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上海醫藥集團股份有限公司
Shanghai Pharmaceuticals Holding Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02607)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of Directors (the "Board") of Shanghai Pharmaceuticals Holding Co., Ltd. (or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable) (the "Group", the "Company" or "Shanghai Pharmaceuticals") is pleased to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2014 (the "Reporting Period") prepared under the Hong Kong Financial Reporting Standards ("HKFRS").

CHAIRMAN'S STATEMENT

With a number of factors such as the decelerated rate of growth in the macro economy, control of medical insurance reimbursements, the launch of a new round of drug tendering invitations, the Good Manufacturing Practice (GMP) and the Good Supplying Practice (GSP) certifications for new pharmaceutical products, the pharmaceutical industry stepped into a new normal characterised by a slowdown in overall revenue and profit growth in 2014; but the stable growth in medical demand in the future will be a crucial assurance for the industry's potential growth in the medium-to-long run, while the aging population, changes of diseases spectrum, continuous upgrade of drug usage structure and the emergence of new technologies and new business models will support the sustained growth of the industry.

2014 was a crucial year for Shanghai Pharmaceuticals to carry out the three-year development plan for 2013-2015. During the Reporting Period, the Company adopted the "333" strategy led by the core values of "innovation, integrity, cooperation, inclusiveness and responsibility" with the theme of "laying a solid foundation and striving for development". The Company started with its three key missions by vigorously pushing forward its work in "speeding up business development to maintain strength in business scale, establishing a control and management model to improve managerial capability, strengthening resources integration to build up the core competitiveness of the Group", and recorded satisfactory operational results and achieved the objectives of the full-year operational budget.

During the Reporting Period, the Company's operating revenue was RMB92.399 billion (denominated in RMB, the same hereinafter), up by 18.12% on a year-on-year ("YOY") basis. Net profit attributable to the shareholders of the listed Company was RMB2.591 billion, representing an increase of 17.06% on a YOY basis. Basic earnings per share amounted to RMB0.9636 and basic earnings per share after deducting non-recurring profits and losses were RMB0.8037. During the Reporting Period, the Company's net cash flows from operating activities amounted to RMB1.336 billion, up by 37.21% on a YOY basis. As at 31 December 2014, the owners' equity of the Company was RMB31.099 billion, its owners' equity after deducting minority interest was RMB27.822 billion and its total assets were RMB64.341 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

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, and is presented in RMB. 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.

I. Pharmaceutical Research and 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 RMB512,324,300, accounting for approximately 4.61% of the Company's manufacturing sales revenue, of which 29.29% was used for the R&D of innovative medicine, 26.83% was used for the R&D of first generic drugs and other generic drugs, and 43.88% was used for secondary development of existing products. During the Reporting Period, the Company filed 93 invention patent applications and was granted 28 invention patents. As at the end of the Reporting Period, the Company owned a total of 217 invention patents. During the Reporting Period, sales revenue from the Company's new products launched through the R&D amounted to RMB1,330 million, representing approximately 11.98% of the Company's manufacturing sales revenue.

During the Reporting Period, in order to develop an efficient R&D system, the Company optimized the management and control over the R&D projects and assessment programs, convened the technology innovation conference, and established the science and technology innovation council of the Group as its R&D project prequalification body which also participates in the material decision making process in respect of the R&D. In addition, the Company also made assessments on and streamlined projects under the R&D, and developed an operation program for the Central Research Institute of the Group. In addition to its current six branches, the Company set up the No. 1 Biochemical Branch under the Central Research Institute (中央研究院第一生化分院).

During the Reporting Period, the Company obtained 4 clinical approvals for 2 new drug products. In total, the Company submitted 20 clinical approval applications for 11 drugs and 18 production approval applications for 10 drugs. Three more approvals in relation to medical devices were added and 12 more approvals for the filing of cosmetic-related products were added.

In respect of the R&D of the antibody drugs, “Recombinant Fusion Protein of Human Tumor Necrosis Factor Receptor Mutant – Fc Fragment Injection”, a pharmaceutical co-developed with Shanghai Fudan Zhangjiang Bio-Pharmaceutical Co., Ltd. (“Fudan Zhangjiang”), has obtained the approval for clinical trial and is currently under phase I clinical research. The application for clinical trial on “Recombinant Humanized Anti-CD20 Monoclonal Antibody Injection” has been accepted by China Food and Drug Administration on May 2014. In addition, the Company launched the plan to construct the Group’s antibody industrialisation base.

