing on strengthening the functions of the financial investment platform. In the medium- to long-term, SIIC sets itself to become a modern multinational company with positive values, international competitiveness and social responsibilities which match up with Shanghai’s international status.



## Changes in Share Capital and Information about Shareholders

Name	Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	(1) Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 00363)
	(2) Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 00563)
	(3) Shanghai Industrial Environment Holding Co., Ltd. (a company listed on the Main Board of Singapore Exchange with stock code 5GB)
	(4) Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748)
	(5) Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 00981 and the New York Stock Exchange under the ticker symbol "SMI")

Notes: The above data are audited data extracted from the 2012 consolidated statements. The information about equity interests are subject to the disclosure in the 2013 annual reports of the respective listed companies.

## Changes in Share Capital and Information about Shareholders

Unit: RMB

Name	Shanghai Shangshi (Group) Co., Ltd.
Person in charge of the company or legal representative	Wang Wei (王偉)
Date of establishment	20 August 1996
Organisation code	13227821-5
Registered capital	1,859,000,000
Principal business	Investment in industries, domestic trading (except where there are special provisions), and operation and management of state-owned assets to the extent authorised
Operating result	Operating revenue: RMB 68.77 billion Net profit attributable to the parent company: RMB 1.13 billion
Financial position	Total assets: RMB 84.64 billion Net assets: RMB 44.82 billion
Cash flow and future development strategy	Shanghai Municipal State-owned Assets Supervision and Administration Commission has authorised Shanghai Industrial Investment (Holdings) Co., Ltd. to operate Shanghai Shangshi (Group) Co., Ltd., which carries out its business operations in accordance with the strategic objectives determined by Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748)

Notes: The above data are audited data extracted from the 2012 consolidated statements. The information about equity interests are subject to the disclosure in the 2013 annual reports of the respective listed companies.

## Changes in Share Capital and Information about Shareholders

Unit: RMB

Name	Shanghai Pharmaceutical (Group) Co., Ltd.
Person in charge of the Company or legal representative	Lou Dingbo
Date of establishment	23 April 1997
Organisation code	13454082-X
Registered capital	3,158,720,000
Principal business	Scientific research on pharmaceutical products, medical equipment and related products, production, sale, installation and maintenance of pharmaceutical equipment, investment in industries, and import and export business as approved by the State.
Operating result	Operating revenue: RMB 68.53 billion Net profit attributable to the parent company: RMB 235 million
Financial position	Total assets: RMB 53.29 billion Net assets: RMB 5.01 billion
Cash flow and future development strategy	Shanghai Pharmaceutical (Group) Co., Ltd. carries out its business operations in accordance with the strategic objectives determined by Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	N/A

Notes: The above data are audited data extracted from the 2012 consolidated statements.

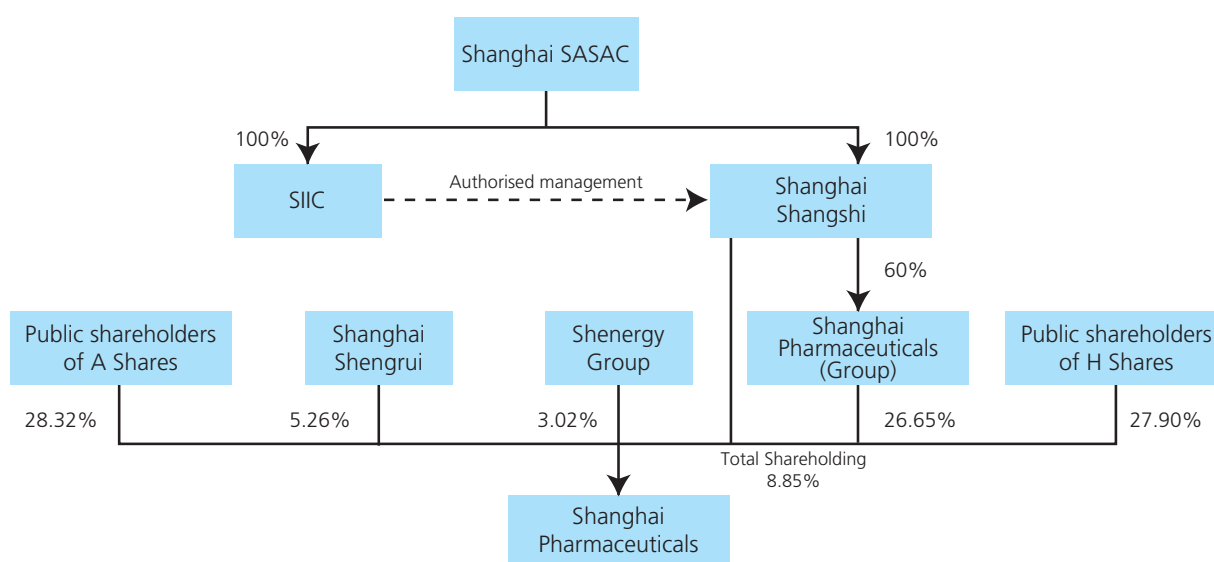
## Changes in Share Capital and Information about Shareholders

### (II) De Facto Controller

#### 1. Legal person

The de facto controller of the Company is Shanghai SASAC.

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



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

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

## VI. DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

### (I) Directors' interests

Directors' interests are set out in the section titled "Directors, Supervisors, Senior Management and Employees" below.

## Changes in Share Capital and Information about Shareholders

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

As at 31 December 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 outstanding H Shares and A Shares at the shareholders' general meetings of the Company:

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/A Shares held as at the end of the Reporting Period to the outstanding H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group <sup>Note 1(1)</sup>	A Shares/H Shares	Interests of controlled corporation	954,602,237 (L)	48.82 (A Share)/ 2.06 (H Share)	35.50
Shanghai Shangshi group <sup>Note 1(2)</sup>	A Shares	Beneficial owner/ Interests of controlled corporation	938,317,837 (L)	48.79	34.90
Shanghai Pharmaceutical (Group)	A Shares	Beneficial owner	716,516,039(L)	37.26	26.65
Shanghai Guosheng <sup>Note 1(3)</sup>	A Shares	Interests of controlled corporation	141,521,751(L)	7.36	5.26
Shanghai Shengrui	A Shares	Beneficial owner	141,521,751(L)	7.36	5.26
Temasek Holdings (Private) Limited	H Shares	Interests of controlled corporation	124,023,800(L)	16.19(L)	4.61(L)
Credit Suisse (Hong Kong) Limited	H Shares	Interests commonly held with another person	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
Credit Suisse AG	H Shares	Interests of controlled corporation	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
Cheah Capital Management Limited	H Shares	Interests of controlled corporation	76,259,000(L)	9.96(L)	2.84(L)
Cheah Company Limited	H Shares	Interests of controlled corporation	76,259,000(L)	9.96(L)	2.84(L)
Hang Seng Bank Trustee International Limited	H Shares	Trustee	76,259,000(L)	9.96(L)	2.84(L)
Value Partners Group Limited	H Shares	Interests of controlled corporation	76,259,000(L)	9.96(L)	2.84(L)
To Hau Yin	H Shares	Interest of spouse	76,259,000(L)	9.96(L)	2.84(L)
Cheah Cheng Hye	H Shares	Discretionary Trust settlor	76,259,000(L)	9.96(L)	2.84(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	53,361,684(L) 0(S) 50,764,208(P)	6.97(L) 0.00(S) 6.63(P)	1.98(L) 0.00(S) 1.89(P)

## Changes in Share Capital and Information about Shareholders

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/A Shares held as at the end of the Reporting Period to the outstanding H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
Blackrock, Inc.	H Shares	Interests of controlled corporation	39,382,908(L)	5.14(L)	1.46(L)
			1,893,600(S)	0.25(S)	0.07(S)

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

- Note 1:
- (1) SIIC is a wholly-owned subsidiary of the Shanghai SASAC. SIIC group means SIIC and its wholly-owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to operate the State-owned Assets of Shanghai Overseas Companies, its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [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 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi group, while 500,000 A Shares and 15,784,400 H Shares were directly held by SIIC group.
  - (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi group means Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,317,837 A Shares held by Shanghai Shangshi group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi group, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).
  - (3) Shanghai Guosheng is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shengrui is a wholly-owned subsidiary of Shanghai Guosheng and Shanghai Guosheng is therefore deemed to hold Shares of the Company through Shanghai Shengrui.

- Note 2:
- (1) Data disclosed in the table above are based on the information provided on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).
  - (2) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file a disclosure of interests form when certain criteria are fulfilled. When a shareholding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless several criteria have been fulfilled, therefore a shareholder's latest shareholding in the Company may be different from the shareholding filed with the Stock Exchange.
  - (3) Save as disclosed above, as at 31 December 2013, the Company was not aware that any other person (other than the directors, supervisors and senior management of the Company) had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

### VII. PRE-EMPTIVE RIGHTS

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

### VIII. PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2013, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

During the period from January to December 2013, Shanghai Pharmaceutical (Group), a controlling shareholder of the Company, transferred 33,407,500 A shares in Shanghai Pharmaceuticals held by it to Shanghai Shangshi, another controlling shareholder of the Company. The aggregate shares in the Company held by the controlling shareholders and persons acting in concert therewith remained unchanged. (Please refer to the Company's announcement No. Lin 2013-031 for more details)



# Directors, Supervisors, Senior Management and Employees

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

Unit: share

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/decrease of Shares during the year	Reasons for change	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)
Lou Dingbo	Chairman, Executive Director	Male	52	5 June 2013	5 June 2016	30,000 A Shares	40,000 A Shares	10,000 A Shares	purchased voluntarily	0.00
Cho Man	Executive director, President	Male	53	5 June 2013	5 June 2016	0	20,009 A Shares	20,009 A Shares	purchased voluntarily	57.50
Hu Fengxiang	Executive Director	Male	58	5 June 2013	5 June 2016	0	10,000 A Shares	10,000 A Shares	purchased voluntarily	0.00
Zhou Jie	Non-executive Director	Male	47	5 June 2013	5 June 2016	0	0	0	/	0.00
Jiang Ming	Non-executive Director	Male	57	5 June 2013	5 June 2016	0	0	0	/	0.00
Chen Naiwei	Independent Non-executive Director	Male	57	5 June 2013	5 June 2016	0	0	0	/	19.67
Wan Kam To	Independent Non-executive Director	Male	61	5 June 2013	5 June 2016	0	0	0	/	14.58
Tse Cho Che	Independent Non-executive Director	Male	58	5 June 2013	5 June 2016	0	0	0	/	13.42
Li Zhenfu	Independent Non-executive Director	Male	51	5 June 2013	5 June 2016	0	0	0	/	17.92
Zhang Zhenbei	Chairman of the Supervisory Board	Male	60	5 June 2013	5 June 2016	0	0	0	/	0.00
Xin Keng	Supervisors	Male	47	5 June 2013	5 June 2016	0	0	0	/	0.00
Chen Xin	Employee Supervisor	Female	51	5 June 2013	5 June 2016	0	10,000 A Shares	10,000 A Shares	purchased voluntarily	0.00
Liu Yanjun	Vice President	Male	49	5 June 2013	5 June 2016	0	10,000 A Shares	10,000 A Shares	purchased voluntarily	40.05
Ren Jian	Vice President	Male	49	5 June 2013	5 June 2016	48,000 A Shares	81,518 A Shares	33,518 A Shares	Note 1 and purchased voluntarily	148.51



## Directors, Supervisors, Senior Management and Employees

Unit: share

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/ decrease of Shares during the year	Reasons for change	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)
Shu Chang	Vice President	Male	56	5 June 2013	5 June 2016	0	4,600 A Shares	4,600 A Shares	purchased voluntarily	88.01
Guo Junyu	Vice President	Male	40	5 June 2013	5 June 2016	0	3,500 A Shares	3,500 A Shares	purchased voluntarily	116.18
Mao Jianyi	Vice President	Male	46	19 November 2013	5 June 2016	0	0	0	/	5.70
Shen Bo	Chief Financial Officer	Male	41	5 June 2013	5 June 2016	54,400 A Shares	71,700 A Shares	17,300 A Shares	Note 1	156.51
Han Min	The secretary of the board of directors and the joint company secretary	Female	37	5 June 2013	5 June 2016	40,200 A Shares	58,000 A Shares	17,800 A Shares	Note 1 and purchased voluntarily	133.51
Zhang Jialin	Ceasing to be Vice Chairman and Executive Director of the Company	Male	59	31 March 2010	5 June 2013	0	0	0	/	0.00
Lu Shen	Ceasing to be the Non-executive Director of the Company	Male	58	31 March 2010	5 June 2013	6,440 A Shares	6,440 A Shares	0	/	0.00
Xu Guoxiong	Ceasing to be Executive Director and President of the Company	Male	58	31 March 2010	5 June 2013	90,100 A Shares	55,500 A Shares	-34,600 A Shares	Note 1 and disposed of voluntarily	202.27
Bai Huiliang	Ceasing to be the Independent Non-executive Director of the Company	Male	71	31 March 2010	5 June 2013	0	0	0	/	7.50

## Directors, Supervisors, Senior Management and Employees

Unit: share

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/ decrease of Shares during the year	Reasons for change	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)
Tommei Tong	Ceasing to be the Independent Non-executive Director of the Company	Female	49	31 March 2010	5 June 2013	0	0	0	/	7.50
Wu Junhao	Ceasing to be the Supervisor of the Company	Male	49	31 March 2010	5 June 2013	0	0	0	/	0.00
Jiang Yuanying	Ceasing to be the Vice President of the Company	Male	51	7 June 2010	5 June 2013	29,000 A Shares	0	-29,000 A Shares	Note 1 and disposed of voluntarily	103.16
Li Yongzhong	Ceasing to be the Vice President of the Company	Male	44	31 March 2010	5 June 2013	48,500 A Shares	0	-48,500 A Shares	Note 1 and disposed of voluntarily	142.17
Total	/	/	/	/	/	346,640	371,267	24,627	/	1,274.16

- Notes:
1. According to the undertaking on arrangement of annual performance bonus of the senior management disclosed in the H Shares Prospectus, senior management of the Company purchased A Shares of the Shanghai Pharmaceuticals by using 50% of their annual performance bonus for 2012 received in 2013 through open market trades.
  2. The Company had no share incentive plan during the Reporting Period.
  3. Save as disclosed above, as at 31 December 2013, according to the information available to the Company and to the knowledge of the directors, none of the directors, supervisors and senior management of the Company had any interest or short position in the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.
  4. During the Reporting Period, none of the Company's directors and supervisors had any material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business entered into by the Company or any of its subsidiaries.

## II. POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

#### 1. Biographical Details of the Directors

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

**Mr. Lou Dingbo**, born in February 1962, obtained a bachelor's degree from Department of Mechanical Engineering of Northeastern University (formerly Northeastern Engineering Institute), 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 (described below). Mr. Lou Dingbo 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. Since November 2013, Mr. Lou has been the vice president of Shanghai Biopharmaceutical Industry Association; since June 2013, he has been the vice president for China Pharmaceutical Industry Association, China Pharmaceutical Industry Research and Development Association, Shanghai Pharmaceutical Profession Association, respectively, as well as a member of the board of directors of East China University of Science and Technology; since October 2012, he has served as the vice president for Shanghai Federation of Economic Organizations and Shanghai Federation of Industrial Economics. 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 to 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 Dingbo 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).



## Directors, Supervisors, Senior Management and Employees

**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 an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company (described below). 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 Nanfang Hospital, First Military Medical University, Guangzhou.

**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 subsidiaries 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 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. He is a non-executive director of the Company, and holds directorship in certain subsidiaries of the Company (See below). 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 00981 and the New York Stock Exchange under the ticker symbol "SMI") since January 2009; the president and executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since April 2012 and May 2008, respectively; the vice chairman, CEO and an executive director of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00363) since April 2012 and November 2007, respectively. His previous positions included the chairman of the board of directors of Shanghai Pharmaceutical (Group) Co., Ltd., the chairman of the Board, executive director and chairman of Supervisory board of the Company, the vice executive president of Shanghai Industrial Investment (Holdings) Co., Ltd., the vice executive CEO of Shanghai Industrial Holdings Limited, and the chairman and general manager of Shanghai SIIC Asset Management Co., Ltd..

## Directors, Supervisors, Senior Management and Employees

**Mr. Jiang Ming**, born in September 1957, obtained a bachelor's degree from the History Department of Fudan University and is an associate research fellow. 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 Xinda Trust and Investment Company, and deputy general manager and general manager of the Headquarters of China Galaxy Securities Co., Ltd..

**Mr. Chen Naiwei**, born in August 1957, obtained degrees of bachelor of economic law from East China University of Political Science and Law and doctorate of civil and commerce law from Macau University of Science and Technology. He is a professor of law and PRC practicing lawyer. He joined the Company in March 2010 as an independent non-executive director and does not hold any directorship in any subsidiaries 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 00763 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 2005; arbitrator of the Court of Arbitration for Sport of the International Olympics Committee since December 2002; arbitrator of Shanghai Arbitration Commission since October 1999; and senior partner of Allbright Law Offices since September 1999. His previous positions included the head of the Faculty of Law and the director of the Center for the Study of Intellectual Property at Shanghai Jiao Tong University.

## Directors, Supervisors, Senior Management and Employees

**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 Kam To has extensive experience in auditing, finance, advisory and management for over 30 years. He has been an independent non-executive director of Harbin Bank Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 06138) since March 2014, an independent non-executive director of Kerry Logistics Network Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00636) since November 2013, 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 01255) since May 2013, an independent non-executive director of KFM Kingdom Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 03816) since September 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 02880 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 08193) since June 2011, an independent director of RDA Microelectronics, Inc. (a company listed on NASDAQ under the ticker symbol RDA) since November 2010, an independent non-executive director of Huaneng Renewables Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00958) since August 2010, an independent non-executive director of Fairwood Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00052) since September 2009, an independent non-executive director of China Resources Land Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01109) since March 2009, and an 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 00246), independent non-executive director of GreaterChina Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08193) and partner of PricewaterhouseCoopers in Hong Kong (May 1992 to June 2008), etc.

## Directors, Supervisors, Senior Management and Employees

**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 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 business president of Greater China region of 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 degree in science from Beihang University and a master degree in science from Illinois Institute of Technology in the United States of America. He joined the Company as an independent non-executive director of the Company in May 2012, he does not hold any directorship in any subsidiary of the Company. Mr. Li Zhenfu is the founder and CEO of GL Capital Group and has been the chief executive officer of GL Capital Group since 2010. Mr. Li Zhenfu is a member of the China Entrepreneur Club, a member of the Committee of 100 of United States of America, a member of the International Board of Overseas Directors of Illinois Institute of Technology, the honorary Vice Chairman of China Charity Federation, and a member of China Advisory Board of The Nature Conservancy. Between 2004 and 2010, Mr. Li Zhenfu was the president of Novartis China. Prior to such appointments, Mr. Li Zhenfu had worked in the Pritzker Organisation for 11 years, where he held 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.

The Company has received the annual confirmation letter issued by each of the four independent non-executive directors, namely Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che, Edward and Mr. Li Zhenfu, in respect of their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules, and still believes that they are independent parties.



### 2. Biographical Details of the Supervisors

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

**Mr. Zhang Zhenbei**, born in June 1954, graduated from Shanghai University, majoring in politics. Mr. Zhang also has a master's degree in business administration from T.E.D. Huaxia School of Management, Singapore and is an international business engineer. Mr. Zhang joined the Company as the chief Supervisor in May 2012, and does not hold any directorship in any subsidiaries of the Company. He has been an executive director of Shanghai Pharmaceutical (Group) Co., Ltd. since October 2012, the Secretary of the Party Committee of the Company since April 2012, and the vice president of Shanghai Shangshi (Group) Co., Ltd. since January 2010. Mr. Zhang had held positions including the deputy director for personnel training division of Shanghai Foreign Economic Relations & Trade Commission, the human resources director of Shanghai Overseas Company, the vice president of Shanghai International Holding Corp. GMBH (Europe), the vice president of Shanghai Overseas Company, the general manager of the human resources department of Shanghai Industrial Investment (Holdings) Co., Ltd., the assistant president of Shanghai Industrial Investment (Holdings) Co., Ltd., the vice executive president of Shanghai Industrial Holdings Limited, and a director of Shanghai Industrial Pharmaceutical Investment Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600607, merged with the Company).

**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 does not hold any directorship in any subsidiaries of the Company. 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.(文新投資有限公司), 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 (part-time) 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) Co., Ltd., vice chairman of Shanghai Pharmaceutical Trade Union, and a member of the standing committee of Shanghai Federation of Trade Unions.



### 3. Biographical Details of the Senior Management

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

**Mr. Cho Man** is the president of the Company. Please refer to the section headed “Biographical Details of the 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 Medicine Research and Development Co., Ltd.. He holds a concurrent office of director in the Company’s subsidiaries (described below). Mr. Liu was previously deputy general manager of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited 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 a bachelor’s degree in Inorganic Materials from East China Institute of Chemical Technology, and an EMBA of China Europe International Business School and an engineer. He is currently a vice president of the Company and holds a concurrent office of director with the Company’s subsidiaries (See below). Mr. Ren was the head of the HR department, the head of the organisation cadre department, the head of the leader management department and vice president of Shanghai Pharmaceutical (Group) Co., Ltd..

**Mr. Shu Chang**, born in September 1958, obtained a bachelor’s degree in arts majoring in French from Beijing International Studies University and master of economics economics from the Graduate School of New York University, United States. He is a vice president of the Company and holds no concurrent office of director in any of the Company’s subsidiaries. He was the 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 the finance division 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 Stock Exchange of Hong Kong Limited with stock code 00563).



## Directors, Supervisors, Senior Management and Employees

**Mr. Guo Junyu**, born in February 1974, obtained a bachelor's degree from 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 and a practicing pharmacist. He is currently a vice president of the Company and holds a concurrent office of director in Company's subsidiaries (See below). He was the manager and deputy general manager of the import department of the deployment, storage and Transportation Headquarters, and the deputy general manager of the medicine distribution division department of Shanghai Pharmaceutical Joint Stock Company, the chairman of Shanghai Huashi Pharmacy Co., Ltd., the deputy general manager and the assistant to general manager of Shanghai Pharmaceutical Joint Stock Company, the deputy manager of Shanghai Pharmaceutical Distribution Co., Limited and the chairman of Shanghai Pharmaceutical Logistics Center Co., Ltd..