In respect of the R&D of Chinese medicine, the Company has submitted the application for clinical approval of its new product, the dispersible kidney cleansing herbal tablet (分清腎茶片). Since inception, the Chinese Medicine Research Institute under the Shanghai Pharmaceuticals Central Research Institute has launched the secondary development for Babaodan, one of the Company’s Chinese medicine products. The Company also cooperated with the Eastern Hepatobiliary Surgery Hospital subordinated to The People’s Liberation Army Second Military Medical University of China (“Second Military Medical University”) and Shanghai Institutes for Biological Sciences under Chinese Academy of Sciences (“CAS”).

In respect of the R&D of bio-chemical drugs, in April 2014, the approvals were granted to the LLTD-8, a new drug under class 1.1, for the extended clinical trial of phase I, and it has already entered into the extended clinical research of phase I. Deuteroporphyrin, a pharmaceutical under class 1.1 developed through cooperation with Fudan Zhangjiang, is still under phase II clinical trial. The active pharmaceutical ingredients and tablet of SPH3127, a new drug under class 1.1, were submitted for clinical approval application in December 2014. The Company also introduced the active pharmaceutical ingredients and tablet of Apixaban, the first declared new drug under class 3.1 in China. The Company also developed the plan to construct the Group’s industrialization base for chemical active pharmaceutical ingredients.

During the Reporting Period, the Company cooperated with the Second Military Medical University under the “Translational Medicine Alliance”, and invested RMB10 million to commence the collaborative research of 14 innovative drug projects.

During the Reporting Period, the Company was supported by a number of government subsidies. Among them, the Company received the first batch of government subsidy for “The Construction of an Open Platform for Innovative Drugs and Research on Types of Drugs (《上海醫藥創新藥物開放式研發平臺建設及品種研發》)”, a new

major specialised project in 2014 for “Major New Drug Innovation” under the 12th Five Year Plan, which is being implemented as scheduled. The two projects known as the “Construction Project of Shanghai Pharmaceuticals Antibody Industrialisation Base (《上海醫藥抗體產業基地建設項目》)” and “Capability Building Project for Shanghai Pharmaceuticals Central Research Institute (《上海醫藥中央研究院能力建設項目》)”, submitted by the Company and selected as technology innovation and ramp up projects by Shanghai SASAC in 2013, were conducted as scheduled. Specifically, the “The Phase II Clinical Study of Treatment of Rheumatoid Arthritis and the Preclinical Study of Treatment of Lupus by Using Leitengshu (《雷藤舒治療類風關的II期臨床研究及治療狼瘡的臨床前研究》)” was selected as a new major specialised project in 2014 for “Major New Drug Innovation”; the two projects known as the “Sine Modern Biomedical Industry Consolidation and Technology Innovation and Ramp up Project (《信誼現代化生物醫藥產業整合暨能級提升建設項目》)” and the “Construction and Pilot Application of MES Platform for Enhancement of Product Quality and Control of the Pharmaceutical Industry (《提升醫藥行業生產質量管控能級的MES平台建設及示範應用》)” were approved by Shanghai SASAC; and the “Study of Functional Mechanism of Babaodan Capsule and Study of Process Improvement and Clinical Efficacy of Drugs Including Chanwu Cataplasma (《八寶丹膠囊作用機制研究及蟾烏巴布膏等工藝改進和臨床療效研究》)” was selected as a specialised biomedical project by Shanghai Science and Technology Commission. In addition, the Company also obtained approval of its application for 2014 Shanghai Patented Pilot Enterprise and received relevant financial support.

During the Reporting Period, the project named the “Formulation and Industrialization of the Core Technology System for Secondary Development of Chinese Patent Medicine” (“中成藥二次開發核心技術體系創研及其產業化”項目), co-developed and completed by Chiatai Qingchunbao Pharmaceutical Co., Ltd., a subsidiary of the Company, together with Tianjin University of Traditional Chinese Medicine, Zhejiang University, China Academy of Traditional Chinese Medical Sciences and Tianjin Pharmaceuticals Group Co., Ltd. (天津市醫藥集團有限公司), received the first-class prize of the 2014 National Science and Technology Advancement Award. This marks the only prize in recognition of innovative results of the pharmaceutical industry among the first-class prizes of the National Science and Technology Advancement Award. Chiatai Qingchunbao is also the one and the only pharmaceutical manufacturer winning the first-class prize of 2014 the National Science and Technology Advancement Award, which reflects the leading position of Chiatai Qingchunbao in China in terms of the R&D and manufacture of products such as Shenmai injection. In addition, the project of “Development and Technological Innovations in Antipsychotic Drug Aripiprazole” (“抗精神分裂症藥阿立哌唑的開發和工藝技術創新”項目) undertaken by Shanghai Zhongxi Pharmaceuticals Co., Ltd., a subsidiary of the Company, was honoured with the second-prize of the 2013 Shanghai Technological Invention Award. The project “Development of and Industrialization Research on Trichosanthes Peel Injection” (“瓜蒌皮注射液開發及其產業化研究”項目) undertaken by Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd., a subsidiary of the Company, was honoured with the third-class prize of the 2013 Shanghai Science and Technology Progress Award. Furthermore, applications made by

12 key subsidiaries of the Company including No. 1 Biochemical and Pharmaceutical, Zhongxi Pharmaceuticals and Sine Pharmaceutical Laboratories for re-approval of the High-technological Enterprises for 2014 were all passed.

2. Pharmaceutical manufacturing

During the Reporting Period, the Company's sales revenue from the pharmaceutical business was RMB11.103 billion, representing a growth of 3.69% as compared with the corresponding period of last year; its gross profit margin was 48.23%, an increase of 0.16 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting sales and administration costs was 12.02%, an increase of 0.34 percentage point as compared with the corresponding period of last year.

During the Reporting Period, the Company's sales revenue from biological drugs was RMB379 million, up by 2.98% on a YOY basis as a result of temporary cessation of production due to the transformation of workshops of key products for capacity expansion in the first half; sales revenue from chemical and biochemical drugs was RMB4,894 million, up by 4.33% on a YOY basis; sales revenue from Chinese medicines (including Chinese patent medicine and Chinese herbal medicine) was RMB4,186 million, up by 3.62% on a YOY basis; and sales revenue from other industrial products (including active pharmaceutical ingredients (APIs), healthcare products and medical devices, etc.) were RMB1,644 million, up by 2.12% on a YOY basis. During the Reporting Period, 24 products attained the product sales revenue of over RMB100 million, three more products were added to the number of the kind for 2013.

During the Reporting Period, the Company continued to implement its strategy to focus on key products. Sales revenue of 64 key products reached RMB6,678 million, up by 3.54% on a YOY basis, accounting for 60.15% of the revenue from industrial sales with an average gross profit margin of 63.64%, representing an increase of 0.31 percentage point. Among the key products, 33 products achieved a growth rate higher than or equivalent to that of similar products of IMS Health Inc. 24 products whose sales revenue for the year exceeds RMB100 million are all the key products. The average growth rate of the top five fastest growing products is 45.84%, while that of the bottom five is -39.34%; specifically:

No.	Product name	Therapeutic area	Sales revenue in 2014 (RMB10,000)
1	Shenmai injection	Cardiovascular system disease	67,612
2	Tanshinone IIA	Cardiovascular system disease	40,236
3	Divine elephant series	Healthcare products	38,658
4	Hydroxychloroquine	Antineoplastic drug and immunomodulator	35,629

No.	Product name	Therapeutic area	Sales revenue in 2014 (RMB10,000)
5	Live combined bifidobacterium	Digestive and metabolic disease	35,560
6	Wangbi tablets	Musculo-skeletal system	28,152
7	Calcium dibutyryladenine cyclophosphate	Cardiovascular system disease	28,000
8	Cefotiam	Systemic anti-infective medicine	21,765
9	Trichosanthes peel injection	Cardiovascular system disease	18,805
10	Chymotrypsin	Respiratory system	17,243
11	Thalidomide	Antineoplastic drug and immunomodulator	15,758
12	Xinhuang tablets	Respiratory system products	15,337
13	Rupixiao tablets	Genito-urinary system and sex hormones	14,616
14	Yangxinshi	Cardiovascular system disease	13,979
15	Weifuchun tablets	Digestive and metabolic disease	13,716
16	Aripiprazole	Neurological system	12,629
17	Cisatracurium Besylate	Musculo-skeletal system	12,444
18	Rosuvastatin	Cardiovascular system disease	12,231
19	Babaodan	Digestive and metabolic disease	12,187
20	Ceftriaxone Sodium for Injection	Systemic anti-infective medicine	11,973
21	Hongyuanda	Blood and blood-forming organ	11,309
22	Yinxing Tongzhi	Cardiovascular system disease	10,733
23	Qingchunbao anti-caducity tablets	Healthcare products	10,728
24	Soothing ointment	Others	10,155
	Total		509,455

During the Reporting Period, the Company re-optimized its product strategy according to external market conditions, grouping the original 64 key products into 60 and adopting the “one strategy for one product” approach to work out plans for each key product in the aspects of the secondary R&D, supporting for production capacity, marketing sales and etc., so as to ensure the implementation of strategies.