**Mr. Mao Jianyi**, born in May 1968, was a college graduate at medical faculty of Shanghai Second Medical University, and obtained a MBA degree from Shanghai PCEC East Asia College and a Ph.D. in economics from Shanghai University of Finance and Economics (International Open University of Washington in the US (美國華盛頓國際公開大學)). Mr. Mao is a physician. He is currently vice president of the Company and holds a concurrent office of director with subsidiaries of the Company (described below). He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd. and Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and director of Shenzhen Kondarl (Group) Co. Ltd. (a company listed on the Shenzhen Exchange with stock code 000048), etc.

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

## Directors, Supervisors, Senior Management and Employees

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

### (II) Positions in Shareholder Entities of Directors, Supervisors and Senior Management, Existing and Resigned during the Reporting Period

Name	Name of shareholder entity	Position	Starting date of term of office	Expiry date of term of office
Lou Dingbo	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman and an executive director President	20 July 2012	–
			12 October 2012	–
Hu Fengxiang	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director Vice President	21 June 2013	–
			28 July 2010	–
Zhou Jie	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman and an executive director	09 April 2012	20 July 2012
Jiang Ming	Shanghai Shengrui Investment Co., Ltd.	Executive director	20 January 2010	–
Zhang Zhenbei	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director	12 October 2012	–
Xin Keng	Shenergy (Group) Co., Ltd.	Principal of the finance management department	25 August 2009	–
Zhang Jialin	Shanghai Pharmaceutical (Group) Co., Ltd.	Vice Chairman and President	28 July 2010	12 October 2012
Xu Guoxiong	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director	9 April 2012	21 June 2013



## Directors, Supervisors, Senior Management and Employees

### (III) Positions in subsidiaries of Directors, Supervisors and Senior Management, Existing and Resigned during the Reporting Period

Name	Name of subsidiary	Position	Starting date of term of office	Expiry date of term of office
Lou Dingbo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	October 2012	–
Lou Dingbo	Shanghai Pharmaceuticals Distribution Co., Ltd.	Chairman	June 2013	–
Lou Dingbo	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Cho Man	Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Cho Man	Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	June 2013	–
Cho Man	Changzhou Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Cho Man	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	June 2013	–
Cho Man	Qingdao Growful Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Cho Man	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	June 2013	–
Zhou Jie	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	July 2012	–
Zhou Jie	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2002	October 2012
Zhou Jie	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	June 2012	–
Liu Yanjun	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	February 2014	–
Ren Jian	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	June 2010	October 2013
Ren Jian	Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Chairman	December 2010	–
Ren Jian	Liaoning Herbapex Pharmaceutical (Group) Co., Ltd.	Chairman	February 2011	–

## Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position	Starting date of term of office	Expiry date of term of office
Guo Junyu	Beijing SPH Aixin Weiye Medicine Co., Ltd.	Chairman	November 2010	October 2013
Guo Junyu	Shanghai Suzuken Huzhong Pharmaceutical Co.,Ltd.	Vice Chairman	February 2012	May 2013
Guo Junyu	Guangzhou Z.S.Y. Pharmaceutical Co., Ltd.	Director	September 2010	June 2013
Guo Junyu	Fujian Pharmaceutical Co.,Ltd.	Director	July 2010	June 2013
Guo Junyu	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Executive director	January 2013	-
Guo Junyu	China International Pharmaceutical (Holding) Corporation Limited	Executive director	June 2013	-
Mao Jianyi	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	October 2013	-
Mao Jianyi	Changzhou Kony Pharmaceutical Co., Ltd.	Chairman	March 2012	February 2014
Mao Jianyi	Shanghai Zhongxi Pharmaceutical (Group) Co., Ltd.	Chairman	April 2011	-
Mao Jianyi	Shanghai Sunve Co., Ltd.	Chairman	December 2009	-
Mao Jianyi	Shanghai Jinhe Bio-technology Co., Ltd.	Chairman	January 2012	February 2014
Mao Jianyi	Shanghai Zhongxi Pharmaceuticals Co., Ltd.	Director	April 2011	-
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	-
Mao Jianyi	Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd.	Director	July 2013	-
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chairman	April 2011	-
Shen Bo	Shanghai Pharmaceuticals Distribution Co., Ltd.	Supervisor	April 2010	-
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	-
Shen Bo	Changzhou Pharmaceutical Co., Ltd.	Director	June 2007	-
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	-
Shen Bo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2013	-
Shen Bo	Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd.	Director	July 2013	-

## Directors, Supervisors, Senior Management and Employees

Name	Name of subsidiary	Position	Starting date of term of office	Expiry date of term of office
Xu Guoxiong	Shanghai Pharmaceuticals Distribution Co., Ltd.	Chairman	July 2012	June 2013
Xu Guoxiong	Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	December 2008	June 2013
Xu Guoxiong	Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	October 2007	June 2013
Xu Guoxiong	Changzhou Pharmaceutical Co., Ltd.	Chairman	November 2009	June 2013
Xu Guoxiong	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	October 2012	June 2013
Xu Guoxiong	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	October 2012	June 2013
Xu Guoxiong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	July 2012	June 2013
Li Yongzhong	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	September 2010	January 2013
Li Yongzhong	Shanghai Pharmaceuticals Distribution Co., Ltd.	Director	April 2010	-
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	-
Li Yongzhong	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	February 2011	June 2013
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	-

### (IV) Service Contracts of Directors and Supervisors

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

### III. REMUNERATION OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

<p>Procedure for determining the remuneration of directors, supervisors and senior management</p>	<p>The remuneration and assessment committee of the board of directors of the Company considers and recommends to the board of directors the remuneration and other benefits to be paid to the directors of the Company. The remuneration of the directors and supervisors of the Company are resolved at the shareholders' general meeting. The remuneration of all directors of the Company is monitored regularly by the remuneration and assessment committee to ensure an appropriate level of remuneration and compensation. The remuneration of the senior management of the Company is provided in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee.</p>
<p>Determination criteria for the remuneration of directors, supervisors and senior management</p>	<p>The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the administrative measures relating to annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators.</p>
<p>Payment of the remuneration payable to directors, supervisors and senior management</p>	<p>The directors, supervisors and senior management of the Company receive remuneration from the Company in strict compliance with the operating responsibility assessment mechanism. The remuneration disclosed by the Company is in line with that actually paid.</p>
<p>Total remuneration actually received by all directors, supervisors and senior management at the end of the Reporting Period</p>	<p>The remuneration actually received by the directors, supervisors and senior management of the Company in 2013 totaled RMB12.7416 million.</p>

### IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change situation	Reasons for changes
Zhang Jialin	Vice Chairman	Resignation	Re-election
Lu Shen	Non-executive Director	Resignation	Re-election
Xu Guoxiong	Executive Director, President	Resignation	Re-election
Bai Huiliang	Independent Non-executive Director	Resignation	Re-election
Tommei Tong	Independent Non-executive Director	Resignation	Re-election
Wu Junhao	Supervisor	Resignation	Re-election
Jiang Yuanying	Vice President	Resignation	Re-election
Li Yongzhong	Vice President	Resignation	Re-election
Lou Dingbo	Chairman, Executive Director	Appointment	Re-election
Cho Man	Executive Director, President	Appointment	Re-election
Hu Fengxiang	Executive Director	Appointment	Re-election
Wan Kam To	Independent Non-executive Director	Appointment	Re-election
Tse Cho Che, Edward	Independent Non-executive Director	Appointment	Re-election
Liu Yanjun	Vice President	Appointment	Re-election
Mao Jianyi	Vice President	Appointment	Job requirement



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

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

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

**Technical quality management staff:** The quality of pharmaceutical products is the lifeline for the Company, whilst technical staff, quality control (QC), quality assurance (QA), quality managers and quality directors from all production bases serve as the backbones of this lifeline. The Group has strengthened the management of key technical quality staff and established a 7-level QAs promotion system comprising positions ranging from quality assurance assistant to senior quality assurance manager, and a 7-level QCs promotion system comprising positions ranging from assistant analyst to senior quality analyst, providing technical quality staff with paths for career advancement. The Group cooperates with professional consultancy institutions in providing comprehensive training courses for technical quality staff every year. Meanwhile, the Group also cooperates with renowned colleges and universities in providing training for part-time postgraduates so as to cultivate specialists in pharmaceutical engineering and project management (GMP) for the technical innovation and quality assurance system of the Group.

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



### VI. EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

#### (I) Employees

Number of in-service employees of the parent company	109
Number of in-service employees of the major subsidiaries	39,537
Total number of in-service employees	39,646
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	116
<b>Composition of professions</b>	
<b>Type of profession</b>	<b>Number of staff in the profession</b>
Production staff	14,565
Sales staff	15,377
Technical staff	4,180
Finance staff	1,252
Administrative staff	2,577
Others	1,695
<b>Education level</b>	
<b>Type of education level</b>	<b>Number of persons</b>
PhD	50
Master	673
University graduate	6,472
College graduate	11,041
Specialised secondary school (high school) graduate	13,933
Below specialised secondary school graduate	7,477
Total	39,646

### (II) Remuneration Policy and Long-term Incentive Scheme

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

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

### (III) Training Programme

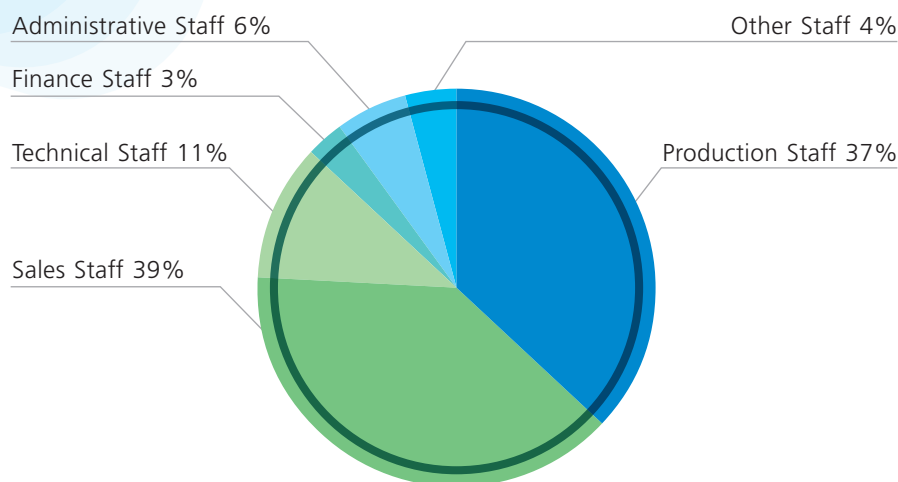
Based on the Company's strategies and annual work priorities, Shanghai Pharmaceuticals offers professional, effective, personalised training sessions and solutions to all levels of staff according to the development requirements of each position and the career development of individual employees.

Pursuant to the requirements of the regulatory departments of the State, the Group provides systematical trainings on GMP, GSP, operational skills and occupational safety to its employees every year. The Group independently develops special trainings in grade B clean area according to the relevant requirement of the national GMP; during the year, nearly 800 employees participated in the training and commenced their work with certificates. The Group has also organised special training sessions including laws and internal control for management staff of all levels pursuant to the compliance requirements for listed companies. In order to dovetail with its transformation in marketing, the Group organised a series of training including "A New Model for Pharmaceutical Enterprise Development", "Breaking through Sales Bottlenecks", "Innovation in Professional Promotion Models" and "OTC Marketing". With an aim to strengthening new staff's commitment to corporate culture and loyalty to the Group, the Group organised an Orientation Training Scheme for New Graduates—Soaring High for nearly 200 new staff members with undergraduate degrees or above from 15 subsidiaries across the country. Cooperating with domestic and non-domestic training institutions, the Group also organised and launched overseas training for young and middle-aged supporting management personnel, as well as systematic training for profession streams such as marketing, financial management and human resources.

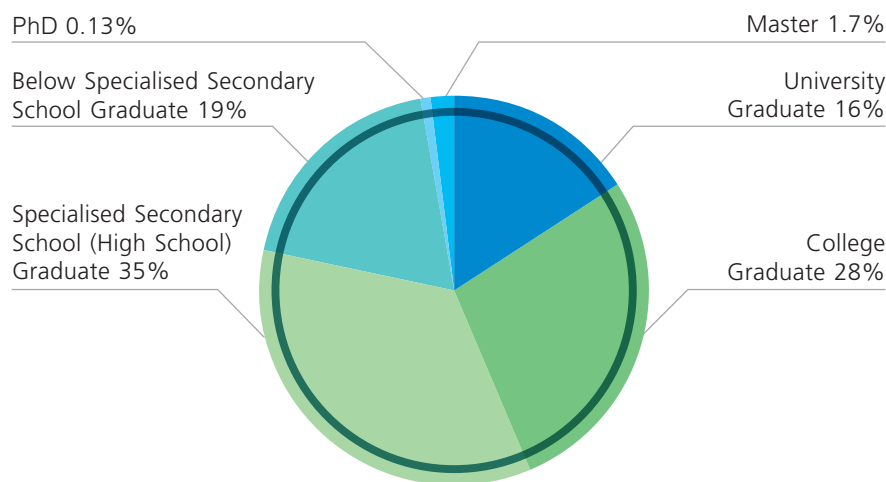


## Directors, Supervisors, Senior Management and Employees

### (IV) Statistical Chart on Composition of Professions



### (V) Statistical Chart on Education Level



### (VI) Labour Outsourcing

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

### (VII) Pension Scheme

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

### VII.FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals (including one former director) during the relevant periods ended 31 December 2013 were as follows:

*Unit: RMB'000*

Wages and salaries	4,233
Bonus	8,851
Contribution by the employer to the pension scheme	359
Total	13,443

For the year ended 31 December 2013, the remuneration bands were as follows:

Remuneration bands (HKD)	Number of persons
HKD2,500,001–HKD3,000,000	2
HKD3,000,001–HKD3,500,000	1
HKD3,500,001–HKD4,000,000	1
HKD4,000,001–HKD4,500,000	0
HKD4,500,001–HKD5,000,000	1
HKD5,000,001–HKD5,500,000	0

In 2013, Shanghai Pharmaceuticals did not pay any award to any directors or the above five highest paid individuals for joining the Group or as compensation for the loss of office. None of the directors waived or agreed to waive his/her remunerations as above.

# Corporate Governance

## I. CORPORATE GOVERNANCE AND INSIDER REGISTRATION AND MANAGEMENT

The Company has established and kept improving the corporate governance structure of the Company strictly in accordance with the relevant laws, regulations and rules such as the Company Law of the PRC, the Securities Law of the PRC, the Standards on Corporate Governance of Listed Companies, Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Hong Kong Listing Rules 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 three rules including procedure of the shareholders' general meetings, the board of directors and the board of supervisors, the Implementation Rules of the Strategy Committee of the Board of Directors, the Implementation Rules of the Audit Committee of the Board of Directors, the Implementation Rules of the Remuneration and Assessment Committee of the Board of Directors, Rules of Procedure of the Office of President and the System Governing Inside Information and Informed Parties. It has also formulated Diversification Policy for Board Members in March 2014. Moreover, the Company has promulgated a series of internal rules and regulations to ensure compliance operation and standardised decision-making of the Company in terms of system building.

There is no discrepancy between the actual situation of corporate governance and that required in the Company Law of the People's Republic of China and relevant provisions of the China Securities Regulatory Commission. The System Governing Inside Information and Informed Parties was considered and approved at the 3rd meeting of the fourth session of the board of directors of the Company on 20 April 2010 and has been put into practice, and was amended at the 3rd meeting of the fifth session of the board of directors of the Company on 22 August 2013 in accordance with relevant regulatory requirements. (For details, please refer to the Company's announcement Lin No. 2010-027 and the Company's announcement Lin No. 2013-024. Unless otherwise specified hereinafter, such announcements have been published on the Shanghai Securities News, Securities Times and the website of Shanghai Stock Exchange at [www.sse.com.cn](http://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. SHAREHOLDERS' GENERAL MEETINGS

Session	Date of convening	Name of proposal	Result of resolution	Websites designated for information disclosure of resolutions	Date of information disclosure of resolutions
2012 Annual General Meeting of Shanghai Pharmaceuticals	5 June 2013	1. Report of the Board of Directors 2012 of Shanghai Pharmaceuticals Holding Co., Ltd.;	All the proposals were considered and passed	Company's announcement Lin No. 2013-016	6 June 2013
		2. Report of the Board of Supervisors 2012 of Shanghai Pharmaceuticals Holding Co., Ltd.;			
		3. Final Accounts Report 2012 of Shanghai Pharmaceuticals Holding Co., Ltd.;			
		4. Profit Distribution Proposal for 2012 of Shanghai Pharmaceuticals Holding Co., Ltd.;			
		5. Report of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Financial Budget for 2013;			
		6. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Adjustment to Amount for Use of Proceeds from the H Share Offering;			
		7. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding External Guarantees for 2013;			
		8. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Payment of Auditor's Fees for 2013;			
		9. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Engagement of Auditors;			
		10. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Election of Directors for the Fifth Session of the Board of Directors;			
		11. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Election of Supervisors for the Fifth Session of the Board of Supervisors;			
		12. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Adjustment to Allowance for the Independent Directors of the Company;			
		13. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding Arranging Liability Insurance Cover for the Company's Directors, Supervisors and Senior Management;			
		14. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Grant of General Mandate by the Shareholders' General Meeting to the Board of Directors to Allot, Issue and Deal with Shares;			
		15. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. Regarding the Amendments to the Articles of Association of the Company.			

### III. DUTY PERFORMANCE OF DIRECTORS

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

Name of director	Independent director or not	Attendance at the board meetings						Attendance at the shareholders' general meetings	
		Required attendance for the year (times)	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate	Any failure in attending in person for two consecutive meetings	Attendance for the shareholders' general meetings (times)
Lou Dingbo <sup>Note 1</sup>	No	6	6	4	0	0	100%	/	/
Cho Man <sup>Note 1</sup>	No	6	6	4	0	0	100%	/	/
Hu Fengxiang <sup>Note 1</sup>	No	6	6	4	0	0	100%	/	/
Zhou Jie	No	11	11	6	0	0	100%	No	1
Jiang Ming	No	11	11	6	0	0	100%	No	1
Chen Naiwei	Yes	6	5	3	1	0	100%	No	1
Wan Kam To <sup>Note 1</sup>	Yes	6	6	4	0	0	100%	/	/
Tse Cho Che, Edward <sup>Note 1</sup>	Yes	6	6	4	0	0	100%	/	/
Li Zhenfu	Yes	11	11	6	0	0	100%	No	0
Zhang Jialin <sup>Note 2</sup>	No	5	5	2	0	0	100%	No	1
Lu Shen <sup>Note 2</sup>	No	5	5	2	0	0	100%	No	1
Xu Guoxiong <sup>Note 2</sup>	No	5	5	2	0	0	100%	No	1
Bai Huiliang <sup>Note 2</sup>	Yes	5	5	2	0	0	100%	No	1
Tommei Tong <sup>Note 2</sup>	Yes	5	5	2	0	0	100%	No	1

Notes: 1. As a result of the re-election of the board of directors, Messrs. Lou Dingbo, Cho Man, Hu Fengxiang, Wan Kam To and Tse Cho Che, Edward were appointed as the directors of the Company since 5 June 2013.

2. As a result of the re-election of the board of directors, Messrs. Zhang Jialin, Lu Shen, Xu Guoxiong, Bai Huiliang and Ms. Tommei Tong ceased to be the directors of the Company since 5 June 2013.

Number of board meetings held in the year	11
Including: Number of on-site meetings	5
Number of meetings held by way of communication	6
Number of meetings held on-site with attendance by way of communication available	/



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

During the Reporting Period, Independent directors had no objections to the Company's relevant matters.

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

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

#### V. RISKS DISCOVERED BY THE BOARD OF SUPERVISORS

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

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

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

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

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



### VIII. CORPORATE GOVERNANCE REPORT

Shanghai Pharmaceuticals, as a company dual-listed in the A-share and H-share market, shall comply with the laws and regulations of both the PRC and Hong Kong. As an A-share listed company, the Company did not breach any relevant PRC laws and regulations. Pursuant to code provision A.1.8 of the Corporate Governance Code, a listed company should arrange appropriate insurance cover in respect of the legal action which may be taken against its directors. In June 2013, the resolution of arranging liability insurance cover for the Company's directors, supervisors and senior management was considered and passed at the 2012 shareholders' annual general meeting of the Company. The Company is actively involved in maintaining insurance cover for each of its directors in accordance with relevant procedures. Pursuant to code provision A.5.6 of the Corporate Governance Code, the Company should formulate Board Diversity Policy. In March 2014, the Company convened corresponding meetings of the nomination committee and of the Board in accordance with relevant procedures, and formulated the Diversification Policy for Board Members.