As at the end of the Reporting Period, 300 products of the Company were listed on List of Low-price Drugs Among the Pricing Range Set by the National Development and Reform Commission (《國家發展改革委定價範圍內的低價藥品清單》) by the number of the existing approvals, among which, 210 are chemical medicines with 893 specifications in aggregate, 90 are Chinese patent medicine with 205 specifications in aggregate.

As at the end of February 2015, 31 of the Company’s 41 industrial subsidiaries were granted 65 new version of good manufacturing practice (“GMP”) Certificates. Among them, 12 of those firms engaged in the production of aseptic products have completed the

certification of new GMP as planned and were granted a total of 24 certificates. Among the 29 firms engaged in the production of non-aseptic products (including Chinese herbal medicine), 19 were granted new GMP Certificates; 9 firms are going to be honored the certificates by the end of 2015 and one members is expected to apply for the certification after 2015 due to its relocation. By reforming and passing the new GMP certification, the Company has comprehensively enhanced its technological equipments, production management and quality management in pharmaceutical manufacturing, thus ensuring the safety and quality of its pharmaceutical products. In the two issues of Announcement of Pharmaceutical Quality released by the China Food and Drug Administration in 2014, none of the Company's products were among the list defined as failing to meet the standards.

II. Pharmaceutical services

1. Pharmaceutical distribution

During the Reporting Period, the sales revenue from pharmaceutical distribution business was RMB82.00 billion, up by 20.57% on a YOY basis, with a gross profit margin of 6.07%, marking an increase of 0.02 percentage point as compared with the corresponding period of last year. The margin of sales and administration costs was 3.53%, representing a decrease of 0.06 percentage point as compared with the corresponding period of last year. The operating profit margin after deducing selling, general & administrative expenses (SG&A) was 2.54%, up by 0.08 percentage point as compared with the corresponding period of last year.

During the Reporting Period, in a bid to maintain the gross profit margin of distribution business, the Company continued to optimize its product structure, maintain reasonable direct sale proportion and to implement Lean Six Sigma management, in order to strengthen cost control. The Company also further expanded innovative services on hospital supply chain, entrusting a total of 65 hospital pharmacies currently. During the Reporting Period, the Company continued to consolidate planning and construction on distribution logistics. Ningbo Logistics Project of Shanghai Pharmaceutical Distribution Co., Ltd. had completed its construction and officially put into operation, and SPH Keyuan Airport Logistics Center in Beijing had commenced operation fully. As at the end of the Reporting Period, new GSP Certificates were granted to most of the wholesale and chain firms of the Company's subsidiaries.

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 66.66%, 24.69% and 6.20% respectively. The distribution business of the Company maintained reasonable proportions, 49.87% for sales of joint ventures manufactured and imported products and 61.77% for direct hospital sales, representing a YOY increase of 5.04 percentage points and a YOY increase of 1.21 percentage points respectively.

As at the end of the Reporting Period, the Company's distribution business covered 15,188 medical institutions, of which 14,811 were hospitals and 377 were centres of disease control (CDC). Among the hospitals, 938 were graded as class 3, accounting for 49.17% of the hospitals of its kind in the PRC. During the Reporting Period, in order to expand and enrich the product line, the Company introduced 9,192 new products, of which 1,624 were imported and joint venture manufactured, and 7,568 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 sales revenue of RMB6.149 billion, representing a YOY growth of 39.75%, of which:

- DTP: During the Reporting Period, the Company realized revenue of RMB2.282 billion, representing a YOY growth of 29.66%. As at the end of the Reporting Period, 26 DTP designated drugstores were under the DTP business, spanning 22 cities and provinces in the PRC.
- Vaccines: Sales revenue amounted to RMB2.555 billion, representing a YOY increase of 42.74%, with 23 new products having been introduced.
- High value consumables: Sales revenue amounted to RMB1.312 billion, representing a YOY growth of 54.35%.

By catching the trends of the national medical reform and the internet technological development and exploring the new pharmaceutical business model, the Company decided in March 2015 to make joint investments with Ji Jun, general manager of SPH Zhongxie Pharmaceutical Co., Ltd., a subsidiary of the Company, to set up the Shanghai Pharmaceuticals Grand Health Cloud Commerce Company Limited (上海醫藥大健康雲商股份有限公司), with the Company holding a 70% equity interest in the company. With a focus in the development of the online platform and offline network, the company is positioned as an e-commerce trader which provides patients with O2O sales of prescription drugs and health management services.