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

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

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

#### (II) Board of Directors

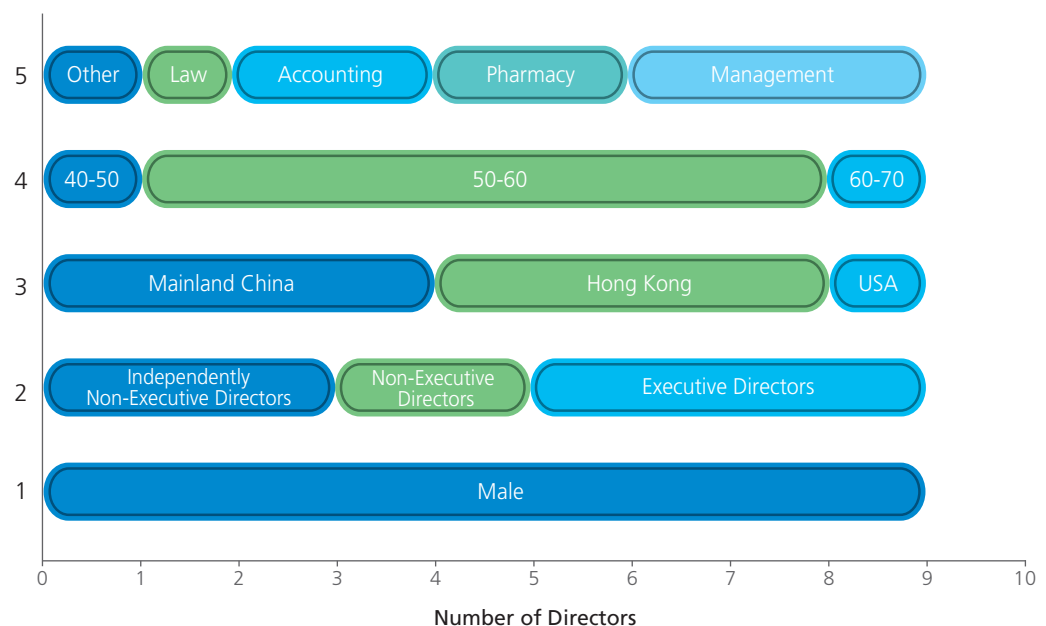
##### 1. Composition of the board of directors

The Company's board of directors comprises nine directors, including three executive directors, namely Mr. Lou Dingbo, the chairman, Mr. Cho Man, director and the president and Mr. Hu Fengxiang, the director; two non-executive directors, namely Mr. Zhou Jie and Mr. Jiang Ming; and four independent non-executive directors, namely Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che and Mr. Li Zhenfu. The biographical details of the directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

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

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

To fulfill the requirements under the revised code provision A.5.6 of the Corporate Governance Code which became effective from 1 September 2013, the seventh meeting of the fifth session of the board of directors of the Company passed the Diversification Policy for Board Members of Shanghai Pharmaceuticals on 28 March 2014. When assessing candidates for the Board, the board of directors will take into consideration the aspects of diversity as listed in this policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Each of the current nine directors of the board of directors possesses professional background and/or has extensive professional knowledge in the Company's business.



## 2. Primary duties of the board of directors

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

- to convene the shareholders' general meetings and to report on its work to the shareholders' general meetings;
- to implement the resolutions passed at the shareholders' general meetings;
- to determine the Company's business plan and investment proposals;

## Corporate Governance

- to formulate the Company's annual financial budget and final accounts;
- to formulate the Company's profit distribution proposal and loss recovery proposal;
- to formulate the Company's proposals for the increase or reduction of the Company's registered capital and for the issuance and listing of debentures or other securities and for the listing;
- to draw up proposals for material acquisition, repurchase of the Company's shares and the plans for the merger, division, dissolution and change of corporate form of the Company;
- to make decisions on any asset disposals of the Company and its controlled subsidiaries (other than those subject to the consideration of the shareholders' general meeting), any asset disposals between the Company and its controlled subsidiaries and between its controlled subsidiaries, and any merger and division of its controlled subsidiaries, unless otherwise stipulated in laws, administrative regulations, departmental rules, regulations of the securities authorities of the place where the Company is listed or the Articles of Association;
- to determine the establishment of the Company's internal management organizations;
- to appoint or remove the president and the secretary to the board of directors of the Company's; to appoint or remove any other member of senior management including the vice president and the chief financial officer of the Company based on the nominations of the president and to decide on their remuneration, as well as reward and punishment issues;
- to set up the Company's basic management system;
- to formulate the proposals for any amendments to the Articles of Association;
- to manage the information disclosure of the Company;
- to propose to the shareholders' general meeting the appointment or removal of the Company's accounting firms;
- to receive the work report of the president and to inspect his/her work;
- to perform the corporate governance functions; and
- to exercise such other functions and powers as authorized by the laws, administrative regulations, departmental rules, the Articles of Association or the shareholders' general meetings.

### 3. Board meetings

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

During the Reporting Period, the board of directors held a total of eleven meetings, at which proposals were considered in relation to the Company's business results, change of directors, appointment of senior management, formulation of and amendments to corporate policies, guarantee plan for 2013, credit facilities for 2013, mergers and acquisitions as well as the performance of the corporate governance function, etc. Attendance details of the directors during the Reporting Period are set out in the paragraph headed "Attendance of directors at the board meetings and shareholders' general meetings" above.

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

### (III) Committees under the Board

#### 1. Remuneration and assessment committee

The remuneration and assessment committee under the board of directors of the Company consists of three directors, namely Mr. Chen Naiwei, acting as its convener/chairman, Mr. Wan Kam To and Mr. Li Zhenfu. The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating and implementing the performance review standards for directors, the president and other senior management members of the Company, and formulating and reviewing the remuneration policies and proposals for directors, the president and other senior management.

During the Reporting Period, the remuneration and assessment committee held four meetings, at which amendments to the performance review report on senior management for 2012, the proposal for assessment on management responsibilities of the senior management for 2013 and the Implementation Rules of the Remuneration and Assessment Committee of the Board of Directors were discussed. Set out below is the attendance record of the members of the remuneration and assessment committee during the Reporting Period:



## Corporate Governance

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Chen Naiwei (independent non-executive director)	4/4	100%
Mr. Wan Kam To (independent non-executive director) <sup>Note 1</sup>	2/2	100%
Mr. Li Zhenfu (independent non-executive director)	4/4	100%
Mr. Bai Huiliang (independent non-executive director) <sup>Note 2</sup>	2/2	100%

- Notes: 1. As a result of the re-election of the board of directors, Mr. Wan Kam To was appointed as a director of the Company since 5 June 2013.
2. As a result of the re-election of the board of directors, Mr. Bai Huiliang ceased to be a director of the Company since 5 June 2013.

## 2. Audit committee

The audit committee under the board of directors of the Company consists of three directors, including Mr. Wan Kam To, acting as its convener/chairman, Mr. Chen Naiwei and Mr. Tse Cho Che, Edward. The audit committee is a special body established under the board of directors, mainly responsible for communication, supervision and review of the internal and external audit of the Company.

During the Reporting Period, the audit committee held a total of four meetings, at which matters were considered in relation to the Company's business results, the self-appraisal report on internal control of the Company for 2012, summary of audit division for 2013 and internal audit plan for 2014, audit schedule on financial report for 2013, etc. Set out below is the attendance record of the members of the audit committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Wan Kam To (independent non-executive director) <sup>Note 1</sup>	3/3	100%
Mr. Chen Naiwei (independent non-executive director)	4/4	100%
Mr. Tse Cho Che, Edward (independent non-executive director) <sup>Note 1</sup>	3/3	100%
Ms. Tommei Tong (independent non-executive director) <sup>Note 2</sup>	1/1	100%
Mr. Bai Huiliang (independent non-executive director) <sup>Note 2</sup>	1/1	100%

- Notes:
1. As a result of the re-election of the board of directors, Mr. Wan Kam To and Mr. Tse Cho Che, Edward were appointed as the directors of the Company since 5 June 2013.
  2. As a result of the re-election of the board of directors, Ms. Tommei Tong and Mr. Bai Huiliang ceased to be a director of the Company since 5 June 2013.

Pursuant to the requirements under the announcement ([2008] No. 48) of the China Securities Regulatory Commission and the work rules of independent directors, the audit committee held two meetings with the certified public accountants and the accounting firm for annual audit respectively before their on-site audit and after the issuance of preliminary opinions, to confirm the audit schedule and arrangements for auditing the Shanghai Pharmaceuticals' financial statements for 2013. On such basis, the audit committee is of the opinion that the Shanghai Pharmaceuticals' financial reports for 2013 are prepared in accordance with the Accounting Standards for Business Enterprises of the PRC, and give a true and fair view in all material aspects of Shanghai Pharmaceuticals' business results for 2013 and its financial position as at 31 December 2013, and is resolved to submit the same to the board of directors for consideration and approval.

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

Pursuant to the Rule 14A.37 of the Hong Kong Listing Rules, the audit committee has reviewed the continuing connected transactions of the Company. The actual amount of the connected transactions entered into by the Company and its subsidiaries in the ordinary course of business in 2013 did not exceed the amount approved by the board of directors.

### 3. Strategy committee

The strategy committee under the board of directors of the Company consists of three directors, including Mr. Lou Dingbo, acting as its convener/chairman, Mr. Tse Cho Che, Edward, and Mr. Li Zhenfu. The strategy committee is a special body established under the board of directors focusing on strategy study as entrusted by the board of directors, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

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

## Corporate Governance

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Lou Dingbo (chairman and executive director)	1/1	100%
Mr. Tse Cho Che (independent non-executive director)	1/1	100%
Mr. Li Zhenfu (independent non-executive director)	1/1	100%
Mr. Zhou Jie (non-executive director) <sup>Note</sup>	/	/

Note: As a result of the re-designation of directors, Mr. Zhou Jie ceased to be the convener/chairman and a member of the strategy committee of the Board of the Company since 5 June 2013.

#### 4. Nomination committee

The nomination committee under the board of directors consists of three directors, including Mr. Tse Cho Che, Edward, acting as its convener/chairman, Mr. Lou Dingbo and Mr. Chen Naiwei. The nomination committee is a special body established under the board of directors, mainly responsible for analysing the candidates for directors of the Company and the selecting criteria and procedures and making recommendations to the board of directors. The nomination committee may also be responsible for analysing the candidates for the senior management of the Company and the selecting criteria and procedures and making recommendations to the board of directors when necessary.

During the Reporting Period, the nomination committee held one meeting, at which the election of directors for the fifth session of the board of directors was discussed. Set out below is the attendance record of the members during the Reporting Period:

Name of members of strategy committee	Actual/required attendance (times)	Attendance rate
Mr. Tse Cho Che, Edward (Independent Non-Executive Director) <sup>Note 1</sup>	/	/
Mr. Lou Dingbo (Chairman and Executive Director) <sup>Note 1</sup>	/	/
Mr. Chen Naiwei (Independent Non-Executive Director)	1/1	100%
Mr. Zhou Jie (Non-Executive Director) <sup>Note 2</sup>	1/1	100%
Mr. Bai Huiliang (Independent Non-Executive Director) <sup>Note 3</sup>	1/1	100%



- Notes:
1. As a result of the re-election of the board of directors, Mr. Tse Cho Che, Edward and Mr. Lou Dingbo were appointed as the directors of the Company since 5 June 2013.
  2. As a result of the re-designation of directors, Mr. Zhou Jie ceased to be a member of the nomination committee of the Board of the Company since 5 June 2013.
  3. As a result of the re-election of the board of directors, Mr. Bai Huiliang ceased to be a director of the Company since 5 June 2013.

### (IV) Board of supervisors

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

- to review the financial information such as the financial reports, business reports and plans for distribution of profits prepared by the Board and to be submitted to the shareholders’ general meetings and to make the comments in writing after review;
- to review the Company’s financial position;
- to supervise the behaviours of the directors, president and any other member of the senior management in performing their duties, and to advise on the dismissal of directors, president or any other member of the senior management who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the shareholders’ general meetings;
- to demand the directors, president and any other member of the senior management to rectify their error if they have acted in a way detrimental to the Company’s interest;
- to propose to convene an extraordinary general meeting, and where the Board fails to perform the duties in relation to convening or presiding over a shareholders’ general meeting as required by the Company Law of the PRC, to convene and preside over the shareholders’ general meeting;
- to propose motions at a shareholders’ general meeting;
- to initiate litigations against directors, the president and any other member of the senior management in accordance with the provisions of the Company Law of the PRC;
- to investigate into any abnormalities in operation of the Company; and if necessary, to employ professional institutions such as accounting firms and law firms to assist in its work, and the expenses shall be borne by the Company;
- to act on behalf of the Company in negotiations with or in bringing actions against directors; and



## Corporate Governance

- other functions and powers as authorized by the laws, administrative regulations, departmental rules and the provisions of the Articles of Association or by the shareholders' general meetings.

During the Reporting Period, the board of supervisors held a total of five meetings, at which the Company's performance, final accounts, budgets, 2012 profit distribution plan, engagement and remuneration of auditors and other matters were supervised and reviewed. Set out below is the attendance of the supervisors during the Reporting Period:

Name of Supervisor	Actual/required attendance (times)	Attendance rate
Mr. Zhang Zhenbei	5/5	100%
Mr. Xin Keng <sup>Note 1</sup>	3/3	100%
Ms. Chen Xin	5/5	100%
Mr. Wu Junhao <sup>Note 2</sup>	2/2	100%

- Notes: 1. As a result of the re-election of the board of supervisors, Mr. Xin Keng was not appointed as a supervisor of the Company until 5 June 2013.
2. As a result of the re-election of the board of supervisors, Mr. Wu Junhao ceased to be a supervisor of the Company since 5 June 2013.

### (V) Remuneration of Auditors

With reference to the Company's actual situation of business development, the audit fee payable to PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers by Shanghai Pharmaceuticals for 2013 was in line with 2012 at RMB19,500,000 (relevant reimbursed expenses and taxation expenses inclusive) while the audit fee for internal control was set at RMB1,500,000 (relevant reimbursed expenses and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers. In 2013, a non-audit service fee of approximately RMB1,243,000 was paid by the Company to the affiliates or network members of the Company's auditors.

### (VI) Emoluments of Senior Management

Please refer to "Changes in shareholdings and remuneration of directors, supervisors and senior management, existing and resigned during the Reporting Period" above for details.

### (VII) Accountability and Audit

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

The directors are responsible for overseeing the preparation of financial report for each accounting period to give a true and fair view of the financial position, business results and cash flows of the Group. During the Reporting Period, the Company disclosed its annual report for 2012, interim report for 2013 and the first and third quarterly reports for 2013 in accordance with relevant laws and regulations and the listing rules of the places where the Company is listed.

In preparing the financial report for the year ended 31 December 2013, the directors have adopted and consistently applied appropriate accounting policies, and have made judgements and estimates that are prudent and reasonable. As far as the directors are aware, there was no event, condition or material uncertainty that may cast doubt upon the Group's ability to continue its operation as a going concern.

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

### (VIII) About Shareholders

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

### (IX) Investor Relations

The Company places great emphasis on investor relations. During the Reporting Period, the Company specially formulated a three-year plan for investors relations for upgrading investor relations to the level of corporate strategies for the first time. 2013 also marked a year for a new term of the board of directors and the board of supervisors. Following the publication of the Company's annual report, interim report and third quarterly report, the management led by the Company's chairman, president, chief financial officer and secretary to the Board took an initiative in conducting three roadshows for global institutional investors. During the year, the Company was invited to participate in a total number of more than ten investment strategy events organized by stock brokerages, and received 70 groups and 600 visits of analysts and representatives from investment institutions in the domestic and foreign medical industries. The Company also established normal contact with the industry's sell-side analysts and buy-side analysts by innovative means such as WeChat group.

The Company also places great emphasis on the feedback following communications with various types of investors. Questions raised by investors will be summarized after each roadshow or reception. A total of more than 200 questions were categorized and summarized during the year into nearly the most typical 20 suggestions to be submitted to the management which designated the leaders in-charge to implement these suggestions and follow up subsequent progress.

A variety of communication methods have allowed the Company and institutions to enhance mutual understanding and trust. Professional analysts at home and abroad published a total of more than ten in-depth analysis reports and corporate reviews on the Company during the year, which have maintained a good market image of the Company, and increased the market value steadily as well.

### (X) Company Secretary

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Ms. Han Min and Ms. Mok Ming Wai are the joint company secretaries of the Company and received relevant training in 2013, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. Ms. Mok Ming Wai (a director of KCS Hong Kong Limited) is one of the joint company secretaries of the Company, while Ms. Han Min, the board secretary of the company, serves as her main contact person with the interior of the Company. In order to comply with Rule 3.29 of the Hong Kong Listing Rules, Ms. Han Min and Ms. Mok Ming Wai both received relevant professional training of no less than 15 hours for the year ended 31 December 2013.

### (XI) Training for Directors

The Company provides introduction and information to newly appointed directors on their legal and other responsibilities as directors and their functions as directors. During the Reporting Period, all directors participated in continuing education programmes to develop and update their knowledge and skills. Among the directors, Mr. Lou Dingbo, Mr. Cho Man, Mr. Hu Fengxiang, Mr. Zhou Jie, Mr. Jiang Ming, Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che, Edward and Mr. Li Zhenfu all participated in the training provided by Freshfields Bruckhaus Deringer engaged by the Company in respect of the continuing obligations of Hong Kong-listed companies and their directors. In addition, Mr. Zhou Jie self studied the notes and recording of the “connected transaction” section of the “Symposium on Hong Kong-listed Companies”, and participated in the training courses provided by other third parties such as the second training session in 2013 for directors and supervisors of listed companies in Shanghai region and those in respect of Hong Kong legal updates; Mr. Jiang Ming self studied the notes and recording of the “connected transaction” section of the “Symposium on Hong Kong-listed Companies”; Mr. Chen Naiwei self studied the notes and recording of the “connected transaction” section of the “Symposium on Hong Kong-listed Companies”, and participated in the training courses provided by other third parties such as the training for senior management of companies listed on Shenzhen Stock Exchange; Mr. Wan Kam To participated in the training courses provided by other third parties such as special seminars on insider dealing and information disclosure of listed companies and those in relation to the responsibilities, obligations and limits of authority of directors, supervisors and senior management of H-share companies under the securities regulations and rules of Hong Kong; Mr. Li Zhenfu self studied the notes and recording of the “connected transaction” section of the “Symposium on Hong Kong-listed Companies”. Mr. Zhang Jialin, Mr. Lu Shen, Mr. Xu Guoxiong, Mr. Bai Huiliang and Ms. Tommei Tong, who ceased to be directors of the Company since 5 June 2013 due to the re-election of the board of directors, all self studied the notes and recording of the “connected transaction” section of the “Symposium on Hong Kong-listed Companies”. The Company has kept a training log to assist the directors to record the training programmes in which they have participated.

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

### (XII) Amendments to the Articles of Association

The amendments to the Articles of Association of the Company were approved at the 2012 annual general meeting of Shanghai Pharmaceuticals held on 5 June 2013. Details of the amendments are available in the documents/circular of the 2012 annual general meeting of the Company dated 27 April 2013. The full text of the amended Articles of Association of the Company have been published on the website of Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn), the website of Hong Kong Stock Exchange at <http://www.hkexnews.hk> and the Company’s website.

# Internal Control

## I. INTERNAL CONTROL STATEMENT AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

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

## II. MATTERS RELATING TO THE AUDIT REPORT ON INTERNAL CONTROL

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

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

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

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

# Financial Report

Attached

# Catalogue of Documents Available for Inspection

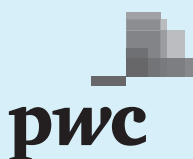
1. The financial statements signed and sealed by the legal representative, chief financial officer and accounting manager.
2. The original copy of the auditor's report signed and sealed by the accounting firm and the certified public accountant.
3. The original documents of the Company and the original copy of the announcements disclosed in the designated newspapers of China Securities Regulatory Commission during the Reporting Period.

**Lou Dingbo**  
*Chairman*

Shanghai Pharmaceuticals Holding Co., Ltd.  
28 March 2014



# Independent Auditor's Report



羅兵咸永道

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

We have audited the consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 113 to 232, which comprise the consolidated and Company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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



# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 28 March 2014

# Consolidated Balance Sheet

	Note	As at 31 December	
		2013	2012
		RMB'000	RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	7	944,990	905,359
Investment properties	8	277,004	312,740
Property, plant and equipment	9	5,016,525	4,423,573
Intangible assets	10	4,260,141	3,674,866
Investments in jointly controlled entities	12	340,679	309,020
Investments in associates	13	2,355,821	2,236,288
Deferred income tax assets	26	199,806	191,744
Available-for-sale financial assets	14	149,748	149,057
Other non-current prepayments	15	133,154	64,461
Other long-term receivables	16	118,680	–
		<b>13,796,548</b>	12,267,108
<b>Current assets</b>			
Inventories	17	10,996,520	9,809,700
Trade and other receivables and other current assets	18	18,539,629	15,329,912
Financial assets at fair value through profit or loss	20	340	2,920
Restricted cash	19	333,118	224,497
Cash and cash equivalents	19	12,645,367	13,300,901
		<b>42,514,974</b>	38,667,930
Assets classified as held for sale		–	134,000
		<b>42,514,974</b>	38,801,930
<b>Total assets</b>		<b>56,311,522</b>	51,069,038
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	21	2,688,910	2,688,910
Share premium	22	14,087,151	14,396,727
Other reserves	22	925,106	835,395
Retained earnings	23		
– Proposed final dividends	38	699,117	645,339
– Others		7,553,529	6,072,928
		<b>25,953,813</b>	24,639,299
<b>Non-controlling interests</b>		<b>3,047,167</b>	3,061,575
<b>Total equity</b>		<b>29,000,980</b>	27,700,874

# Consolidated Balance Sheet

	Note	As at 31 December	
		2013 RMB'000	2012 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	25	125,195	40,773
Deferred income tax liabilities	26	288,812	282,349
Termination benefit obligations	28	39,077	52,353
Other non-current liabilities	27	1,158,563	894,629
		<b>1,611,647</b>	1,270,104
<b>Current liabilities</b>			
Trade and other payables and other current liabilities	24	19,571,893	16,959,537
Current income tax liabilities		202,632	237,750
Borrowings	25	5,924,370	4,900,773
		<b>25,698,895</b>	22,098,060
<b>Total liabilities</b>		<b>27,310,542</b>	23,368,164
<b>Total equity and liabilities</b>		<b>56,311,522</b>	51,069,038
<b>Net current assets</b>		<b>16,816,079</b>	16,703,870
<b>Total assets less current liabilities</b>		<b>30,612,627</b>	28,970,978

The notes on pages 123 to 232 are an integral part of these consolidated financial statements.

The financial statements on pages 113 to 232 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf.

**LOU Dingbo**  
Director

**CHO Man**  
Director

# Company Balance Sheet

	Note	As at 31 December	
		2013 RMB'000	2012 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	7	23,858	24,498
Investment properties	8	10,959	11,195
Property, plant and equipment	9	143,322	162,226
Intangible assets	10	7,181	6,846
Investments in subsidiaries	11	13,638,554	12,580,257
Investments in associates	13	386,927	386,927
Available-for-sale financial assets	14	25,556	24,896
		<b>14,236,357</b>	13,196,845
<b>Current assets</b>			
Trade and other receivables and other current assets	18	6,808,808	8,269,399
Cash and cash equivalents	19	2,273,740	1,388,630
		<b>9,082,548</b>	9,658,029
<b>Total assets</b>		<b>23,318,905</b>	22,854,874
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	21	2,688,910	2,688,910
Share premium	22	16,328,357	16,328,357
Other reserves	22	515,105	424,349
Retained earnings	23		
– Proposed final dividends	38	699,117	645,339
– Others		109,043	367,203
<b>Total equity</b>		<b>20,340,532</b>	20,454,158

# Company Balance Sheet

	Note	As at 31 December	
		2013 RMB'000	2012 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		6,246	221
Other non-current liabilities	27	66,983	26,686
		73,229	26,907
<b>Current liabilities</b>			
Trade and other payables and other current liabilities	24	2,505,144	1,953,316
Current income tax liabilities		–	20,493
Borrowings	25	400,000	400,000
		2,905,144	2,373,809
<b>Total liabilities</b>		<b>2,978,373</b>	<b>2,400,716</b>
<b>Total equity and liabilities</b>		<b>23,318,905</b>	<b>22,854,874</b>
<b>Net current assets</b>		<b>6,177,404</b>	<b>7,284,220</b>
<b>Total assets less current liabilities</b>		<b>20,413,761</b>	<b>20,481,065</b>

The notes on pages 123 to 232 are an integral part of these consolidated financial statements.

The financial statements on pages 113 to 232 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf.

**LOU Dingbo**  
Director

**CHO Man**  
Director

# Consolidated Income Statement

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
Revenue	6	78,222,817	68,078,118
Cost of sales	32	(68,185,822)	(58,980,324)
<b>Gross profit</b>		<b>10,036,995</b>	9,097,794
Distribution and selling expenses	32	(4,407,225)	(3,972,605)
General and administrative expenses	32	(2,880,636)	(2,529,768)
<b>Operating profit</b>		<b>2,749,134</b>	2,595,421
Other income	29	213,089	476,062
Other gains/(losses) – net	30	66,405	(176,566)
Gains on disposal of subsidiaries and associates	31	50,546	46,710
Finance income	34	242,106	304,449
Finance costs	34	(459,849)	(496,742)
Share of profit of jointly controlled entities	12	86,344	70,673
Share of profit of associates	13	313,072	267,720
<b>Profit before income tax</b>		<b>3,260,847</b>	3,087,727
Income tax expense	35	(634,228)	(627,139)
<b>Profit for the year</b>		<b>2,626,619</b>	2,460,588
<b>Profit attributable to:</b>			
Owners of the Company		2,242,926	2,052,872
Non-controlling interests		383,693	407,716
		<b>2,626,619</b>	2,460,588
Earnings per share attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic and diluted	37	0.83	0.76

The notes on pages 123 to 232 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
Dividends	38	699,117	645,339

# Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December	
		2013	2012
		RMB'000	RMB'000
<b>Profit for the year</b>		<b>2,626,619</b>	2,460,588
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss</i>			
Available-for-sale financial assets			
– Gross	14	<b>3,778</b>	1,342
– Tax	26	<b>(944)</b>	(335)
Currency translation differences, net		<b>(7,061)</b>	(11,288)
<b>Other comprehensive income for the year, net of tax</b>		<b>(4,227)</b>	(10,281)
<b>Total comprehensive income for the year</b>		<b>2,622,392</b>	2,450,307
<b>Attributable to:</b>			
– Owners of the Company		<b>2,242,376</b>	2,048,200
– Non-controlling interests		<b>380,016</b>	402,107
<b>Total comprehensive income for the year</b>		<b>2,622,392</b>	2,450,307

The notes on pages 123 to 232 are an integral part of these consolidated financial statements.



# 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			
<b>Balance at 1 January 2012</b>		2,688,910	14,396,727	796,573	5,196,261	23,078,471	2,902,994	25,981,465
<b>Comprehensive income</b>								
Profit for the year		-	-	-	2,052,872	2,052,872	407,716	2,460,588
<b>Other comprehensive income</b>								
Available-for-sale financial assets								
– Gross	14	-	-	1,430	-	1,430	(88)	1,342
– Tax	26	-	-	(357)	-	(357)	22	(335)
Currency translation differences, net	22	-	-	(5,745)	-	(5,745)	(5,543)	(11,288)
<b>Total other comprehensive income</b>		-	-	(4,672)	-	(4,672)	(5,609)	(10,281)
<b>Total comprehensive income</b>		-	-	(4,672)	2,052,872	2,048,200	402,107	2,450,307
<b>Transactions with owners</b>								
Capital injections from non-controlling interests		-	-	-	-	-	55,062	55,062
Acquisitions of subsidiaries		-	-	-	-	-	127,355	127,355
Disposal of a subsidiary		-	-	-	-	-	(8,835)	(8,835)
Changes in ownership interests in subsidiaries without change of control		-	-	(50,960)	(247)	(51,207)	(164,820)	(216,027)
Dividends		-	-	-	(430,226)	(430,226)	(231,062)	(661,288)
Appropriation to statutory reserves	22, 23	-	-	88,798	(88,798)	-	-	-
Others		-	-	5,656	(11,595)	(5,939)	(21,226)	(27,165)
<b>Total transaction with owners</b>		-	-	43,494	(530,866)	(487,372)	(243,526)	(730,898)
<b>Balance at 31 December 2012</b>		2,688,910	14,396,727	835,395	6,718,267	24,639,299	3,061,575	27,700,874

# 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		
<b>Balance at 1 January 2013</b>		2,688,910	14,396,727	835,395	6,718,267	24,639,299	3,061,575	27,700,874
<b>Comprehensive income</b>								
Profit for the year		-	-	-	2,242,926	2,242,926	383,693	2,626,619
<b>Other comprehensive income</b>								
Available-for-sale financial assets								
– Gross	14	-	-	3,644	-	3,644	134	3,778
– Tax	26	-	-	(911)	-	(911)	(33)	(944)
Currency translation differences, net	22	-	-	(3,283)	-	(3,283)	(3,778)	(7,061)
<b>Total other comprehensive income</b>		-	-	(550)	-	(550)	(3,677)	(4,227)
<b>Total comprehensive income</b>		-	-	(550)	2,242,926	2,242,376	380,016	2,622,392
<b>Transactions with owners</b>								
Capital injections from non-controlling interests		-	-	-	-	-	59,447	59,447
Contribution from the intermediate holding companies of the Company	22	-	-	35,134	-	35,134	-	35,134
Acquisitions of subsidiaries	43	-	-	-	-	-	100,646	100,646
Changes in ownership interests in subsidiaries without change of control	42	-	(309,576)	-	-	(309,576)	(279,726)	(589,302)
Dividends		-	-	-	(645,339)	(645,339)	(268,072)	(913,411)
Appropriation to statutory reserves	22, 23	-	-	55,127	(55,127)	-	-	-
Others		-	-	-	(8,081)	(8,081)	(6,719)	(14,800)
<b>Total transaction with owners</b>		-	(309,576)	90,261	(708,547)	(927,862)	(394,424)	(1,322,286)
<b>Balance at 31 December 2013</b>		2,688,910	14,087,151	925,106	8,252,646	25,953,813	3,047,167	29,000,980

The notes on pages 123 to 232 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	39(i)	1,421,017	1,490,692
Interest paid		(410,058)	(461,000)
Income tax paid		(696,285)	(659,679)
Net cash generated from operating activities		314,674	370,013
<b>Cash flows from investing activities</b>			
Cash paid in respect of acquisition of subsidiaries	43	(582,884)	(214,731)
Cash injection in an associate		(6,283)	(52,010)
Purchases of property, plant and equipment ("PP&E") and investment properties		(887,939)	(629,926)
Proceeds from disposal of PP&E and investment properties	39(ii)	35,833	20,067
Purchases of land use rights and intangible assets		(17,120)	(78,983)
Repayment of loan receivables from non-controlling interests		–	30,244
Interest received		248,718	319,762
Dividends received		247,710	179,609
Proceeds from disposal of available-for-sale financial assets	39(iv)	14,256	51,260
Proceeds from disposal of financial assets at fair value through profit or loss		3,263	–
Proceeds from disposal of subsidiaries and associates	39(v)	119,653	28,041
Proceeds from government grant of plant relocation, net		168,568	542,006
Other cash flows generated from/(used in) investing activities		12,143	(50,052)
Net cash (used in)/generated from investing activities		(644,082)	145,287

# Consolidated Statement of Cash Flows

	Note	Year ended 31 December	
		2013 RMB'000	2012 RMB'000
<b>Cash flows from financing activities</b>			
Cash injection from non-controlling interests		35,475	55,062
Cash paid in respect of expenses related to issuance of new shares		–	(40,105)
Proceeds from borrowings		11,641,631	8,085,497
Repayments of borrowings		(10,550,241)	(8,897,811)
Dividends paid by the Group		(873,921)	(696,235)
Acquisitions of non-controlling interests		(586,451)	(226,796)
Other cash flows generated from/(used in) financing activities		22,000	(71,436)
Net cash used in from financing activities		(311,507)	(1,791,824)
<b>Net decrease in cash and cash equivalents</b>		<b>(640,915)</b>	<b>(1,276,524)</b>
Cash and cash equivalents at beginning of year		13,300,901	14,554,709
Exchange (losses)/gains on cash and cash equivalents		(14,619)	22,716
<b>Cash and cash equivalents at end of year</b>		<b>12,645,367</b>	<b>13,300,901</b>

The notes on pages 123 to 232 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION

### 1 History and group reorganisation

Shanghai Pharmaceuticals Holding Co., Ltd. (the “Company”), initially known as Shanghai No. 4 Pharmaceutical Co., Ltd. (上海四藥股份有限公司), was incorporated in the People’s Republic of China (the “PRC”) on 18 January 1994 as a joint stock company with limited liability under the Company Law of the PRC. Pursuant to a restructuring, the Company issued 42,966,600 domestic shares of RMB 1 each (“A Shares”) to its then shareholder and succeeded all the businesses of Shanghai No. 4 Pharmaceutical Factory (上海第四製藥廠), which was mainly engaged in the manufacturing and sale of pharmaceutical products. The Company then issued 15,000,000 new A Shares to public and all of the Company’s A Shares were listed on Shanghai Stock Exchange on 24 March 1994.

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

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

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



# Notes to the Consolidated Financial Statements

## 1 GENERAL INFORMATION (continued)

### 1 History and group reorganisation (continued)

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

On 20 May 2011, the Company issued 664,214,000 overseas-listed shares (“H Shares”) of RMB1 par value at a price of Hong Kong Dollars (HKD) 23 per share. On 17 June 2011, the Company partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued). Thereby, the Company totally issued 696,267,200 H Shares in 2011. Pursuant to certain regulations and agreements, 69,626,720 state-owned A Shares of the Company held by the controlling shareholders were transferred to the National Council for Social Security Fund of the PRC (the “NSSF”) and converted into H Shares on a one-for-one basis. As at 31 December 2012 and 2013, the Company totally had 765,893,920 H Shares and 1,923,016,618 A Shares respectively.

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

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

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2014.

## 2. PRINCIPAL ACTIVITIES

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

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Basis of preparation

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

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

### 3.2 Changes in accounting policies and disclosures

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

The following standards have been adopted by the Group for the first time for the financial year beginning 1 January 2013 and have an immaterial impact on the Group:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- Amendment to HKFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the balance sheet, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.
- HKFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- HKFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.
- HKFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies and disclosures (continued)

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

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

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

(b) A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. The Group is assessing the impact of these new and amended standards and interpretations. Based on its current assessment, the Group expects that these new and amended standards and interpretations will not have material impact on the financial statements of the Group.

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015.
- HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group intends to adopt HK(IFRIC) 21 no later than the accounting period beginning on or after 1 January 2014.



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.2 Changes in accounting policies and disclosures (continued)

(b) (continued)

- Amendment to HKAS 32 “Financial instruments: Presentation” on asset and liability offsetting, clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group intends to adopt amendment to HKAS 32 no later than the accounting period beginning on or after 1 January 2014.
- Amendment to HKAS 36 ‘Impairment of assets’ “Recoverable amount disclosure for non-financial assets”, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group intends to adopt amendment to HKAS 36 no later than the accounting period beginning on or after 1 January 2014.
- Amendments to HKFRS 10 and HKFRS12 and HKAS 27 “Consolidation for investment entities”, mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make. The Group intends to adopt amendments to HKFRS 10 and HKFRS12 and HKAS 27 no later than the accounting period beginning on or after 1 January 2014.

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

### 3.3 Subsidiaries, jointly controlled entities and associates

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” to account for the purchase of entities or businesses ultimately controlled by the same party or parties both before and after the business combination, as if the combination had been occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amounts in the consolidated financial statements of the controlling party or parties prior to the common control combination. These carrying amounts are referred to below as existing book values from the controlling parties’ perspective. There is no recognition of any additional goodwill or excess of the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of the common control combination to the extent of the continuation of the controlling party or parties’ interests.



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) *Consolidation (continued)*

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 3.9).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

(iv) Disposal of subsidiaries

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(b) *Separate financial statements*

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

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

(c) *Jointly controlled entities and associates*

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

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

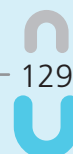
If the ownership interests in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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

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

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

Gains or losses on dilution of equity interest in jointly controlled entities and associates are recognized in the consolidated income statements.



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.4 Segment reporting

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

### 3.5 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

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

(c) *Group companies*

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

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting currency translation differences are recognised in other comprehensive income.

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.6 Property, plant and equipment

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

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

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

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

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

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

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

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

### 3.7 Investment properties

Investment property, principally comprising buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 5 to 50 years. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise.



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.8 Land use rights

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

### 3.9 Intangible assets

(a) *Goodwill*

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

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

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

(b) *Business network*

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

(c) *Trademarks and patent rights*

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

(d) *Know-how*

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.9 Intangible assets (continued)

(e) *Research and development*

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

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset and use or sell it;
- (iii) there is an ability to use or sell the intangible asset;
- (iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

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

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

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

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.9 Intangible assets (continued)

(f) *Computer software*

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

(g) *Other intangible assets*

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

### 3.10 Impairment of non-financial assets

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

### 3.11 Financial assets

(a) *Classification*

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

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

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

(ii) *Loans and receivables*

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



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.11 Financial assets (continued)

(a) *Classification (continued)*

(iii) Available-for-sale financial assets

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

(b) *Recognition and measurement*

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

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

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

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

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

### 3.12 Offsetting financial instruments

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



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.13 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

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

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

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

(b) *Assets classified as available for sale*

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.14 Inventories

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

### 3.15 Trade and other receivables

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

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

### 3.16 Cash and cash equivalents

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

### 3.17 Share capital

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

### 3.18 Trade payables

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

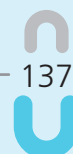
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 3.19 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.20 Borrowing costs

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

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

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

### 3.21 Current and deferred income tax

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

(a) *Current income tax*

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

(b) *Deferred income tax*

(i) Inside basis differences

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

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(b) *Deferred income tax (continued)*

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for jointly controlled entities and associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, jointly controlled entities and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

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

### 3.22 Employee benefits

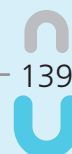
(a) *Pension obligations*

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

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

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

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



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.22 Employee benefits (continued)

(c) *Termination benefits*

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

### 3.23 Provisions

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

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

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

### 3.24 Government grants

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

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

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

# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.25 Revenue recognition

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

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

(a) *Sales of goods – wholesale*

The Group recognises revenue from the sale of goods when all the following conditions have been satisfied: (a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods, which is usually at the time when a group entity has delivered goods to the customer, the customer has accepted the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods; (b) the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) it is probable that the economic benefits associated with the transaction will flow to the enterprise; and (d) the relevant amount of revenue and costs can be measured reliably. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

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

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

(c) *Rental income*

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

(d) *Interest income*

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

(e) *Sales of services*

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

(f) *Dividend income*

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



# Notes to the Consolidated Financial Statements

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.26 Leases (as a leasee)

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

### 3.27 Dividend distribution

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

### 3.28 Financial guarantee contracts

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

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

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

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

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



# Notes to the Consolidated Financial Statements

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

(a) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has also certain bank deposits, trade and other receivables, trade and other payables and borrowings which are denominated in currencies other than RMB (majority in United States dollars ("USD") and Hong Kong dollars ("HKD")) and details of which have been set out in Notes 18, 19, 24 and 25.

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

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

As at 31 December 2013, if RMB had strengthened/weakened by 5% against the USD and HKD with all other variables held constant, the Group's profit before income tax for the year would have been higher/lower by approximately RMB6,427,000 (2012: higher/lower RMB13,899,000), mainly as a result of foreign exchange gains/losses (2012: gains/losses) arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

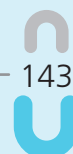
(b) *Cash flow and fair value interest rate risk*

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

Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at fixed rates exposed the Group to fair value interest rate risk. In general, the Group raises bank borrowings at floating rates as well as fixed rates, based upon the capital market conditions and the Group's internal requirements. As at 31 December 2013, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB1,740,938,000 and RMB4,308,627,000, respectively.

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

As at 31 December 2013, if the interest rates on bank borrowings at floating rates had been 10% higher/lower with all other variables held constant, the Group's profit before income tax for the year would have been lower/higher by approximately RMB3,051,000 (2012: lower/higher RMB3,382,000) respectively, mainly as a result of higher/lower interest expenses on bank borrowings.



# Notes to the Consolidated Financial Statements

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

(c) *Credit risk*

Credit risk primarily arises from cash and cash equivalents, restricted cash, trade and other receivables (including notes receivables) and financial guarantee contracts, except for prepayment. The objective of the Group's measures to manage credit risk is to control potential exposure to recoverability problem.

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

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

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

Management considers that the provisions for impairment of trade and other receivables as of respective balance sheet dates adequately cover the Group's credit risk exposures and it is not anticipated that any material liabilities will arise from the financial guarantee contracts. Provision for trade and other receivables made during the year has been disclosed in Note 18.

(d) *Liquidity risk*

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

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

# Notes to the Consolidated Financial Statements

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 31 December 2013</b>					
Borrowings (Note 25)	5,924,370	21,320	88,211	15,664	6,049,565
Interests payments on borrowings	113,952	5,977	13,705	29	133,663
Financial liabilities as included in trade and other payables	18,638,334	–	–	–	18,638,334
	<b>24,676,656</b>	<b>27,297</b>	<b>101,916</b>	<b>15,693</b>	<b>24,821,562</b>
<b>At 31 December 2012</b>					
Borrowings (Note 25)	4,900,773	120	21,200	19,453	4,941,546
Interests payments on borrowings	100,584	633	623	162	102,002
Financial liabilities as included in trade and other payables	16,012,092	–	–	–	16,012,092
	21,013,449	753	21,823	19,615	21,055,640

The estimated amount of interest payable for borrowings are arrived based on the principal borrowing balance and prevailing interest rates at year end date up to the final maturity date of the loan agreements.

Loan guarantee provided to certain parties exposes the Group to liquidity risk and could be called within one year at the respective balance sheet dates. Management monitors the possible loss of the guarantee on a regularly basis. As at 31 December 2013 and 2012, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44 (d).

# Notes to the Consolidated Financial Statements

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Capital management

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

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

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

The gearing ratios are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Total borrowings	6,049,565	4,941,546
Total equity	29,000,980	27,700,874
Total capital	35,050,545	32,642,420
Gearing ratio (%)	17%	15%

# Notes to the Consolidated Financial Statements

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Fair value estimation

(a) The Group adopts the amendment to HKFRS 7 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

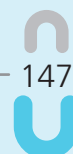
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability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

The following table presents the Group's assets that are measured at fair value as at 31 December 2012 and 2013.

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 31 December 2013</b>				
Financial assets at fair value through profit or loss	340	–	–	340
Available-for-sale financial assets	73,590	–	–	73,590
	<b>73,930</b>	–	–	<b>73,930</b>
<b>As at 31 December 2012</b>				
Financial assets at fair value through profit or loss	2,920	–	–	2,920
Available-for-sale financial assets	19,812	–	–	19,812
	22,732	–	–	22,732

There were no transfers between Levels 1 and Level 3 during the year.

Fair value of the Group's investment properties has been disclosed in Note 8. The fair value is within level 3 of the fair value hierarchy.



# Notes to the Consolidated Financial Statements

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Fair value estimation (continued)

(b) *Fair value of financial assets and liabilities measured at amortised cost*

The fair value of other long-term receivables and non-current borrowings as at 31 December 2012 and 2013 approximated to their carrying amount. The fair value is within level 3 of the fair value hierarchy.

The fair value of other long-term receivables and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group for similar financial instruments.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables (excluding prepayments and prepaid current income tax or value-added tax recoverable);
- Restricted cash;
- Cash and cash equivalents;
- Current borrowings;
- Trade and other payables (excluding advance from customers, accrued taxes other than income tax, staff salaries and welfare payables).