2. Pharmaceutical Retail

During the Reporting Period, the sales revenue from the Company's pharmaceutical retail was RMB3.376 billion, up by 12.85% YOY; gross profit margin was 19.00%; and operating profit margin after deducting sales and administration costs was 1.32%.

As at the end of the Reporting Period, the Company had 1,895 chain retail pharmacies under its brand family, including 1,193 directly operated pharmacies.

III. External mergers, operational improvement and internal integration

1. External mergers and acquisitions

During the Reporting Period, to further expand the pharmaceutical distribution network in North China, Central China and Western regions, the Company acquired 50% equity interest in Beijing Xin Hai Feng Yuan Biopharma Technology Development Co., Ltd. to make it a wholly-owned subsidiary, 85% equity interest in Shaanxi Huaxin Pharmaceutical Co., Ltd. (陝西華信醫藥有限公司) and a 100% equity interest in Ordos Yili Pharmaceutical Co., Ltd. (鄂爾多斯市億利醫藥有限責任公司), through SPH Keyuan Xinhai Pharmaceutical Co., Ltd., a subsidiary of the Company. To further expand the pharmaceutical distribution network in Shandong, Shanghai Pharmaceutical Distribution Co., Ltd., a subsidiary of the Company, acquired 75% equity interest in Shandong SPH Pharmaceutical Co., Ltd. (山東上藥醫藥有限公司), and increased its holding in Shandong SPH Shanglian Pharmaceutical Co., Ltd. (山東上藥商聯藥業有限公司) to 35% equity interest. To strengthen international cooperation in research and development of innovative drugs, get more support of the external high-quality R&D resources, the Company made an equity investment with domestic investment institutions and pharmaceutical enterprises by establishing Sichuan Green Tech Biotechnology Co., Ltd. (四川格林泰科生物科技有限公司) in Sichuan, which is engaged in preclinical technical services for modern new drugs. In a bid to further enrich the categories of medical devices business, transform to medical services and to improve the core competitiveness of medical devices business, the Company, through its subsidiary Shanghai Industrial Medicine Research & Development Co., Ltd. (上實醫藥科研開發有限公司) entered into an agreement in respect with the acquisition of 51% equity interest of Xinquan Global Co., Ltd. (星泉環球有限公司) to control Guangdong Sunnico Medical Technology Co., Ltd.. The project was completed in January 2015.

2. Optimizing cash pooling to reduce financial fees

During the Reporting Period, the Company continued to effectively play the role as a cash pool. Internal financing of the Company further expanded to RMB2.4 billion, directly reducing financial expenses by RMB110 million during the Reporting Period. To optimize the Company's financial management, improve capital usage efficiency and reduce financing costs and risks, the Company entered into a Financial Services Framework Agreement with Shanghai SIIC Finance Co., Ltd. and Shanghai Shangshi (Group) Co., Ltd., for the finance company's provision of deposit, loan, settlement and other finance services to the Group. Through China International Pharmaceutical (Holding) Corporation Limited, a platform in Hong Kong acting as an overseas pharmaceutical trading payment platform, the Company also carried out import business settlement for Shanghai Pharmaceutical Distribution Co., Ltd. and SPH Keyuan Xinhai Pharmaceutical Co., Ltd., both subsidiaries of the Company, for reducing financial expenses. During the Reporting Period, the contracts of imported volume by purchasing through China International Pharmaceutical (Holding) Corporation Limited were amounted to RMB474 million.

3. Implementing centralized procurement

During the Reporting Period, the Company continued to carry out the centralized procurement of 12 bulk medicinal materials. In addition, the Company completed the invitation of tenders for the centralized procurement of aluminum foils, capsules, printed materials and plastic bottles. Following the tenders, the average price cut was 23.4%.

During the Reporting Period, the Company continued to carry out and optimize the centralized procurement of flight tickets, accommodation and office supplies for the Group's headquarters and ten directly-controlled subsidiaries in Shanghai, and the number of subsidiaries included in the centralized procurement grew from 21 to 33. The average discounts offered to the Group in respect with flight tickets decreased by 13 percentage points as compared with that before the centralized procurement was launched. The cost for centralized booking of hotel accommodation decreased by approximately 26% as compared to that by front-desk prices; and the cost for centralized procurement of office supplies decreased by approximately 15% as compared to that by the original prices from the suppliers. In order to enhance the centralized procurement, the Company set up a "Shanghai Pharmaceuticals standalone counter for office supplies" in the second half of the year. On average, prices of the first batch were approximately 33% lower than those offered online, with the largest difference of approximately 56%.