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (b) Useful lives of business network

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

### (c) Estimated impairment of goodwill

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

### (d) Net realisable value of inventories

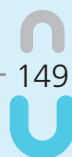
Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature.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

### (e) Impairment of receivables

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

### (f) Income taxes

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



# Notes to the Consolidated Financial Statements

## 6 SEGMENT INFORMATION

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

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

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

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

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

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

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



# Notes to the Consolidated Financial Statements

## 6 SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2013

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	9,364,226	65,527,422	2,951,692	379,477	–	78,222,817
Inter-segment revenue	1,344,388	2,482,862	40,417	32,835	(3,900,502)	–
<b>Segment revenue</b>	<b>10,708,614</b>	<b>68,010,284</b>	<b>2,992,109</b>	<b>412,312</b>	<b>(3,900,502)</b>	<b>78,222,817</b>
Segment operating profit	1,166,909	1,616,824	34,908	(63,267)	(6,240)	2,749,134
Other income						213,089
Other gains – net						66,405
Gains on disposal of subsidiaries and associates						50,546
Finance costs – net						(217,743)
Share of profit of jointly controlled entities	70,012	16,332	–	–	–	86,344
Share of profit of associates	268,980	44,092	–	–	–	313,072
Profit before income tax						3,260,847
Income tax expense						(634,228)
<b>Profit for the year</b>						<b>2,626,619</b>

# Notes to the Consolidated Financial Statements

## 6 SEGMENT INFORMATION (continued)

For the year ended 31 December 2012

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

# Notes to the Consolidated Financial Statements

## 6 SEGMENT INFORMATION (continued)

Other segment items included in the consolidated financial statements for the year ended 31 December 2013 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	329,247	101,946	27,201	38,089	–	496,483
Amortisation of intangible assets and land use rights	35,118	59,756	8,244	4,020	–	107,138
Capital expenditure	687,724	283,540	17,262	96,796	–	1,085,322

Other segment items included in the consolidated financial statements for the year ended 31 December 2012 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Depreciation of property, plant and equipment and investment properties	346,334	89,691	26,733	30,849	–	493,607
Amortisation of intangible assets and land use rights	26,760	58,193	811	2,898	–	88,662
Capital expenditure	615,545	142,405	32,016	63,189	–	853,155

# Notes to the Consolidated Financial Statements

## 6 SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2013 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	207,307	133,372	–	–	–	340,679
Investment in associates	2,035,659	320,162	–	–	–	2,355,821
Other assets	15,544,487	34,925,655	982,697	21,943,883	199,806	73,596,528
Elimination						(19,981,506)
<b>Total assets</b>						<b>56,311,522</b>
Segment liabilities	5,826,595	23,677,865	610,139	2,880,670	491,444	33,486,713
Elimination						(6,176,171)
<b>Total liabilities</b>						<b>27,310,542</b>

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

	Assets <i>RMB'000</i>	Liabilities <i>RMB'000</i>
Segment assets/liabilities after elimination	56,111,716	26,819,098
Unallocated:		
Current income tax liabilities	–	202,632
Deferred tax assets/liabilities – net	199,806	288,812
<b>Total</b>	<b>56,311,522</b>	<b>27,310,542</b>

# Notes to the 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)
<b>Total assets</b>						<b>51,069,038</b>
Segment liabilities	5,198,668	20,176,242	569,624	2,145,064	520,099	28,609,697
Elimination						(5,241,533)
<b>Total liabilities</b>						<b>23,368,164</b>

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

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

# Notes to the Consolidated Financial Statements

## 7 LAND USE RIGHTS

### The Group

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

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	905,359	818,338
Additions	26,865	87,244
Transfer from PP&E (Note 9)	–	7,864
Transfer from investment properties (Note 8)	21,415	–
Acquisition of subsidiaries	20,644	31,181
Amortisation charge (Note 32)	(29,293)	(27,231)
Disposal of subsidiaries	–	(12,037)
Closing net book amount	944,990	905,359

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of sales	1,631	666
Distribution and selling expenses	2,223	2,450
General and administrative expenses	25,439	24,115
	29,293	27,231

# Notes to the Consolidated Financial Statements

## 7 LAND USE RIGHTS (continued)

### The Group (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Land use rights, secured	56,428	65,792

- (c) As at 31 December 2013, the Group is still in the process of applying for land use right certificates of certain land use rights and the aggregated carrying amounts of these land use rights amounted to approximately RMB15,104,000 (2012: RMB23,402,000).

### The Company

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net book amount	24,498	25,138
Amortisation charge	(640)	(640)
Closing net book amount	23,858	24,498



# Notes to the Consolidated Financial Statements

## 8 INVESTMENT PROPERTIES

### The Group

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Cost	<b>420,447</b>	444,785
Accumulated depreciation	<b>(143,443)</b>	(132,045)
Net book amount	<b>277,004</b>	312,740
Opening net book amount	<b>312,740</b>	384,548
Transfer from owner-occupied PP&E (Note 9)	<b>571</b>	6,113
Transfer to owner-occupied PP&E (Note 9)	<b>(1,187)</b>	–
Transfer to land use rights (Note 7)	<b>(21,415)</b>	–
Addition	–	4,792
Depreciation (Note 32)	<b>(13,705)</b>	(14,734)
Disposal in respect of plant relocation	–	(44,775)
Disposal of a subsidiary	–	(23,204)
Closing net book amount	<b>277,004</b>	312,740



# Notes to the Consolidated Financial Statements

## 8 INVESTMENT PROPERTIES (continued)

### The Group (continued)

(a) As at 31 December 2013, the fair values of the investment properties were approximately RMB747,680,000 (2012: RMB760,381,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Rental income	52,470	78,063

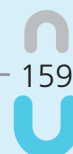
(c) Depreciation of investment properties has been charged to the consolidated income statements (Note 32) as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Cost of sales	13,705	14,734

### The Company

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Cost	13,092	13,092
Accumulated depreciation	(2,133)	(1,897)
Net book amount	10,959	11,195
Opening net book amount	11,195	56,206
Depreciation	(236)	(236)
Deduction in respect of plant relocation	–	(44,775)
Closing net book amount	10,959	11,195



# Notes to the Consolidated Financial Statements

## 9 PROPERTY, PLANT AND EQUIPMENT

### The Group

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction- in-progress RMB'000	Total RMB'000
<b>At 1 January 2012</b>							
Cost	3,491,000	2,242,617	319,618	421,311	493,681	314,842	7,283,069
Accumulated depreciation	(1,138,454)	(1,205,692)	(182,634)	(297,080)	(210,975)	–	(3,034,835)
Impairment	(24,979)	(44,466)	(1,192)	(274)	(2,389)	(3,169)	(76,469)
Net book amount	2,327,567	992,459	135,792	123,957	280,317	311,673	4,171,765
<b>Year ended 31 December 2012</b>							
Opening net book amount	2,327,567	992,459	135,792	123,957	280,317	311,673	4,171,765
Acquisition of subsidiaries	69,230	36,683	1,968	2,234	4,053	40,627	154,795
Additions	51,640	81,905	31,449	24,007	90,443	441,661	721,105
Internal transfer	74,742	39,730	5,397	10,902	51,406	(182,177)	–
Transfer to land use rights (Note 7)	(7,864)	–	–	–	–	–	(7,864)
Transfer to investment properties (Note 8)	(6,113)	–	–	–	–	–	(6,113)
Transfer to intangible assets (Note 10)	–	–	–	–	–	(5,773)	(5,773)
Injection to an associate (Note 13)	–	–	–	–	–	(12,000)	(12,000)
Disposals (Note 39(ii))	(4,549)	(7,578)	(2,298)	(2,390)	(959)	(7,725)	(25,499)
Depreciation charge	(147,927)	(167,589)	(35,327)	(39,519)	(88,511)	–	(478,873)
Disposal of subsidiaries	(26,247)	(12,551)	(1,106)	(1,739)	(7,806)	(8,618)	(58,067)
Provision for impairment (Note 30)	–	(1,760)	–	–	(1,798)	–	(3,558)
Translation difference	(4,950)	(1,012)	(534)	(54)	–	–	(6,550)
Other deduction	–	–	–	–	–	(19,795)	(19,795)
Closing net book amount	2,325,529	960,287	135,341	117,398	327,145	557,873	4,423,573
<b>At 31 December 2012</b>							
Cost	3,637,462	2,333,212	332,987	448,469	615,183	561,042	7,928,355
Accumulated depreciation	(1,286,998)	(1,329,193)	(196,512)	(330,815)	(283,853)	–	(3,427,371)
Impairment	(24,935)	(43,732)	(1,134)	(256)	(4,185)	(3,169)	(77,411)
Net book amount	2,325,529	960,287	135,341	117,398	327,145	557,873	4,423,573
<b>Year ended 31 December 2013</b>							
Opening net book amount	2,325,529	960,287	135,341	117,398	327,145	557,873	4,423,573
Acquisition of subsidiaries	21,013	17,608	3,188	1,659	238	66,035	109,741
Additions	52,741	105,661	29,980	36,763	133,025	678,412	1,036,582
Internal transfer	223,712	140,615	1,312	4,716	20,122	(390,477)	–
Transfer from investment properties (Note 8)	1,187	–	–	–	–	–	1,187
Transfer to investment properties (Note 8)	(571)	–	–	–	–	–	(571)
Transfer to intangible assets (Note 10)	–	–	–	–	–	(5,793)	(5,793)
Disposals (Note 39(ii))	(12,854)	(14,799)	(4,050)	(6,865)	(5,175)	–	(43,743)
Depreciation charge	(139,979)	(129,164)	(32,667)	(47,850)	(133,118)	–	(482,778)
Disposal of subsidiaries	(2,107)	–	(334)	(574)	(2,760)	(727)	(6,502)
Provision for impairment (Note 30)	(2,621)	(10,876)	(53)	(720)	(15)	–	(14,285)
Translation difference	(661)	(148)	(70)	(7)	–	–	(886)
Closing net book amount	2,465,389	1,069,184	132,647	104,520	339,462	905,323	5,016,525
<b>At 31 December 2013</b>							
Cost	3,913,376	2,531,160	331,369	465,887	737,821	908,492	8,888,105
Accumulated depreciation	(1,420,431)	(1,407,946)	(197,633)	(360,394)	(396,309)	–	(3,782,713)
Impairment	(27,556)	(54,030)	(1,089)	(973)	(2,050)	(3,169)	(88,867)
Net book amount	2,465,389	1,069,184	132,647	104,520	339,462	905,323	5,016,525

# Notes to the Consolidated Financial Statements

## 9 PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group (continued)

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of sales (Note 32)	230,264	236,447
Distribution and selling expenses (Note 32)	37,468	33,771
General and administrative expenses (Note 32)	215,046	204,248
Other losses	–	4,407
	<b>482,778</b>	478,873

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Property, plant and equipment, pledged	204,796	166,277

- (c) As at 31 December 2013, the Group is still in the process of applying for the property ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB328,046,000 (2012: RMB241,004,000).
- (d) During the year ended 31 December 2013, the Group capitalised borrowing costs amounting to approximately RMB1,479,000 (2012: Nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of approximately 6.55%.



# Notes to the Consolidated Financial Statements

## 9 PROPERTY, PLANT AND EQUIPMENT (continued)

### The Company

	Buildings	Machinery	Motor Vehicles	Furniture, fittings and equipment	Others	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2012</b>							
Cost	118,364	15,848	4,432	6,663	52,619	30,879	228,805
Accumulated depreciation	(47,187)	-	(1,804)	(2,205)	(13,454)	-	(64,650)
Net book amount	71,177	15,848	2,628	4,458	39,165	30,879	164,155
<b>Year ended 31 December 2012</b>							
Opening net book amount	71,177	15,848	2,628	4,458	39,165	30,879	164,155
Additions	-	-	2,318	591	24,979	12,814	40,702
Internal transfer	-	-	-	2,591	24,975	(27,566)	-
Transfer to intangible assets (Note 10)	-	-	-	-	-	(5,773)	(5,773)
Disposals	-	-	(172)	(39)	(160)	(7,020)	(7,391)
Depreciation charge	(3,162)	(1,426)	(949)	(2,440)	(21,490)	-	(29,467)
Closing net book amount	68,015	14,422	3,825	5,161	67,469	3,334	162,226
<b>At 31 December 2012</b>							
Cost	118,364	15,848	5,906	9,221	100,726	3,334	253,399
Accumulated depreciation	(50,349)	(1,426)	(2,081)	(4,060)	(33,257)	-	(91,173)
Net book amount	68,015	14,422	3,825	5,161	67,469	3,334	162,226
<b>Year ended 31 December 2013</b>							
Opening net book amount	68,015	14,422	3,825	5,161	67,469	3,334	162,226
Additions	-	-	415	390	9,659	9,179	19,643
Transfer to intangible assets (Note 10)	-	-	-	-	-	(2,115)	(2,115)
Disposals	-	-	-	(7)	(262)	-	(269)
Depreciation charge	(3,162)	(1,426)	(1,090)	(2,531)	(27,954)	-	(36,163)
Closing net book amount	64,853	12,996	3,150	3,013	48,912	10,398	143,322
<b>At 31 December 2013</b>							
Cost	118,364	15,848	6,321	9,602	110,119	10,398	270,652
Accumulated depreciation	(53,511)	(2,852)	(3,171)	(6,589)	(61,207)	-	(127,330)
Net book amount	64,853	12,996	3,150	3,013	48,912	10,398	143,322

# Notes to the Consolidated Financial Statements

## 10 INTANGIBLE ASSETS

### The Group

	Goodwill RMB'000	Business network RMB'000	Trademarks and patent rights RMB'000	Know-how RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2012</b>							
Cost	3,096,485	464,081	31,317	125,898	40,764	30,106	3,788,651
Accumulated amortisation	-	(44,854)	(17,995)	(37,777)	(31,296)	(7,769)	(139,691)
Impairment	(107,590)	-	-	(76,093)	-	(17,768)	(201,451)
Net book amount	2,988,895	419,227	13,322	12,028	9,468	4,569	3,447,509
<b>Year ended 31 December 2012</b>							
Opening net book amount	2,988,895	419,227	13,322	12,028	9,468	4,569	3,447,509
Acquisition of subsidiaries (Note 43)	183,931	10,838	45,429	-	104	-	240,302
Transfer from PP&E (Note 9)	-	-	-	-	5,773	-	5,773
Additions	-	-	16,892	13,746	10,872	1,283	42,793
Disposal	-	-	-	-	(26)	-	(26)
Disposal of subsidiaries	-	-	-	-	(54)	-	(54)
Amortisation charge (Note 32)	-	(47,481)	(6,433)	(2,430)	(4,125)	(962)	(61,431)
Closing net book amount	3,172,826	382,584	69,210	23,344	22,012	4,890	3,674,866
<b>At 31 December 2012</b>							
Cost	3,264,800	474,919	93,638	138,544	57,336	31,389	4,060,626
Accumulated amortisation	-	(92,335)	(24,428)	(39,107)	(35,324)	(8,731)	(199,925)
Impairment	(91,974)	-	-	(76,093)	-	(17,768)	(185,835)
Net book amount	3,172,826	382,584	69,210	23,344	22,012	4,890	3,674,866
<b>Year ended 31 December 2013</b>							
Opening net book amount	3,172,826	382,584	69,210	23,344	22,012	4,890	3,674,866
Acquisition of subsidiaries (Note 43)	470,468	32,525	-	100,609	-	465	604,067
Transfer from PP&E (Note 9)	-	-	-	-	5,793	-	5,793
Additions	-	-	9,042	-	9,047	35,444	53,533
Disposal of subsidiaries	-	-	-	-	(273)	-	(273)
Amortisation charge (Note 32)	-	(50,940)	(8,061)	(8,500)	(6,298)	(4,046)	(77,845)
Closing net book amount	3,643,294	364,169	70,191	115,453	30,281	36,753	4,260,141
<b>At 31 December 2013</b>							
Cost	3,735,268	507,444	102,680	239,153	71,566	67,298	4,723,409
Accumulated amortisation	-	(143,275)	(32,489)	(47,607)	(41,285)	(12,777)	(277,433)
Impairment	(91,974)	-	-	(76,093)	-	(17,768)	(185,835)
Net book amount	3,643,294	364,169	70,191	115,453	30,281	36,753	4,260,141

# Notes to the Consolidated Financial Statements

## 10 INTANGIBLE ASSETS (continued)

### The Group (continued)

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of sales	5,750	1,138
Distribution and selling expenses	43,739	36,893
General and administrative expenses	28,356	23,400
	<b>77,845</b>	61,431

(b) *Impairment test for goodwill*

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Production segment	586,435	119,917
Distribution segment	3,132,476	3,128,526
Others	16,357	16,357
	<b>3,735,268</b>	3,264,800

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

The key assumptions used for value-in-use calculations in 2013 are as follows:

	Production segment	Distribution segment
Growth rate to extrapolate cash flows beyond the budget period	3%	3%
Gross margin	50% - 80%	6% - 7%
Discount rate	17% - 24%	14% - 19%

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

# Notes to the Consolidated Financial Statements

## 10 INTANGIBLE ASSETS (continued)

### The Company

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

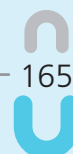
	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost	11,561	8,631
Accumulated amortisation	(4,380)	(1,785)
Net book amount	7,181	6,846
Opening net book amount	6,846	1,574
Transfer from PP&E (Note 9)	2,115	5,773
Additions	817	985
Amortisation charge	(2,597)	(1,486)
Closing net book amount	7,181	6,846

## 11 INVESTMENTS IN SUBSIDIARIES

### The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Investments, at cost		
– Unlisted shares	13,638,554	12,580,257

In 2013 and 2012, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 45.



# Notes to the Consolidated Financial Statements

## 11 INVESTMENTS IN SUBSIDIARIES (continued)

### The Group

#### (a) Material non-controlling interests

As at 31 December 2013 and 2012, non-controlling interest presented in the consolidated balance sheets was approximately RMB3,047,167,000 and RMB3,061,575,000, respectively. Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

#### Year ended 31 December 2013

Summarised balance sheet	Current		Total	Non-current		Total Net	Net assets	Carrying amount of non-controlling interest
	Assets	Liabilities	Net current assets	Assets	Liabilities	Non-current assets		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	1,964,394	(1,192,769)	771,625	636,073	(59,327)	576,746	1,348,371	503,929
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,276,532	(441,987)	834,545	156,576	-	156,576	991,121	247,780
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	1,412,487	(1,077,294)	335,193	172,347	(41,020)	131,327	466,520	168,244
Shanghai Suzuken Chinese Medicine Co., Ltd. and its subsidiaries	1,177,044	(829,514)	347,530	23,877	(1,469)	22,408	369,938	175,105
	5,830,457	(3,541,564)	2,288,893	988,873	(101,816)	887,057	3,175,950	1,095,058

Summarised income statement	Revenue	Profit before income tax	Profit for the year	Total comprehensive income	Total comprehensive income allocated to Non-controlling Interests	Dividends to non-controlling Interests
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	4,417,383	198,233	160,743	161,159	30,031	29,982
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,172,142	203,738	173,266	173,266	43,316	81,000
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	4,003,156	70,755	50,577	50,577	17,560	9,097
Shanghai Suzuken Chinese Medicine Co., Ltd. and its subsidiaries	3,793,860	91,866	67,762	67,762	30,373	12,223
	13,386,541	564,592	452,348	452,764	121,280	132,302



# Notes to the Consolidated Financial Statements

## 11 INVESTMENTS IN SUBSIDIARIES (continued)

### The Group (continued)

(a) *Material non-controlling interests (continued)*

Summarised cash flows	Net cash generated from operating activities RMB'000	Net cash used in investing activities RMB'000	Net cash used in financing activities RMB'000	Net increase in cash and cash equivalents RMB'000	Cash, cash equivalents at beginning of year RMB'000	Cash and cash equivalents at end of year RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	134,877	(96,770)	(33,864)	4,220	644,935	649,155
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	188,198	8,214	(123,125)	73,136	407,246	480,382
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	(106,183)	(68,130)	98,899	(75,414)	288,422	213,008
Shanghai Suzuken Chinese Medicine Co., Ltd. and its subsidiaries	5,123	(2,963)	(13,731)	(11,572)	131,233	119,661
	222,015	(159,649)	(71,821)	(9,630)	1,471,836	1,462,206

### Year ended 31 December 2012

Summarised balance sheet	Current		Total net current assets RMB'000	Non-current		Total Net Non-current assets RMB'000	Net assets RMB'000	Carrying amount of non-controlling interest RMB'000
	Assets RMB'000	Liabilities RMB'000		Assets RMB'000	Liabilities RMB'000			
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	1,620,762	(831,348)	789,414	505,652	(47,976)	457,676	1,247,090	492,050
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,147,281	(305,447)	841,834	166,523	-	166,523	1,008,357	453,760
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	1,181,699	(838,787)	342,912	101,830	(3,800)	98,030	440,942	159,781
Shanghai Suzuken Chinese Medicine Co., Ltd. and its subsidiaries	1,040,894	(740,286)	300,608	11,525	-	11,525	312,133	170,666
	4,990,636	(2,715,868)	2,274,768	785,530	(51,776)	733,754	3,008,522	1,276,257

# Notes to the Consolidated Financial Statements

## 11 INVESTMENTS IN SUBSIDIARIES (continued)

### The Group (continued)

#### (a) Material non-controlling interests (continued)

Summarised income statement	Revenue RMB'000	Profit before income tax RMB'000	Profit for the year RMB'000	Total comprehensive income RMB'000	Total comprehensive income allocated to Non-Controlling Interests RMB'000	Dividends to Non-Controlling Interests RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	3,881,944	234,348	193,402	193,150	78,161	41,347
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,067,120	206,885	182,813	182,813	82,266	36,000
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	3,605,929	71,545	55,326	55,326	19,585	17,831
Shanghai Suzuken Chinese Medicine Co., Ltd. and its subsidiaries	3,349,377	67,748	49,632	49,632	25,371	17,361
	11,904,370	580,526	481,173	480,921	205,383	112,539

Summarised cash flows	Net cash generated from operating activities RMB'000	Net cash used in investing activities RMB'000	Net cash used in financing activities RMB'000	Net increase in cash and cash equivalents RMB'000	Cash, cash equivalents at beginning of year RMB'000	Cash and cash equivalents at end of year RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	187,259	(71,596)	(10,913)	104,876	540,059	644,935
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	155,512	5,516	(89,375)	71,644	335,602	407,246
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	(44,801)	(4,970)	78,300	28,529	259,893	288,422
Shanghai Suzuken Chinese Medicine Co., Ltd. and its subsidiaries	25,756	(2,060)	(5,681)	18,015	113,218	131,233
	323,726	(73,110)	(27,669)	223,064	1,248,772	1,471,836

The information above is the amount before inter-company eliminations.

Equity interests held by the Company in its principal subsidiaries are set out in Note 45.

# Notes to the Consolidated Financial Statements

## 12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

### The Group

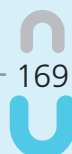
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Share of net assets, unlisted	340,679	309,020
At 1 January	309,020	250,109
Additions	70,500	–
Share of profit for the year	86,344	70,673
Dividends declared	(125,185)	(11,762)
End of the year	340,679	309,020

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

## 13 INVESTMENTS IN ASSOCIATES

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Share of net assets, listed	122,641	67,451
Share of net assets, unlisted	2,308,945	2,244,602
Provision for impairment	(75,765)	(75,765)
	2,355,821	2,236,288
Market value of listed shares (HKD)	1,304,985	483,368
At 1 January	2,236,288	2,204,408
Addition arising from deemed disposal of subsidiaries	–	13,344
Additions	141,046	65,416
Increases in investment in an associate by PP&E injection (Note 9)	–	12,000
Share of profit for the year	313,072	267,720
Dilutions gains	35,207	–
Dividends declared	(297,806)	(180,070)
Classified as assets held for sale	–	(134,000)
Provision for impairment (Note 30)	–	(12,530)
Disposals	(71,986)	–
End of the year	2,355,821	2,236,288



# Notes to the Consolidated Financial Statements

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

Set out below are the summarised financial information for the Group's significant associates which are accounted for using the equity method:

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

Summarised balance sheet	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Current</b>		
Total current assets	6,971,149	5,017,903
Total current liabilities	(5,870,640)	(3,781,667)
<b>Non-current</b>		
Total non-current assets	1,494,937	1,101,151
Total non-current liabilities	(470,000)	(470,000)
<b>Net assets</b>	<b>2,125,446</b>	<b>1,867,387</b>

Summarised statement of comprehensive income	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Revenue	8,328,864	7,655,334
Profit before income tax expense	666,536	592,290
Income tax expense	(194,226)	(174,701)
Profit for the year	472,310	417,589
Total comprehensive income	472,310	417,589
Dividends declared by the associate to the Group	197,638	48,908

# Notes to the Consolidated Financial Statements

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

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

Reconciliation of summarised financial information	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net assets 1 January	1,867,387	1,612,824
Capital injection	444,543	–
Profit for the year	472,310	417,589
Dividends	(658,794)	(163,026)
Closing net assets	2,125,446	1,867,387
Interest in associates @ 30%	637,634	560,216
Carrying value	637,634	560,216

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

Summarised balance sheet	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Current</b>		
Total current assets	863,630	677,665
Total current liabilities	(232,320)	(156,976)
<b>Non-current</b>		
Total non-current assets	1,271,257	1,285,861
Total non-current liabilities	(7,049)	(6,063)
Non-controlling interest	(1,430)	–
<b>Net assets attributable to owners</b>	<b>1,894,088</b>	<b>1,800,487</b>

# Notes to the Consolidated Financial Statements

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Group (continued)

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

Summarised statement of comprehensive income	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Revenue	1,197,518	988,703
Profit before income tax expense	249,700	214,663
Income tax expense	(34,850)	(38,344)
Profit for the year	214,850	176,319
Total comprehensive income	214,850	176,319
Dividends declared by the associate to the Group	35,969	37,697

Reconciliation of summarised financial information	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Opening net assets 1 January	1,800,487	1,750,729
Profit for the year	181,760	142,152
Dividends	(88,159)	(92,394)
Closing net assets	1,894,088	1,800,487
Interest in associates @ 40.8%	772,788	734,599
Goodwill	63,033	63,033
Carrying value	835,821	797,632

# Notes to the Consolidated Financial Statements

## 13 INVESTMENTS IN ASSOCIATES (continued)

### The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Investment, at cost		
– Listed shares	19,148	19,148
– Unlisted shares	430,593	430,593
Provision for impairment	(62,814)	(62,814)
	<b>386,927</b>	386,927

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

## 14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Listed equity investment, at fair value	73,590	19,812
Unlisted equity investment, cost	135,192	189,690
Provision for impairment of unlisted equity investment	(59,034)	(60,445)
Unlisted equity investment, net	76,158	129,245
	<b>149,748</b>	149,057

# Notes to the Consolidated Financial Statements

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

The Group (continued)

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
At 1 January	149,057	182,792
Additions	300	795
Fair value change recognised in equity	3,778	1,342
Disposals	(3,387)	(31,575)
Provision for impairment (Note 30)	–	(4,297)
End of the year	149,748	149,057

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

### The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Listed equity investment, at fair value	1,682	1,022
Unlisted equity investment, net cost	23,874	23,874
	25,556	24,896
At 1 January	24,896	54,346
Additions	–	250
Net amount recognised in equity	660	(200)
Disposals	–	(29,500)
End of the year	25,556	24,896

## 15 OTHER NON-CURRENT PREPAYMENTS

As at 31 December 2013 and 2012, other non-current prepayments primarily represented construction cost prepaid by the Group.



# Notes to the Consolidated Financial Statements

## 16 OTHER LONG-TERM RECEIVABLES

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Other long-term receivables		
– Long-term deposits ( <i>note</i> )	118,680	–
– Others	10,523	10,523
Less: Provision for impairment	(10,523)	(10,523)
	118,680	–

Note:

Long-term deposits represented the deposits paid by the Group to certain customers with maturities over one year. The Group accounted for such long-term deposits using effective interest method.

## 17 INVENTORIES

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Raw materials	778,108	606,978
Work in progress	409,074	354,264
Finished goods	9,809,338	8,848,458
	10,996,520	9,809,700

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

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Cost of sales, distribution and selling expenses and general and administrative expenses ( <i>Note 32</i> )	66,579,227	57,583,203

# Notes to the Consolidated Financial Statements

## 18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Trade receivables from third parties</b>		
Accounts receivable	15,779,816	13,200,582
Less: allowance for impairment	(751,437)	(745,872)
Accounts receivable – net	15,028,379	12,454,710
Notes receivable	1,383,035	1,046,458
Trade receivables – net	16,411,414	13,501,168
<b>Other receivables from third parties</b>	1,516,367	1,332,823
Less: allowance for impairment	(702,211)	(690,960)
Other receivables – net	814,156	641,863
<b>Amount due from related parties (Note 44(c))</b>	231,375	241,495
Less: allowance for impairment	(11,408)	(13,321)
Amount due from related parties – net	219,967	228,174
<b>Prepayments (Note b)</b>	715,810	621,980
<b>Tax recoverable</b>	369,560	321,393
<b>Interest receivables</b>	8,722	15,334
	18,539,629	15,329,912

# Notes to the Consolidated Financial Statements

## 18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

### The Group (continued)

- (a) The fair values of trade and other receivables approximate their carrying amounts due to the short maturities.
- (b) As of 31 December 2013 and 2012, prepayments are in connection with:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Purchases of:		
– Raw materials and merchandise	650,937	568,749
– Prepaid expenses and others	64,873	53,231
	<b>715,810</b>	621,980

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
RMB	19,973,202	16,768,706
HKD	–	8
USD	20,607	9,354
Other currencies	10,876	1,997
	<b>20,004,685</b>	16,780,065

- (d) As of 31 December 2013, trade receivables of approximately RMB697,523,000 and notes receivable of approximately RMB18,563,000 (2012: RMB638,563,000) have been pledged by the Group for securing borrowings of approximately RMB701,615,000 (2012: RMB627,502,000) (Note 25).

# Notes to the Consolidated Financial Statements

## 18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

### The Group (continued)

- (e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, a credit period up to certain months is granted to the customers. Ageing analysis of gross trade receivables due from third parties (accounts receivable and notes receivable) at 31 December 2013 and 2012 are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	12,733,837	10,510,624
3 months to 6 months	3,040,424	2,570,337
6 months to 12 months	621,263	397,918
1 year to 2 years	97,289	120,593
Over 2 years	670,038	647,568
	<b>17,162,851</b>	14,247,040

As of 31 December 2013, trade receivables due from third parties of approximately RMB1,388,590,000 (2012: RMB1,166,079,000) were over 180 days and impaired. It was assessed that a portion or none of the receivables is expected to be recovered. The ageing analysis of these trade receivables and expected recovery are as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
6 months to 12 months	621,263	397,918
1 year to 2 years	97,289	120,593
Over 2 years	670,038	647,568
	<b>1,388,590</b>	1,166,079
Less: Expected recovery	<b>(684,888)</b>	(464,730)
Impairment	<b>703,702</b>	701,349

# Notes to the Consolidated Financial Statements

## 18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

### The Group (continued)

(e) (continued)

As of 31 December 2013, trade receivables due from third parties of approximately RMB15,774,261,000 (2012: RMB13,080,961,000) were within 180 days. The impairment of these trade receivables was approximately RMB47,735,000 (2012: RMB44,523,000).

The aging of notes receivable was normally within 6 months, which is within the credit term and no impairment provision was provided during the year.

(f) Movements on the allowance for impairment of trade and other receivables, other long-term receivables from third parties and related parties are as follows:

	For the year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of the year	1,460,676	1,488,174
Provision for impairment (Note 32)	60,458	24,382
Reversal of impairment on certain long ageing receivables	–	(7,462)
Write-off against uncollectible and other deductions	(45,555)	(44,418)
At the end of year	1,475,579	1,460,676

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

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



# Notes to the Consolidated Financial Statements

## 18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS (continued)

The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Trade receivables</b>		
Accounts receivable	119,438	119,438
Less: Provision for impairment	(119,438)	(119,438)
Accounts receivable – net	–	–
Notes receivables	–	–
Trade receivables – net	–	–
<b>Other receivables</b>	576,970	526,503
Less: Provision for impairment	(436,983)	(435,396)
Other receivables – net	139,987	91,107
<b>Amount due from related parties, net</b> (Note)	6,668,821	8,178,292
	<b>6,808,808</b>	8,269,399

Note:

Amount due from related parties represents other receivables and dividends receivable due from the Company's subsidiaries, out of which approximately RMB5,752,253,000 were interest bearing.

# Notes to the Consolidated Financial Statements

## 19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cash at bank	12,970,916	13,517,021
Cash on hand	7,569	8,377
	<b>12,978,485</b>	13,525,398
Less: restricted cash (Note a)	<b>(333,118)</b>	(224,497)
Cash and cash equivalents	<b>12,645,367</b>	13,300,901
Denominated in:		
– RMB	12,729,494	12,806,134
– HKD	141,742	577,643
– USD	71,369	125,780
– EUR	10,063	8,768
– Other currencies	25,817	7,073
	<b>12,978,485</b>	13,525,398

- (a) As of 31 December 2013 and 2012, certain of the Group's bank deposits have been pledged for the following purposes:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bank deposits pledged for:		
– issue of notes payable	306,419	187,199
– others	26,699	37,298
	<b>333,118</b>	224,497

- (b) The above mentioned restricted bank deposits are all interest-bearing and with maturity dates of less than one year.
- (c) The conversion of the RMB denominated balances into foreign currencies and the remittance of foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

# Notes to the Consolidated Financial Statements

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

### The Group (continued)

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

	As at 31 December	
	2013	2012
	% per annum	% per annum
Effective interest rate	0.35%~2.60%	0.35%~2.85%

### The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Cash at bank	2,273,740	1,388,630
Less: restricted cash	–	–
Cash and cash equivalents	2,273,740	1,388,630
Denominated in:		
– RMB	2,239,837	1,329,245
– HKD	33,903	59,385
	2,273,740	1,388,630



# Notes to the Consolidated Financial Statements

## 20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS

### (a) Financial instruments by category

#### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Assets per balance sheet:		
Financial assets at fair value through profit or loss	340	2,920
Available-for-sale financial assets (Note 14)	149,748	149,057
Loans and receivables		
– Accounts and notes receivables (Note 18)	17,162,851	14,247,040
– Amount due from related parties (Note 44(c))	220,034	233,469
– Other receivables (Note 18)	1,525,089	1,348,157
– Cash and bank balances (Note 19)	12,978,485	13,525,398
Other long-term receivables	129,203	10,523
	<b>32,165,750</b>	29,516,564
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
– Accounts and notes payables (Note 24)	16,492,314	14,175,684
– Amount due to related parties (Note 44(c))	413,138	435,986
– Accrual and other payables	1,732,882	1,400,422
– Borrowings (Note 25)	6,049,565	4,941,546
	<b>24,687,899</b>	20,953,638

# Notes to the Consolidated Financial Statements

## 20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS (continued)

### (a) Financial instruments by category (continued)

#### The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Assets per balance sheet:		
Available-for-sale financial assets	25,556	24,896
Loans and receivables		
– Amounts due from related parties (Note 18)	6,676,030	8,182,264
– Accounts and other receivables (Note 18)	696,408	645,941
– Cash and bank balances (Note 19)	2,273,740	1,388,630
	9,671,734	10,241,731
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
– Accounts and notes payables (Note 24)	9,538	11,639
– Amounts due to related parties (Note 24)	2,411,390	1,775,546
– Accrual and other payables (Note 24)	59,125	140,747
– Borrowings (Note 25)	400,000	400,000
	2,880,053	2,327,932

# Notes to the Consolidated Financial Statements

## 20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS (continued)

### (b) Credit quality of financial assets

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

#### (i) Trade receivables

As at 31 December 2013, the Group's trade receivables due from third parties of approximately RMB15,774,261,000 (2012: RMB13,080,961,000) were within 180 days. Trade receivables that were within three months mainly represent those due from customers with good credit history and low default rate. Trade receivables that were either over 180 days or impaired were disclosed in Note 18.

None of the financial assets that are fully performing has been renegotiated in year ended 31 December 2013.

#### (ii) Cash and cash equivalents

As at 31 December 2013 and 2012, all the bank deposits are deposited in reputable financial institutions which primarily comprise reputable international banks, major financial institutions in PRC and PRC listed banks or state-owned banks.

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

## 21 SHARE CAPITAL

### The Group and the Company

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total shares of RMB1 each RMB'000
Issued and fully paid:					
At 31 December 2012 and 2013	1,923,016	765,894	1,923,016	765,894	2,688,910

# Notes to the Consolidated Financial Statements

## 22 SHARE PREMIUM AND OTHER RESERVES

### The Group

	Share premium	Statutory reserves (Note a)	Available-for-sale financial Assets	Revaluation surplus	Translation difference	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2012</b>	14,396,727	713,329	(1,837)	28,227	(10,149)	67,003	15,193,300
Appropriation to statutory reserves (Note a, 23)	-	88,798	-	-	-	-	88,798
Available-for-sale financial assets							
– Gross	-	-	1,430	-	-	-	1,430
– Tax	-	-	(357)	-	-	-	(357)
Changes in ownership interests in subsidiaries without change of control	-	-	-	-	-	(50,960)	(50,960)
Currency translation difference	-	-	-	-	(5,745)	-	(5,745)
Others	-	-	-	-	-	5,656	5,656
<b>At 31 December 2012</b>	14,396,727	802,127	(764)	28,227	(15,894)	21,699	15,232,122
Contribution from the intermediate holding companies of the Company (Note b)	-	-	-	-	-	35,134	35,134
Appropriation to statutory reserves (Note a, 23)	-	55,127	-	-	-	-	55,127
Available-for-sale financial assets							
– Gross	-	-	3,644	-	-	-	3,644
– Tax	-	-	(911)	-	-	-	(911)
Changes in ownership interests in subsidiaries without change of control	(309,576)	-	-	-	-	-	(309,576)
Currency translation difference	-	-	-	-	(3,283)	-	(3,283)
<b>At 31 December 2013</b>	14,087,151	857,254	1,969	28,227	(19,177)	56,833	15,012,257

# Notes to the Consolidated Financial Statements

## 22 SHARE PREMIUM AND OTHER RESERVES (continued)

### The Company

	Share premium <i>RMB'000</i>	Statutory reserves <i>(Note a)</i> <i>RMB'000</i>	Available-for-sale financial Assets <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 1 January 2012</b>	16,328,357	332,114	3,587	–	16,664,058
Appropriation to statutory reserves <i>(Note a, 23)</i>	–	88,798	–	–	88,798
Available-for-sale financial assets					
– Gross	–	–	(200)	–	(200)
– Tax	–	–	50	–	50
<b>At 31 December 2012</b>	16,328,357	420,912	3,437	–	16,752,706
Appropriation to statutory reserves <i>(Note a, 23)</i>	–	55,127	–	–	55,127
Contribution from the intermediate holding companies of the Company <i>(Note b)</i>	–	–	–	35,134	35,134
Available-for-sale financial assets					
– Gross	–	–	660	–	660
– Tax	–	–	(165)	–	(165)
<b>At 31 December 2013</b>	<b>16,328,357</b>	<b>476,039</b>	<b>3,932</b>	<b>35,134</b>	<b>16,843,462</b>

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

### The Group and the Company

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



# Notes to the Consolidated Financial Statements

## 23 RETAINED EARNINGS

	The Group <i>RMB'000</i>	The Company <i>RMB'000</i>
At 1 January 2012	5,196,261	675,542
Profit for the year	2,052,872	856,024
Dividends of the Company (Note 38)	(430,226)	(430,226)
Appropriation to statutory reserves (Note 22)	(88,798)	(88,798)
Others	(11,842)	–
At 31 December 2012	6,718,267	1,012,542
Profit for the year	<b>2,242,926</b>	<b>496,084</b>
Dividends of the Company (Note 38)	<b>(645,339)</b>	<b>(645,339)</b>
Appropriation to statutory reserves (Note 22)	<b>(55,127)</b>	<b>(55,127)</b>
Others	<b>(8,081)</b>	–
At 31 December 2013	<b>8,252,646</b>	<b>808,160</b>

## 24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES

### The Group

	As at 31 December	
	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Accounts payable to third parties	<b>13,769,690</b>	11,745,049
Notes payable	<b>2,722,624</b>	2,430,635
Advances received from customers	<b>306,569</b>	403,147
Payables for purchase of PP&E and land use rights	<b>229,502</b>	137,938
Staff welfare and salary payables	<b>433,505</b>	363,901
Tax liabilities other than income tax	<b>190,989</b>	178,117
Amounts due to related parties (Note 44)	<b>415,634</b>	438,266
Accrued expenses	<b>562,159</b>	442,043
Deposits	<b>322,483</b>	217,698
Dividends payable	<b>83,252</b>	47,797
Others	<b>535,486</b>	554,946
	<b>19,571,893</b>	16,959,537

# Notes to the Consolidated Financial Statements

## 24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES (continued)

### The Group (continued)

- (a) As at 31 December 2013 and 2012, ageing analysis of the accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	11,257,395	9,270,386
3 months to 6 months	4,465,571	3,987,437
6 months to 12 months	441,342	479,805
1 year to 2 years	161,167	285,116
Over 2 years	166,839	152,940
	<b>16,492,314</b>	14,175,684

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
RMB	19,257,613	15,942,518
USD	228,582	809,966
EUR	39,822	44,146
HKD	42,950	162,848
Other currencies	2,926	59
	<b>19,571,893</b>	16,959,537

# Notes to the Consolidated Financial Statements

## 24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES (continued)

### The Company

	As at 31 December	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts payable	<b>9,538</b>	11,639
Amounts due to related parties	<b>2,411,390</b>	1,775,546
Advances from customers	<b>4,207</b>	4,207
Tax liabilities other than income tax	<b>5,793</b>	6,857
Staff welfare and salary payables	<b>15,091</b>	14,320
Others	<b>59,125</b>	140,747
	<b>2,505,144</b>	1,953,316

*Note:*

Amounts due to related parties represented other payables due to the Company's subsidiaries. All the amounts due are interest-free.



# Notes to the Consolidated Financial Statements

## 25 BORROWINGS

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Non-current</b>		
Long-term bank borrowings		
– guaranteed (Note a)	2,890	3,620
– secured (Note b)	91,829	16,177
– unsecured	26,043	16,543
Other borrowings	4,433	4,433
	125,195	40,773
<b>Current</b>		
Short-term bank borrowings		
– guaranteed (Note a)	52,700	141,100
– secured (Note b)	1,079,805	1,012,592
– unsecured	4,656,658	3,578,440
Other borrowings	108,798	167,911
	5,897,961	4,900,043
Current portion of long-term bank borrowings		
– guaranteed (Note a)	730	730
– secured (Note b)	25,679	–
	5,924,370	4,900,773
<b>Total borrowings</b>	<b>6,049,565</b>	<b>4,941,546</b>

- (a) As at 31 December 2013, the bank borrowings as guaranteed by the Group's non-controlling interests amounted to approximately RMB52,700,000 (2012: RMB141,100,000).

As at 31 December 2013, the bank borrowings as guaranteed by a related party amounted to approximately RMB3,620,000(2012: RMB4,350,000) (Note 44(d)).



# Notes to the Consolidated Financial Statements

## 25 BORROWINGS (continued)

### The Group (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Secured by:		
– PP&E and land use rights (Notes 7, 9)	495,698	401,267
– Trade receivables (Note 18)	701,615	627,502
	<b>1,197,313</b>	1,028,769

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
RMB	5,968,300	4,903,069
USD	38,770	38,477
HKD	42,495	–
	<b>6,049,565</b>	4,941,546

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Bank borrowings		
– RMB	5.56%	5.86%
– USD	3.02%	2.82%
– HKD	3.34%	–

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

# Notes to the Consolidated Financial Statements

## 25 BORROWINGS (continued)

### The Group (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 1 year	5,924,370	4,900,773
Between 1 and 2 years	21,320	120
Between 2 and 5 years	88,210	21,200
Wholly repayable within 5 years	6,033,900	4,922,093
Over 5 years	15,665	19,453
	<b>6,049,565</b>	<b>4,941,546</b>

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Within 6 months	1,737,318	1,406,311
Between 6 and 12 months	4,312,247	3,535,235
	<b>6,049,565</b>	<b>4,941,546</b>

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

The carrying amount and fair value of non-current borrowings are set out as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Carrying amounts	125,195	40,773
Fair value	124,875	38,544

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

# Notes to the Consolidated Financial Statements

## 25 BORROWINGS (continued)

### The Company

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
<b>Current</b>		
Short-term borrowings		
– unsecured	400,000	400,000

## 26 DEFERRED INCOME TAX

### The Group

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

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Deferred income tax assets		
– To be recovered after more than 12 months	6,386	7,132
– To be recovered within 12 months	193,420	184,612
	199,806	191,744
Deferred income tax liabilities		
– To be recovered after more than 12 months	267,210	262,264
– To be recovered within 12 months	21,602	20,085
	288,812	282,349
Deferred income tax liabilities – net	(89,006)	(90,605)

# Notes to the Consolidated Financial Statements

## 26 DEFERRED INCOME TAX (continued)

### The Group (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
At 1 January	(90,605)	(87,659)
Recognised in the consolidated income statements (Note 35)	26,563	25,299
Disposal of subsidiaries	–	(1,670)
Acquisition of subsidiaries	(24,020)	(26,240)
Recognised in equity	(944)	(335)
<b>Deferred income tax liabilities – net</b>	<b>(89,006)</b>	<b>(90,605)</b>

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

#### Deferred income tax assets

	Provision for impairment of assets RMB'000	Termination Benefit obligations RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
<b>At 1 January 2012</b>	96,647	9,564	37,449	34,969	178,629
Acquisition of subsidiaries	13	–	437	–	450
Disposal of subsidiaries	(1,670)	–	–	–	(1,670)
Internal transfer	4,658	1,929	(4,417)	(2,170)	–
Recognised in the consolidated income statements	11,382	903	(4,548)	6,598	14,335
<b>At 31 December 2012</b>	<b>111,030</b>	<b>12,396</b>	<b>28,921</b>	<b>39,397</b>	<b>191,744</b>
Acquisition of subsidiaries	237	–	–	550	787
Recognised in the consolidated income statements	(1,238)	(4,599)	8,789	4,323	7,275
<b>At 31 December 2013</b>	<b>110,029</b>	<b>7,797</b>	<b>37,710</b>	<b>44,270</b>	<b>199,806</b>

# Notes to the Consolidated Financial Statements

## 26 DEFERRED INCOME TAX (continued)

### The Group (continued)

#### Deferred income tax liabilities

	Fair value of intangible assets <i>RMB'000</i>	Deemed disposal <i>RMB'000</i>	Fair value gains from available-for- sale financial assets <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 1 January 2012</b>	102,704	142,048	1,850	19,686	266,288
Acquisition of subsidiaries	25,718	–	–	972	26,690
Internal transfer	20,695	203	124	(21,022)	–
Recognised in the consolidated income statements	(13,522)	(3,485)	–	6,043	(10,964)
Recognised in equity	–	–	335	–	335
<b>At 31 December 2012</b>	135,595	138,766	2,309	5,679	282,349
Acquisition of subsidiaries	<b>24,807</b>	–	–	–	<b>24,807</b>
Recognised in the consolidated income statements	<b>(17,064)</b>	<b>(3,485)</b>	–	<b>1,261</b>	<b>(19,288)</b>
Recognised in equity	–	–	<b>944</b>	–	<b>944</b>
<b>At 31 December 2013</b>	<b>143,338</b>	<b>135,281</b>	<b>3,253</b>	<b>6,940</b>	<b>288,812</b>

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately RMB208,384,000 (2012: RMB123,470,000) in respect of tax losses amounting to approximately RMB833,537,000 (2012: RMB493,879,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB51,317,000, RMB26,850,000, RMB88,432,000, RMB141,953,000 and RMB524,985,000 will expire in 2014, 2015, 2016, 2017 and 2018, respectively.