4. Promoting the synergy between manufacturing and distribution segments

During the Reporting Period, the Company made use of the drug tendering process in various provinces as a starting point and proactively promoted the linkage between manufacturing and business to establish a "comprehensive and all-rounded market access system". With the support of controlled local business enterprises, seven market access offices for the Group were set up in Beijing, Henan, Shandong, Hubei, Hunan, Fujian and Guangdong; and four major market access zones were established based on industrial enterprises, so as to unify all of the industrial enterprises and business enterprises of the Group in various provinces. The market access initiatives of the Company could help achieve a higher success rate in bidding for tenders by assisting industrial enterprises maintain price levels creating a favourable market access environment, and help commercial enterprises acquire distribution rights of our manufacturing products; which in turn promoted the linkage between manufacturing and business and boost the sales growth of the Company.

5. Embarking on Lean Six Sigma management

During the Reporting Period, the Company fully introduced the concept of lean management, and commenced the Lean Six Sigma management project in full swing in the whole Company through the establishment of assurance mechanisms, setting up of systems and workflow, introduction of staff training and project development.

The first phase trial run and second phase promotion in the pharmaceutical manufacturing segment were completed, which effectively improved manufacturing technologies, lowered manufacturing costs, enhanced product quality and shortened production cycles. The project covered every step in the production and manufacturing process. Following the first phase pilot project for eight enterprises, 13 pharmaceutical manufacturers and 27 production bases participated in the second phase of the project. Lean management in the pharmaceutical manufacturing segment mainly involved the launching of 70 Lean Six Sigma improvement projects in two phrases. Meanwhile, the Company selected three outstanding enterprises as role models for lean management and commenced the pilot projects of 5S and TPM based on lean six sigma. Standardisation and sensitivity in management were improved, and on-site management standards were significantly enhanced. The Company also integrated industrialisation and informatisation by using information systems to achieve synchronisation and speedy transmission of data, so as to lower the error rate and shorten the manufacturing and delivery cycles.

On the pharmaceutical services front, the Company introduced lean management in two subsidiary distributors, and optimised and reformed the workflow for internal supply chain management. On the procurement front, the supplier services strategy project was adopted to improve customer satisfaction and reduce inventory by increasing delivery frequency. The delivery appointment project was adopted to reduce the delivery waiting time of suppliers. For the hospital users end, the Company strived for balanced operations by changing their timing for placing orders, while a change in their repayment cycle helped relieve capital pressure, and a change in the return process improved inventory accuracy. Such attempts in introducing bold innovation and reform greatly improved the quality of services and operational efficiency of the pharmaceutical services enterprises.

During the Reporting Period, the Company achieved direct benefits of over RMB10 million from lean management.

6. Pushing forward internal business integration

During the Reporting Period, the marketing centres of the Company were put into operation, which determined the principles of “planning, service, instruction and supervision” for the manufacturing sales business and defined the three major missions of establishing platform companies, supporting two enterprises and providing other enterprises with good services. The Company further focused on therapeutic areas and core product varieties by implementing the idea of “one product for one strategy” as its product strategy, and building up the core marketing capability of the Group to drive the growth in manufacturing sales.

During the Reporting Period, Marketing Department I operated by using Shanghai Pharmaceutical Group Pharma Sales Co., Ltd. as the platform for marketing products of Zhongxi Sunve, Dongying Pharmaceuticals and some products of No. 1 Biochemical, successfully implementing the separation of manufacturing and sales in the above three companies. Marketing Department I also helped Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd. undertake product mix restructuring, marketing resource integration, marketing strategy implementation and provided solutions for dealing with the inventory stocked in some of its channels. Marketing Department II continued to develop the marketing platform of Shanghai Sine Pharmaceutical Laboratories Co., Ltd., a physically-established company, and promote system integration through the organisational structure, human resources and information systems of the platform companies. Meanwhile, Marketing Department II also launched the integration of the marketing system of the pilot subsidiary, Shanghai New Asiatic Pharmaceuticals Co., Ltd. and adjusted its variety strategies. Marketing Department III launched the establishment of organisations and institutions since August 2014, and prepared for the establishment of Shanghai Pharmaceutical Dragon & Tiger Medicine Sales Co., Ltd. (上海上藥龍虎醫藥銷售有限公司) as the physical sales company of Marketing Department III. During the Reporting Period, the two platform companies in operation delivered significant improvement in sales performance, internal management and team building, while their core products also stood out in the Group and achieved growth that was higher than market average. As measures were in place to support these enterprises, significant sales improvement was achieved.

During the Reporting Period, for the integration of the Group's traditional Chinese medicine resources and build-up of a bulk herbs procurement platform, the Company, increased its holding to 34.78% equity interest held by minority shareholders in Shanghai Huayu Pharmaceuticals Co., Ltd. ("Huayu Pharmaceuticals") through Shanghai Traditional Chinese Medicine Co., Ltd., a subsidiary of the Company, to make it a wholly-owned subsidiary, while Huayu Pharmaceuticals increased its holding to 30% equity interest in Shanghai Dehua Traditional Chinese Medicines Co., Ltd. to further push forward the integration of Chinese herbal piece resources. During the Reporting Period, to consolidate the resources on operating the principal business, the Shanghai Medical Instruments Co., Ltd., a subsidiary of the Company, assigned to Wing Fat Printing Co., Ltd. 75% equity interest held in Shanghai Shengli Medical Instruments Co., Ltd. (上海勝利醫療器械有限公司).

The fixed assets investment budget of the Company for 2014 amounted to RMB1.069 billion. During the Reporting Period, the Company's investment in fixed assets relating to projects of chemical drugs, Chinese medicine products, commercial logistics, and medical equipment, was RMB637 million. During the Reporting Period, the Company accomplished the task of cutting the losses incurred by the Taopu production base under Zhongxi Sunve and the Fengpu production base under Shanghai Traditional Chinese Medicine in accordance of the plan made early this year. Currently, the transfer of land of Zhongxi Sunve production base has been completed, and relevant tasks including the transfer of product production and the project construction are being promoted in an orderly manner as planned.

FINANCIAL INFORMATION

Consolidated financial statements prepared under Hong Kong Financial Reporting Standards and notes attached.

Analysis of operation and results during the Reporting Period

Unless otherwise stated, analysis of operation and results during the Reporting Period stated below is based on data of financial statements prepared under Chinese Accounting Standards for Business Enterprises and is presented in RMB. There are no material differences between the net profit and consolidated net assets in the financial statements disclosed under Hong Kong Financial Reporting Standards and those in the financial prepared under Chinese Accounting Standards for Business Enterprises.

(I) Analysis of principal business

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

Unit: RMB

Item	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Operating income	92,398,893,626.70	78,222,817,357.35	18.12	Increase of sales income during the Reporting Period
Operating costs	80,994,124,189.65	67,980,142,497.05	19.14	Increase of sales volume during the Reporting Period
Sales costs	4,826,366,911.53	4,407,225,498.04	9.51	Increase of sales volume during the Reporting Period
Management costs	2,954,783,465.34	2,728,051,101.02	8.31	Increase of management costs resulting from the increase in the sales volume during the Reporting Period
Finance costs	436,299,869.59	233,134,777.47	87.14	Increase of interest expense and decrease of interest income during the Reporting Period
Income tax expense	807,716,945.78	628,368,310.65	28.54	Increase in profit during the Reporting Period

Item	Amount for the Reporting Period	Amount for the same period last year	Change (%)	Reasons for changes
Net cash flows generated from operating activities	1,335,674,135.37	973,449,693.95	37.21	Increase in collection of receivables during the Reporting Period
Net cash flow generated from investing activities	-1,844,573,224.17	-892,799,680.30	-	Increase of expense for mergers and acquisitions during the Reporting Period
Net cash flow Generated from financing activities	-948,811,062.99	-721,565,078.61	-	Increase of debt repayment during the Reporting Period
Research and Development expenses	512,324,300.00	454,710,000.00	12.67	Increase of the 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' revenue was RMB92.399 billion, up by 18.12% on a YOY basis, among which, the revenue generated from distribution business was RMB82.00 billion, up by 20.57% 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 RMB11.103 billion, up by 3.69% on a YOY basis. The increase was mainly driven by further expanding the existing products market.

(2) Major customers

- 1 The largest customer of pharmaceutical distribution accounted for 0.80% of the sales of the distribution section; the sales to the top 5 customers in aggregate accounted for 3.03% of the total sales of the distribution section of the Company;
- 2 The largest customer of pharmaceutical manufacturing accounted for 3.41% of the sales of the manufacturing section; the sales to the top 5 customers in aggregate accounted for 12.21% 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.