# Notes to the Consolidated Financial Statements

## 27 OTHER NON-CURRENT LIABILITIES

### The Group

	As at 31 December 2013 RMB'000	2012 RMB'000
Medical reserve funds (Note a)	67,442	73,516
Project development funds (Note b)	203,051	136,902
Office and plant relocation funds (Note c)	835,366	624,445
Others	52,704	59,766
	<b>1,158,563</b>	894,629

- (a) During the years ended 31 December 2013 and 2012, certain medical reserve funds were received by the Group from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group will sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2013 and 2012 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

- (b) Certain of the Group's subsidiaries and the Company received funds from local governments as compensation for expenses arising from research expenses on certain special projects. Upon completion of the research, such funds, after offsetting against actual expenses arising during the course of research, will be recognised as other income. As at each balance sheet date, the directors expect that such project will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.
- (c) Certain of the Group's subsidiaries received funds from local governments or other organisations as compensation for losses arising from office or plant relocation upon the request from the local government. Such funds can be used to offset the losses of relocation and compensate the purchase cost of new office, plant and equipment. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses and being used to compensate of new office, plant and equipment arising from office relocation, will be recognised as other income. Such funds are accounted for as government grants. As at each respective balance sheet date, the directors expect that such office or plant relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

### The Company

	As at 31 December 2013 RMB'000	2012 RMB'000
Project development funds	66,983	26,686

# Notes to the Consolidated Financial Statements

## 28 TERMINATION BENEFIT OBLIGATIONS

### The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Termination benefit	39,077	52,353

The Group had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the "Early Retired Employees").

The Group recognises a liability for the present value of the obligations relating to the termination benefits payable to these Early Retired Employees.

The liability related to the benefit obligations for the Early Retired Employees existing at the respective balance sheet dates are calculated by the management using future cash flow discounting method.

Movements of the net liability recognised in the consolidated financial statements are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of year	52,353	58,524
Interest expenses	380	–
Benefits paid	(13,656)	(6,171)
At end of year	39,077	52,353

## 29 OTHER INCOME

### The Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Government grants (Note a)	197,053	172,567
Subsidy for relocation (Note 27(c))	11,212	299,043
Dividend income from available-for-sale financial assets	4,824	4,452
	213,089	476,062

(a) Government grants mainly represented subsidy income received from various government organisations to support the operation of the Group.



# Notes to the Consolidated Financial Statements

## 30 OTHER GAINS – NET

### The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
(Loss)/Gain of financial assets at fair value through profit or loss, net	(2,120)	262
Gain on disposals of financial assets at fair value through profit or loss	2,802	–
Gain/(Loss) on disposals of PP&E	1,358	(13,906)
Gain on disposals of available-for-sale financial assets	10,869	19,685
Loss of disposal of intangible assets	–	(26)
Provision for impairment of PP&E (Note 9)	(14,285)	(3,558)
Provision for impairment of available-for-sale financial assets (Note 14)	–	(4,297)
Provision for impairment of investment in associates (Note 13)	–	(12,530)
Reversal for impairment of long-term receivables	–	7,462
Foreign exchange gains	7,508	16,408
Relocation costs (Note 27 (c))	(10,496)	(175,969)
Dilution gain in an associate (note (a))	35,207	–
Fixed return in an associate (note (b))	67,249	–
Others – net	(31,687)	(10,097)
	<b>66,405</b>	<b>(176,566)</b>

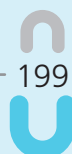
Note:

- (a) In 2013, Shanghai Fudan Zhangjiang Bio-Pharmaceutical Co., Ltd. (“Fudan Zhangjiang”), one of the Group’s associates, issued new shares to certain investors (the “Capital Contribution”). After the Capital Contribution, the Group’s equity interest in Fudan Zhangjiang decreased from 29.6% to 22.77%. Accordingly, the Group recognised a dilution gain of approximately RMB35,207,000 in the consolidated income statements.
- (b) Pursuant to an agreement entered into between the Group and other shareholders of an associate, the Group is entitled to a fixed return from this associate.

## 31 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

### The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Disposal of Shanghai Draeger Medical Instrument Co., Ltd. (“Shanghai Draeger”) (note a)	38,910	–
Disposal of Ningbo Asia Pacific Biotechnology Co., Ltd.	–	19,578
Others	11,636	27,132
	<b>50,546</b>	<b>46,710</b>



# Notes to the Consolidated Financial Statements

## 31 GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES (continued)

### The Group (continued)

Note:

- (a) On 22 August 2013, the Group disposed 22.5% equity interest in Shanghai Draeger, one of the Group's associates, at a consideration of approximately RMB48,943,000.

	2013 RMB'000
Cash consideration of the 22.5% equity investment in Shanghai Draeger	48,943
Less: Carrying amount of net assets of Shanghai Draeger as on 22 August 2013	(10,033)
Gain on disposal of Shanghai Draeger	38,910

## 32 EXPENSES BY NATURE

### The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Raw materials, merchandise and consumables used	67,569,736	59,017,922
Changes in inventories of finished goods and work in progress	(990,509)	(1,434,719)
Employee benefit expenses (Note 33)	3,336,994	2,904,980
Travelling and meeting expenses	1,146,966	1,068,458
Promotion and advertising costs	937,348	847,964
Depreciation of PP&E (Note 9)	482,778	474,466
Transportation costs	301,362	286,878
Operating lease rentals	278,845	259,609
Real estate tax, stamp duties and other taxes	253,465	245,668
Office expenditures	238,343	201,853
Energy and utilities	197,805	179,121
Repair and maintenance fee	147,732	143,765
Amortisation of intangible assets (Note 10)	77,845	61,431
Provision for impairment of trade and other receivables (Note 18)	60,458	24,382
Write-down of inventories to net realisable value	39,573	9,360
Amortisation of land use rights (Note 7)	29,293	27,231
Auditor's remuneration	19,657	19,423
Depreciation of investment properties (Note 8)	13,705	14,734
Others	1,332,287	1,130,171
Total cost of sales, distribution and selling expenses and general and administrative expenses	75,473,683	65,482,697

# Notes to the Consolidated Financial Statements

## 33 EMPLOYEE BENEFIT EXPENSES

### The Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Wages and salaries	2,425,484	2,117,789
Contributions to pension plans (Note a)	341,744	298,030
Housing fund, medical insurance and other social insurance (Note b)	347,201	308,560
Others	222,565	180,601
<b>Total including directors' emoluments</b>	<b>3,336,994</b>	<b>2,904,980</b>

- (a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

# Notes to the Consolidated Financial Statements

## 33 EMPLOYEE BENEFIT EXPENSES (continued)

### The Group (continued)

(c) *Directors, supervisors and chief executives' emoluments*

The remuneration of every director, supervisor and the chief executive officer ("CEO") of the Company for the year ended 31 December 2013 is set out below:

Name of director	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<b>Directors:</b>				
Mr. Lou Dingbo (a)	-	-	-	-
Mr. Cho Man (also the CEO) (a)	575	-	-	575
Mr. Hu Fengxiang (a)	-	-	-	-
Mr. Zhou Jie	-	-	-	-
Mr. Zhang Jialin (b)	-	-	-	-
Mr. Lu Shen (b)	-	-	-	-
Mr. Xu Guoxiong (b) (the predecessor CEO)	446	1,535	42	2,023
Mr. Jiang Ming	-	-	-	-
Mr. Bai Huiliang (b)	75	-	-	75
Mr. Chen Naiwei	197	-	-	197
Mr. Wan Kam To (a)	146	-	-	146
Mr. Tse Cho Che (a)	134	-	-	134
Ms. Tommei Tong (b)	75	-	-	75
Mr. Li Zhenfu	179	-	-	179
<b>Supervisors:</b>				
Mr. Zhang Zhenbei	-	-	-	-
Mr. Xin Keng (a)	-	-	-	-
Mrs. Chen Xin	-	-	-	-
Mr. Wu Junhao (b)	-	-	-	-
	<b>1,827</b>	<b>1,535</b>	<b>42</b>	<b>3,404</b>

(a) Appointed on 5 June 2013.

(b) Retired on 5 June 2013.

# Notes to the Consolidated Financial Statements

## 33 EMPLOYEE BENEFIT EXPENSES (continued)

### The Group (continued)

(c) *Directors, supervisors and chief executives' emoluments (continued)*

The remuneration of every director, supervisor and the chief executive of the Company for the year ended 31 December 2012 is set out below:

Name of director	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<b>Directors:</b>				
Mr. Zhou Jie	–	–	–	–
Mr. Zhang Jialin	–	–	–	–
Mr. Lu Shen	–	–	–	–
Mr. Xu Guoxiong (also the CEO)	450	2,683	78	3,211
Mr. Bai Huiliang	150	–	–	150
Mr. Chen Naiwei	150	–	–	150
Ms. Tommei Tong	150	–	–	150
Mr. Li Zhenfu	88	–	–	88
Mr. Jiang Ming	–	–	–	–
Mr. Lu Mingfang	–	–	–	–
Mr. Zeng yixin	38	–	–	38
<b>Supervisors:</b>				
Mr. Zhang Zhenbei	–	–	–	–
Mrs. Chen Xin	–	–	–	–
Mr. Wu Junhao	–	–	–	–
	1,026	2,683	78	3,787

*Note:*

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments (the "Emoluments") from Shanghai Pharma Group or Shanghai Industrial Group, the immediate holding company and ultimate parent company respectively. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Group and their services rendered to the immediate holding company and ultimate parent company.

# Notes to the Consolidated Financial Statements

## 33 EMPLOYEE BENEFIT EXPENSES (continued)

### The Group (continued)

(d) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group during the year include one (2012: one) predecessor director whose emoluments during the year have been included in note (c) above. The emoluments payable to the five highest individuals during the year are as follows:

	Year ended 31 December	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and fee	4,233	3,557
Bonuses	8,851	12,057
Employer's contribution to pension scheme and others	359	338
	<b>13,443</b>	15,952

The emoluments fell within the following bands:

	Year ended 31 December	
	2013	2012
	<i>Number</i>	<i>Number</i>
Emolument bands (in HKD)		
HKD2,500,001 – HKD3,000,000	2	1
HKD3,000,001 – HKD3,500,000	1	1
HKD3,500,001 – HKD4,000,000	1	1
HKD4,000,001 – HKD4,500,000	–	1
HKD4,500,001 – HKD5,000,000	1	–
HKD5,000,001 – HKD5,500,000	–	1

- (e) In 2013 and 2012, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

# Notes to the Consolidated Financial Statements

## 34 FINANCE INCOME AND COSTS

### The Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest income on bank deposits	239,305	301,905
Others	2,801	2,544
<b>Total finance income</b>	<b>242,106</b>	<b>304,449</b>
Interest expenses on borrowings	(274,919)	(308,470)
Interest expenses on notes and receivables discounted	(140,307)	(163,911)
Other costs	(46,102)	(24,361)
<b>Finance cost</b>	<b>(461,328)</b>	<b>(496,742)</b>
Less: Amount capitalised on qualifying assets (note 9(c))	1,479	–
<b>Total Finance costs</b>	<b>(459,849)</b>	<b>(496,742)</b>
<b>Net finance costs</b>	<b>(217,743)</b>	<b>(192,293)</b>

## 35 TAXATION

### The Group

(a) *Income tax expense*

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Current income tax, PRC enterprise income tax	660,791	652,438
Deferred income tax (Note 26)	(26,563)	(25,299)
	<b>634,228</b>	<b>627,139</b>

- (i) The Group was not subject to Hong Kong profits tax during the years presented as there was no assessable income arising in or derived from Hong Kong.

# Notes to the Consolidated Financial Statements

## 35 TAXATION (continued)

### The Group (continued)

#### (a) Income tax expense (continued)

- (ii) Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries for the year ended 31 December 2013, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities.

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

- Shanghai New Asiatic Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai Zhongxisunve Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Changzhou Pharmaceutical Factory Co., Ltd., Dongying (Jiangsu) Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd and Changzhou Kony Pharm Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise, and had enjoyed a preferential CIT rate of 15% for 2012 and 2013.

- (iii) The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates of 25% applicable to the years as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Profit before income tax	<b>3,260,847</b>	3,087,727
Tax calculated at the domestic CIT rate applicable	<b>815,212</b>	771,932
Income not subject to taxation	<b>(177,838)</b>	(110,005)
Cost not deductible for taxation purposes	<b>75,069</b>	71,569
Preferential tax rate of certain subsidiaries	<b>(150,087)</b>	(124,599)
Additional deduction on research and development expenses	<b>(32,027)</b>	(27,984)
Utilisation of tax losses for which no deferred income tax asset was recognised	<b>(27,347)</b>	(10,450)
Tax losses for which no deferred income tax asset was recognised	<b>131,246</b>	56,676
Income tax expenses	<b>634,228</b>	627,139
Effective tax rate	<b>19.4%</b>	20.3%



# Notes to the Consolidated Financial Statements

## 35 TAXATION (continued)

### The Group (continued)

- (a) *Income tax expense (continued)*  
 (iii) (continued)

The tax (charge)/credit relating to component of other comprehensive income is as follows:

	Year ended 31 December					
	2013			2012		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets	3,778	(944)	2,834	1,342	(335)	1,007
Currency translation differences, net	(7,061)	–	(7,061)	(11,288)	–	(11,288)
	(3,283)	(944)	(4,227)	(9,946)	(335)	(10,281)
Current tax	–	–	–	–	–	–
Deferred tax (note 26)	–	(944)	–	–	(335)	–
	–	(944)	–	–	(335)	–

- (b) *Business tax ("BT") and related taxes*

Certain of the Group's revenues are subject to BT at the rate of 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1%, 5% or 7% and 1% to 5% of the amount of BT payable.

- (c) *Value-added tax ("VAT") and related taxes*

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 6%, 13% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 5% of the net VAT payable.

## 36 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2013 has been dealt with in the financial statements of the Company to the extent of approximately RMB496,084,000 (2012: RMB856,024,000).

# Notes to the Consolidated Financial Statements

## 37 EARNINGS PER SHARE

For years ended 31 December 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 year.

	Year ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company (RMB'000)	<b>2,242,926</b>	2,052,872
Number of ordinary shares (thousands)	<b>2,688,910</b>	2,688,910
Basic earnings per share (RMB)	<b>0.83</b>	0.76

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during the years presented.

## 38 DIVIDENDS

The dividends paid in 2013 and 2012 were approximately RMB645,339,000 (RMB0.24 per share) and RMB430,226,000 (RMB0.16 per share) respectively. A dividend in respect of the year ended 31 December 2013 of RMB0.26 per share, amounting to a total dividend of RMB699,117,000, is proposed by the directors of the Company and subject to the shareholders' approval at the annual general meeting. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend of RMB0.26 (2012:RMB0.24) per share	<b>699,117</b>	645,339

The aggregate amounts of the dividends proposed in respect of 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

# Notes to the Consolidated Financial Statements

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### (i) Cash generated from operations

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before income tax	<b>3,260,847</b>	3,087,727
Adjustments for:		
– Share of profit from associates	<b>(313,072)</b>	(267,720)
– Share of profit from jointly controlled entities	<b>(86,344)</b>	(70,673)
– Dilution gain on equity interest in Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (“Fudan Zhangjiang”)	<b>(35,207)</b>	–
– Fixed return on equity interest in a certain associate	<b>(67,249)</b>	–
– Depreciation of PP&E and investment properties	<b>496,483</b>	493,607
– Amortisation of land use rights and intangible assets	<b>107,138</b>	88,662
– Financial assets at fair value through profit or loss	<b>(682)</b>	(262)
– (Gain)/loss on disposals of		
– PP&E	<b>(1,358)</b>	13,906
– land use rights and intangible assets	–	26
– investment in subsidiaries and associates	<b>(50,546)</b>	(46,710)
– available-for-sale financial assets	<b>(10,869)</b>	(19,685)
– Reversal for impairment of long-term receivables	–	(7,462)
– Provisions for impairment of		
– trade and other receivables	<b>60,458</b>	24,382
– inventories	<b>39,573</b>	9,360
– investment in associate	–	12,530
– PP&E	<b>14,285</b>	3,558
– available-for-sale financial assets	–	4,297
– Dividend income on available-for-sale financial assets	<b>(4,824)</b>	(4,452)
– Financial cost – net	<b>171,641</b>	167,932
– Foreign exchange gain and loss – net	<b>14,619</b>	(22,717)
– Gain on relocation	<b>(716)</b>	(123,074)
– Other gains – others, net	<b>22,023</b>	10,097
	<b>3,616,200</b>	3,353,329
Changes in working capital:		
– Inventories	<b>(1,150,066)</b>	(1,466,409)
– Trade and other receivables and other current assets	<b>(3,412,314)</b>	(2,236,294)
– Trade and other payables and other current liabilities	<b>2,475,818</b>	1,768,917
– Restricted cash	<b>(108,621)</b>	71,149
Cash generated from operations	<b>1,421,017</b>	1,490,692

# Notes to the Consolidated Financial Statements

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(ii) In the cash flow statements, proceeds from disposals of PP&E and investment property comprise:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net book amount (Note 9)	43,743	25,499
Gain/(Loss) on disposal (Note 30)	1,358	(13,906)
	45,101	11,593
Net (increase)/decrease in receivables in respect of disposal of PP&E and investment property	(9,268)	8,474
Proceeds from disposal	35,833	20,067

(iii) In the cash flow statements, proceeds from disposals of land use rights and intangible assets (excluding goodwill) comprise:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net book amount	–	26
Loss on disposal (Note 30)	–	(26)
Proceeds from disposal	–	–

(iv) In the cash flow statements, proceeds from disposals of available-for-sale financial assets comprise:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net book amount (Note 14)	3,387	31,575
Gain on disposal (Note 30)	10,869	19,685
	14,256	51,260
Cash receipt in respect of disposal of available-for-sale financial assets in prior year	–	–
Proceeds from disposal	14,256	51,260

# Notes to the Consolidated Financial Statements

## 39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(v) In the cash flow statements, proceeds from disposals of subsidiaries and associates:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net book amount	151,158	27,939
Gain on disposal	50,546	46,710
	201,704	74,649
Cash receipt in respect of disposal of associates in prior year	30,420	–
Cash and cash equivalents in subsidiaries disposed	(2,638)	(16,188)
Receivables in respect of disposal of subsidiaries	(99,600)	(30,420)
Offset other current liabilities	(10,233)	–
Proceeds from disposal	119,653	28,041

## 40 CONTINGENCIES AND GUARANTEES

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

### (b) Outstanding loan guarantees

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Outstanding loan guarantees provided to related parties	42,290	198,970

As of 31 December 2013, outstanding loan guarantees of approximately RMB42,290,000 (2012: RMB198,970,000) provided by the Group to certain related parties of the Group (Note 44(d)).

The directors of the Company consider that these related parties have sufficient finance to settle their obligations and thus has not made any provision for the outstanding balance of the guarantees.

# Notes to the Consolidated Financial Statements

## 41 COMMITMENTS

### (a) Capital commitments

#### (i) Constructions

Capital expenditure contracted for at the end of year but not yet incurred is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
PP&E	106,869	17,827
Land use right	28,939	–
	<b>135,808</b>	17,827

#### (ii) Acquisition of equity interests

Pursuant to the agreement entered into between the Company and Shanghai Pharma Group in December 2013, the Group will acquire 100% equity interests in China International Pharmaceutical (Holding) Corporation Limited (“China International”) from Shanghai Pharma Group at a cash consideration of approximately RMB45,372,000. As at 31 December 2013, the above-mentioned transaction was not completed.

Pursuant to the the agreement entered into between the Company, Vice-President of the Company and his spouse in December 2013, the Group will acquire 100% equity interest in Shanghai Jiaolian Medicine Research and Development Co., Ltd. (上海交聯藥物研發有限公司) at a fixed consideration of RMB10,000,000 with a floating consideration no more than RMB5,000,000. As at 31 December 2013, the above-mentioned transaction was not completed.

Pursuant to the agreement entered into between the Group and certain shareholders of Big Global Limited (Hong Kong) (“Big Global”), the Group will acquire additional 10% equity interest of Big Global at a consideration of RMB77,800,000 (the “Acquisition”), and make a capital contribution of RMB100,000,000 to Big Global subsequently. As at 31 December 2013, the above-mentioned transaction was not completed.

### (b) Operating lease commitments

#### (i) The Group is the lessee:

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
No later than 1 year	171,332	90,515
Later than 1 year and no later than 2 years	139,603	80,336
Later than 2 years and no later than 5 years	137,479	128,506
Later than 5 years	121,070	84,216
	<b>569,484</b>	383,573

# Notes to the Consolidated Financial Statements

## 41 COMMITMENTS (continued)

### (b) Operating lease commitments (continued)

(i) The Group is the lessor:

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
No later than 1 year	23,559	31,251
Later than 1 year and no later than 2 years	19,442	24,548
Later than 2 years and no later than 5 years	44,866	28,796
Later than 5 years	61,316	6,605
	149,183	91,200

### (c) Other commitment

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 31 December 2013, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB90,243,000.

## 42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### (a) Significant acquisition of additional interests in the subsidiaries:

(i) *Transaction with non-controlling interests of Chiatai Qingchunbao Pharmaceuticals Co., Ltd. (正大青春寶藥業有限公司, "Chiatai Qingchunbao")*

On 26 April 2013, the Group acquired additional 20% equity interests of Chiatai Qingchunbao for a purchase consideration of approximately RMB444,400,000. The carrying amount of the non-controlling interests in Chiatai Qingchunbao on the date of acquisition was approximately RMB172,290,000. The Group recognised a decrease in non-controlling interests of approximately RMB172,290,000 and a decrease in equity attributable to owners of the Company of approximately RMB272,110,000. The effect of changes in the ownership interests of Chiatai Qingchunbao on the equity attributable to owners of the Company during the year is summarised as follows:

	2013
	RMB'000
Carrying amount of non-controlling interests acquired	172,290
Consideration paid to non-controlling interests	(444,400)
Excess of consideration paid recognised within equity	(272,110)

# Notes to the Consolidated Financial Statements

## 42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

### (a) Significant acquisition of additional interests in the subsidiaries: (continued)

(ii) *Transaction with non-controlling interests of Shanghai Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司, "Zhongxie Pharmaceutical")*

In January 2013, the Group acquired additional 28.44% equity interests of Zhongxie Pharmaceutical in total for a purchase consideration of approximately RMB82,476,000. The carrying amount of the non-controlling interests in Zhongxie Pharmaceutical of acquisition was up to approximately RMB67,714,000. The Group recognised a decrease in non-controlling interests of approximately RMB67,714,000 and a decrease in equity attributable to owners of the Company of approximately RMB14,762,000. The effect of changes in the ownership interests of Zhongxie Pharmaceutical on the equity attributable to owners of the Company during the year is summarised as follows:

	<b>2013</b> <b>RMB'000</b>
Carrying amount of non-controlling interests acquired	67,714
Consideration paid to non-controlling interests	(82,476)
Excess of consideration paid recognised within equity	(14,762)

(iii) *Transaction with non-controlling interests of Changzhou Kony Pharm Co., Ltd. (常州康麗製藥有限公司, "Changzhou Kony")*

On 12 November 2013, the Group acquired additional 10% equity interests of Changzhou Kony for a purchase consideration of approximately RMB34,459,000. The carrying amount of the non-controlling interests in Changzhou Kony on the date of acquisition was approximately RMB14,854,000. The Group recognised a decrease in non-controlling interests of approximately RMB14,854,000 and a decrease in equity attributable to owners of the Company of approximately RMB19,605,000. The effect of changes in the ownership interests of Changzhou Kony on the equity attributable to owners of the Company during the year is summarised as follows:

	<b>2013</b> <b>RMB'000</b>
Carrying amount of non-controlling interests acquired	14,854
Consideration paid to non-controlling interests	(34,459)
Excess of consideration paid recognised within equity	(19,605)



# Notes to the Consolidated Financial Statements

## 42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2013:

	2013 RMB'000
Changes in equity attributable to owners of the company arising from:	
– Acquisition of additional interests in subsidiaries	(309,576)
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	(309,576)

## 43 BUSINESS COMBINATION

### Significant business combinations not under common control

In 2013, the Group acquired 79% equity interests in Big Global Limited (Hong Kong) (“Big Global”) from an independent third party for a cash consideration of approximately RMB612,361,000. The acquisition was completed on 30 June 2013, on which the Group effectively obtained the right to control Big Global.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of RMB445,109,000 arising from the acquisition is attributable to the acquired non-contractual customer relationships and economies of scale expected from combining the operations of the Group and Big Global. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs have been charged to administrative expenses in the consolidated income statements for the year ended 31 December 2013.

Big Global contributed revenue and profit of approximately RMB45,399,000 and RMB20,266,000 to the Group for the period from the respective acquisition dates to 31 December 2013.

If the acquisitions had occurred on 1 January 2013, the Group’s revenue would have been increased by approximately RMB39,110,000 and profit for the year would have been decreased by approximately RMB5,328,000. These amounts have been calculated using the Group’s accounting policies and by adjusting the results of the acquirees to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2013, together with the consequential tax effects.



# Notes to the Consolidated Financial Statements

## 43 BUSINESS COMBINATION (continued)

### Significant business combinations not under common control (continued)

The following table summarizes the consideration paid for acquisition of approximately RMB211,711,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

<b>Acquisition consideration – cash</b>	612,361
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and cash equivalents	67,723
PP&E	28,646
Intangible assets	146,831
Deferred income tax assets	709
Inventories	14,449
Trade and other receivables	37,158
Trade and other payables	(62,383)
Deferred income tax liabilities	(21,422)
<b>Total identifiable net assets</b>	<b>211,711</b>
Non-controlling interests	(44,459)
Goodwill	445,109
	612,361

The following table summarized the cash outflows from the acquisitions for the year ended 31 December 2013:

	<i>RMB'000</i>
Total cash consideration	612,361
Deposits paid to the subsidiary before acquisition	50,000
Less: cash and cash equivalents in the subsidiary acquired	(67,723)
consideration payable in respect of acquisition of the subsidiary	(20,000)
Cash outflows from the acquisitions	574,638

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS

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

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

Name of related party	Nature of relationship
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Pharmaceutical Advertisement Co., Ltd. (上海醫藥廣告有限公司)	Controlled by Shanghai Pharma Group
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd. (上海安替比奧先鋒製藥有限公司)	Controlled by Shanghai Industrial Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Industrial Group
Shanghai HuaJiu Material Supply and Marketing Co., Ltd. (上海華久物資供銷有限公司)	Controlled by Shanghai Industrial Group
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾藥房有限公司)	Jointly controlled entity
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Jointly controlled entity
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai Baohua Industrial Co., Ltd. (上海保華實業公司)	Associate
Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海信誼博萊科藥業有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司)	Associate

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	Associate
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai Draeger Medical Instrument Co., Ltd. (上海德爾格醫療器械有限公司) (Note)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd.(上海綠苑藥房有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海羅達醫藥有限公司)	Associate
Shanghai Beisiou Pharmaceutical Co., Ltd. (上海貝斯歐藥業有限公司)	Associate
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	Associate
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	Associate
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd. (北京信海豐園生物醫藥科技發展有限公司)	Associate
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡慶餘堂國藥號有限公司)	Associate
Huanren Manchu Municipality Grain Packaging Co., Ltd. (桓仁滿族自治縣格瑞恩包裝有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co.,Ltd. (上海華仁醫藥有限公司)	Associate
Beijing Xin Hai Kang Pharmaceutical Co., Ltd. (北京信海康醫藥有限公司)	Subsidiary of associate
Henan Kangxin Pharmaceutical Co., Ltd. (河南省康信醫藥有限公司)	Subsidiary of associate

**Note:**

The Group disposed all the equity interests held in Shanghai Draeger Medical Instrument Co., Ltd. (“Draeger”) in 2013 (the “Disposal”). After the Disposal, Draeger was not considered to be related to the Group.

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

In 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.

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Sales of goods and render of services		
Jiangxi Nanhua Medicines Co., Ltd.	489,117	338,265
Henan Kangxin Pharmaceutical Co., Ltd.	122,038	126,532
Shanghai Hutchison Pharmaceutical Co., Ltd.	67,892	57,415
Shanghai Deyi Pharmaceutical Co., Ltd.	64,379	66,257
Shanghai Luoda Pharmaceutical Co., Ltd.	63,256	60,298
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	54,688	46,825
Shanghai Ivyuan Pharmacy Co., Ltd.	31,061	28,914
Shanghai Huaren Pharmaceutical Co.,Ltd.	12,618	14,666
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	8,079	22,211
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	7,007	2,430
Shanghai Jianer Pharmacy Co., Ltd.	4,194	3,770
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	4,157	4,314
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	2,715	3,232
Shanghai Roche Pharmaceutical Co., Ltd.	2,350	12,168
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	–	17,786
Others	4,240	2,617
	<b>937,791</b>	<b>807,700</b>

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	2,150,640	1,866,566
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	692,553	730,655
Shanghai Hutchison Pharmaceutical Co., Ltd.	151,818	143,369
Techpool Bio-Pharma Co., Ltd.	122,258	176,851
Beijing XinHai FengYuan Biomedical Development Co., Ltd.	43,253	32,099
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	35,574	24,510
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	24,300	32,942
Shanghai Luoda Pharmaceutical Co., Ltd.	21,588	27,618
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	13,726	12,303
Shanghai Deyi Pharmaceutical Co., Ltd.	9,541	8,217
Shanghai Huajiu Material supply and marketing Co., Ltd.	4,639	–
Huanren Manchu Municipality Grain Packaging Co., Ltd.	2,989	2,178
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	2,854	150,221
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	2,606	1,996
Shanghai Huaren Pharmaceutical Co., Ltd.	1,237	4,741
Others	3,686	15,478
	<b>3,283,262</b>	<b>3,229,744</b>

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	10,114	10,114
Shanghai Hutchison Pharmaceutical Co., Ltd.	1,186	–
	<b>11,300</b>	<b>10,114</b>

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	26,921	26,921
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	25,912	12,756
Beijing XinHai FengYuan Biomedical Development Co., Ltd.	4,247	3,144
Shanghai Indu-Land Property Co., Ltd.	4,392	–
	61,472	42,821

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	26,653	28,525

On 23 February 2011, the Company has entered into certain agreements (the "Agreements") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to which the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. In 2013, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB26,653,000.00. Up to 31 December 2013, the Group has cumulatively paid approximately RMB90,242,500.00 to Fudan Zhangjiang with respect to the Agreements.

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest income		
Beijing XinHai Fengyuan Biomedical Development Co., Ltd.	2,801	1,953

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

Pursuant to the agreement entered into by the Group and Shanghai Pharma Group for acquisition of 96.9% equity interests of Shanghai New Asiatic Pharmaceuticals Co., Ltd. and 100% equity interests of Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (collectively, the "Anti-biotic Businesses") from Shanghai Pharma Group, if the profit attributable to owners of the Anti-biotic Businesses for the year from 2011 to 2013 cannot achieve pre-determined target, Shanghai Pharma Group will pay the Group the shortage in cash with a ceiling of approximately RMB120,000,000. According to the results of the Anti-biotic Businesses from 2011 to 2013, Shanghai Pharma Group shall pay the Group RMB120,000,000.

In 2013, the Group acquired 10.99% equity interest of Mergen Biotech Limited from Excellent Hope Holdings Inc., which is controlled by Shanghai Industrial Group, at a consideration of approximately RMB1,075,000. (the "Acquisition") Upon the completion of the Acquisition, the Group holds 81.4% equity interest in Mergen Biotech Limited.

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

### (b) Key management compensation

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Salaries	5,003	1,844
Bonuses	6,367	9,766
Pensions and others	566	425
	<b>11,936</b>	12,035

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

Amount due from related parties:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Trade receivables	160,749	154,105
Other receivables	49,740	58,336
Prepayments	11,341	8,026
Dividends receivables	9,545	21,028
	<b>231,375</b>	241,495



# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	59,956	66,384
Henan Kangxin Pharmaceutical Co., Ltd.	21,907	16,044
Shanghai Hutchison Pharmaceutical Co., Ltd.	20,435	14,649
Shanghai Luoda Pharmaceutical Co., Ltd.	13,095	14,774
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	11,865	9,533
Shanghai Deyi Pharmaceutical Co., Ltd.	9,708	9,928
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	5,762	7,140
Shanghai Ivyuan Pharmacy Co., Ltd.	4,894	2,823
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	4,007	2,985
Shanghai Huaren Pharmaceutical Co., Ltd.	2,791	3,491
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	417	1,658
Others	5,912	4,696
	<b>160,749</b>	154,105
Less: Provision for impairment	<b>(5,591)</b>	(4,500)
	<b>155,158</b>	149,605

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Other receivables due from		
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	35,740	34,704
Shanghai Beisiou Pharmaceutical Co., Ltd.	5,800	5,800
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	4,949	9,949
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	1,500
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	1,113	3,458
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd.	–	2,284
Others	638	641
	<b>49,740</b>	58,336
Less: Provision for impairment	(5,817)	(8,821)
	<b>43,923</b>	49,515

Other receivables are non-trade receivables mainly represented loan to or assets sold to related parties and will be settled upon demand of the Group.

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	142,610	134,866
3 months to 6 months	9,454	25,354
6 months to 12 months	2,215	20,377
1 year to 2 years	33,419	20,031
Over 2 years	22,791	11,813
	<b>210,489</b>	212,441

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	10,010	678
Shanghai Pharmaceutical Advertisement Co., Ltd.	–	7,000
Others	1,331	348
	11,341	8,026

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Dividends receivable		
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	5,684	5,684
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	2,370	1,000
Shanghai Luoda Pharmaceutical Co., Ltd.	1,256	1,556
Shanghai Draeger Medical Instrument Co., Ltd.	–	12,600
Others	235	188
	9,545	21,028

Amount due to related parties:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade Payables	383,533	399,232
Other Payables	21,526	25,623
Advances	2,496	2,280
Dividends Payable	8,079	11,131
	415,634	438,266

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	263,648	265,678
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	72,729	58,064
TECHPOOL BIO-PHARMA CO., LTD.	13,402	41,901
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	10,291	14,076
Shanghai Hutchison Pharmaceutical Co., Ltd.	5,424	5,410
Shanghai Deyi Pharmaceutical Co., Ltd.	3,496	1,848
Shanghai Huajiu Material supply and marketing Co., Ltd	3,242	–
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	3,097	2,101
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	1,812	1,867
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,714	2,693
Shanghai Luoda Pharmaceutical Co., Ltd.	425	2,743
Others	4,253	2,851
	<b>383,533</b>	<b>399,232</b>

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Other payables due to		
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,066	9,066
Shanghai Pharmaceutical (Group) Co., Ltd.	8,829	14,404
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	2,289	–
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	–	1,535
Others	1,342	618
	<b>21,526</b>	<b>25,623</b>

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

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	380,236	384,782
3 months to 6 months	2,008	14,222
6 months to 12 months	9,498	572
1 year to 2 years	2,989	22,113
Over 2 years	10,328	3,166
	<b>405,059</b>	<b>424,855</b>

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Advances due to		
Shanghai Baohua Industrial Co., Ltd.	2,064	2,064
Others	432	216
	<b>2,496</b>	<b>2,280</b>

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	8,000	11,052
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	<b>8,079</b>	<b>11,131</b>

# Notes to the Consolidated Financial Statements

## 44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Outstanding loan guarantees provided by the Group to		
Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	–	115,000
Beijing XinHai Feng Yuan Biomedical Development Co., Ltd.	20,000	45,000
Jiangxi Nanhua Medicines Co., Ltd.	–	15,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	13,290	14,970
Shanghai Luoda Pharmaceutical Co., Ltd.	9,000	9,000
	<b>42,290</b>	198,970

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Outstanding loan guarantees given to the Group by		
Shanghai Pharma Group	3,620	4,350

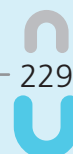
# Notes to the Consolidated Financial Statements

## 45 PRINCIPAL SUBSIDIARIES AND ASSOCIATES

As at 31 December 2013, the Company has direct and indirect interests in the following subsidiaries:

### Principal subsidiaries

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
Shanghai Pharmaceutical Distribution Co., Ltd. (上海醫藥分銷控股有限公司)	PRC, 26 April 2010	3,393,128	100	–	Distribution of pharmaceutical products in the PRC
Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥廠有限公司)	PRC, 23 October 1993	841,611	100	–	Pharmaceutical products manufacture and trading in the PRC
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. (上海第一生化藥業有限公司)	PRC, 30 July 1994	225,000	100	–	Medicine and medical equipment manufacture and trading in the PRC
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	PRC, 28 April 1992	463,690	100	–	Manufacture and distribution of Chinese medicine and property rental in the PRC
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	PRC, 6 November 1992	128,500	20	55	Medicine manufacture and trading in the PRC
Changzhou Pharmaceutical Co., Ltd. (常州藥業股份有限公司)	PRC, 1 November 1993	78,790	75.89	–	Medicine Distribution in the PRC
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	PRC, 3 November 1995	545,800	65.13	34.87	Medicines development and manufacture in the PRC
Qingdao Growful Pharmaceutical Co., Ltd. (青島國風藥業股份有限公司)	PRC, 30 June 1994	93,000	67.52	–	Traditional Chinese medicine manufacture and trading in the PRC
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	PRC, 10 Mar 2009	93,642	100	–	Medicine manufacture and trading in the PRC



# Notes to the Consolidated Financial Statements

## 45 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage	Share percentage	Principal activities and place of operations
			held by the Company Direct %	held by the Company Indirect %	
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	84,030	–	61	Medicine manufacture and trading in the PRC
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	PRC, 1 January 1999	53,160	–	51.01	Medicine manufacture and trading in the PRC
Liaoning Herbapex Pharmaceutical (group) Co., Ltd. (遼寧好護士藥業(集團)有限公司)	PRC, 12 December 1999	51,000	–	55	Medicine manufacture and trading in the PRC
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	PRC, 10 September 1998	127,000	99.21	0.79	Medical instruments manufacture and trading in the PRC
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	PRC, 12 May 1982	71,390	100	–	Distribution of pharmaceutical products in the PRC
Shanghai New Asiatic Pharmaceutical Co., Ltd. (上海新亞藥業有限公司)	PRC, 11 August 1993	1,052,429	96.9	–	Medicine manufacture and trading in the PRC
SIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司)	Cayman Islands, 17 September 1999	HKD4,250,893,000	100	–	Investment holding practices in the PRC
Ningbo Pharmaceutical Co., Ltd. (寧波醫藥股份有限公司)	PRC, 5 July 1994	250,000	–	63.61	Distribution of pharmaceutical products in the PRC
Shanghai Suzuken Chinese Medicine Co., Ltd. (上海鈴謙鴻中醫藥有限公司) (Note)	PRC, 10 November 1999	84,460	–	50	Distribution of pharmaceutical products in the PRC

Note: The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of the subsidiary although its equity interests in it were not greater than 50%, after considering the facts that the majority of the executive directors of these subsidiaries were representatives of the Group.



# Notes to the Consolidated Financial Statements

## 45 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage	Share percentage	Principal activities and place of operations
			held by the Company Direct %	held by the Company Indirect %	
Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高橋醫藥分銷中心有限公司)	RPC, 9 August 2001	20,000	–	65	Distribution of pharmaceutical products in the PRC
Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司)	PRC, 27 May 1994	12,000	–	60	Distribution of pharmaceutical products in the PRC
Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	PRC, 21 May 1998	335,070	–	97.58	Pharmaceutical products manufacture and trading in the PRC
Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	PRC, 14 December 2001	108,000	–	77.78	Medicine manufacture in the PRC
Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青島上藥國風醫藥有限責任公司)	PRC, 27 September 2003	76,667	–	100	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	PRC, 14 June 1993	500,000	–	100	Distribution of pharmaceutical products in the PRC
Beijing Xinhai Keyuan Pharmacy Co., Ltd (北京科園信海醫藥經營有限公司)	PRC, 8 March 1999	333,070	–	100	Pharmaceutical products trading in the PRC
Keyuan Xinhai(Beijing) Medical Products Trade Co.,Ltd (科園信海(北京)醫療用品貿易有限公司)	PRC, 4 January 2009	30,000	–	100	Pharmaceutical products trading in the PRC
Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (廣州中山醫醫藥有限公司)	PRC, 8 January 1998	76,880	–	51	Pharmaceutical products trading in the PRC
Taizhou Pharmaceutical Co., Ltd. (台州上藥醫藥有限公司)	PRC, 31 December 2010	65,000	–	60	Pharmaceutical products trading in the PRC

# Notes to the Consolidated Financial Statements

## 45 PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

### Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital <i>RMB'000</i>	Share percentage	Share percentage	Principal activities and place of operations
			held by the Company <i>Direct %</i>	held by the Company <i>Indirect %</i>	
Beijing Aixin Weiye Medicine Co., Ltd. (北京上藥愛心偉業醫藥有限公司)	PRC, 29 November 2010	100,000	-	52.24	Pharmaceutical products trading in the PRC
Shanghai Shanhe Wuxi Pharmaceutical Co., Ltd. (上藥山禾無錫醫藥股份有限公司)	PRC, 1 July 2011	62,720	-	80	Pharmaceutical products trading in the PRC
Changzhou Kony Pharmaceutical Co., Ltd. (常州康麗製藥有限公司)	PRC, 3 January 2000	14,946	-	80	Pharmaceutical products manufacture and trading in the PRC
SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司)	PRC, 11 January 2011	82,000	-	78.44	Pharmaceutical products trading in the PRC
Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (東英(江蘇)藥業有限公司)	PRC, 1 January 1975	USD5,000,000	-	79	Pharmaceutical products manufacture and trading in the PRC

### Principal associates

As at 31 December 2013, the Company has direct and indirect interests in the following principal associates:

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital <i>RMB'000</i>	Share percentage	Share percentage	Principal activities and place of operations
			held by the Company <i>Direct %</i>	held by the Company <i>Indirect %</i>	
Shanghai Roche Pharmaceutical Co., Ltd.	PRC, 6 May 1994	USD134,697,142	-	30	Pharmaceutical products manufacture and trading in the PRC
TECHPOOL Bio-Pharma Co., Ltd.	PRC, 25 March 1993	100,000	39.28	1.52	Development, manufacture and distribution of chemical medicine in the PRC

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Shanghai Pharmaceuticals Holding Co., Ltd.\*