3. Cost

(1) Table of Analysis of Cost

Unit: RMB10,000

By industry							Percentage change of the amount at the Reporting Period compared to that of the corresponding period of last year
By industry	Breakdown	For the Reporting Period	Percentage of the cost to the total cost of the Reporting Period (%)	For the corresponding period of last year	Percentage of the cost to the total cost of the corresponding period of last year (%)	Percentage of the cost to the total cost of the corresponding period of last year (%)	Percentage change of the amount at the Reporting Period compared to that of the corresponding period of last year (%)
Industrial	Raw materials, ancillary materials and packaging materials	409,259.45	72.63	388,386.91	71.20		5.37
	Utilities and power expenses	24,211.69	4.30	22,341.63	4.10		8.37
	Depreciation charges	20,454.79	3.63	24,635.47	4.52		-16.97
	Salaries	52,311.30	9.28	48,616.46	8.91		7.60
	Other manufacturing cost	57,270.92	10.16	61,532.97	11.27		-6.93
	Total industrial cost	563,508.15	100.00	545,513.44	100.00		3.30
Commercial and others	Cost	7,984,350.16	100.00	6,640,421.48	100.00		20.24
Offsetting total cost		-448,445.89		-387,920.67			
Total operating cost		8,099,412.42		6,798,014.25			

(2) Major suppliers

- 1 For distribution of pharmaceutical products, the purchase from the largest supplier accounted for 1.92% of the total purchase of the distribution section; the aggregate purchase from the five largest suppliers accounted for 7.11% of the total purchase of the distribution section of the Company for the year;

- 2 For manufacturing of pharmaceutical products, the purchase from the largest supplier accounted for 3.09% of the total purchase of the manufacturing section; the aggregate purchase from the five largest suppliers accounted for 9.99% of the total purchase of the manufacturing section of the Company for the year;
- 3 Information of any interests in the suppliers disclosed in 1-2 above held by any directors or their respective associates or shareholders 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 the above (I) Analysis of principal business – 1. Analysis on changes in relevant items of consolidated income statement and statement of cash flow.

- (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

	<i>Unit: RMB10,000</i>
Expensed research and development expenditure for the period	51,232.43
Capitalised research and development expenditure for the period	
Total research and development expenditure	51,232.43
Total research and development expenditure as a percentage of net assets (%)	1.65
Total research and development expenditure as percentage of operating income (%)	0.55

(2) Explanation

During the Reporting period, the research and development expenditure of Shanghai Pharmaceuticals amounted to RMB512.3243 million, and the expenditure on research and development fees represented 4.61% of the Company's manufacturing sales income. Of the total research and development expenditure, research and development on innovative drugs accounted for approximately 29.29%, and that on generic drugs, research and development on first and second to market generics accounted for 26.83% and secondary development of existing products accounted for approximately 43.88% of the total.

6. Cash flows

During the Reporting Period, the Shanghai Pharmaceuticals' net cash flow from operating activities amounted to RMB1.336 billion, representing 37.21% of growth on a YOY basis. The Company realised sound cash inflows from operating activities.

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 2014, 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	Revenue	Operating cost	Gross profit margin (%)	Change in revenue YOY (%)	Change in cost of sales YOY (%)	Change in gross profit margin compared to last year
Manufacturing	11,103,433,713.66	5,635,081,502.32	49.25	3.69	3.30	+0.19 percentage point
Distribution	82,000,233,662.50	76,931,365,116.11	6.18	20.57	20.56	+0.01 percentage point
Retail	3,376,455,549.98	2,722,150,777.28	19.38	12.85	14.12	-0.90 percentage point
Others and offsetting	-4,430,713,856.41	-4,458,897,505.34				

*For the above table, Gross profit margin = (Revenue – Operating Cost)/Operating income * 100%*

2. Principal business by region

Unit: RMB

Region	Revenue	Change in revenue YOY (%)
Domestic	91,369,420,280.46	19.00
Overseas	679,988,789.27	-37.40

III. Analysis on assets and liabilities

1. Table of analysis on assets and liabilities

Unit: RMB

Name of item	Amount at the end of Reporting Period	Amount at the end of Reporting Period as a percentage of total assets (%)	Amount at the end of previous period	Amount at the end of previous period as a percentage of total assets (%)	Percentage change of amount at the end of Reporting Period compared to that of previous period (%)	Explanation
Financial assets at fair value with changes recognised in current profit or loss	505,659.00	0.001	339,985.80	0.001	48.73	Increase in fair value during the Reporting Period
Receivables	19,941,255,695.95	30.99	15,183,536,841.51	26.96	31.33	Expansion in the scope of merger and acquisition and growth of business during the Reporting Period
Prepayments	1,076,062,833.82	1.67	727,151,272.90	1.29	47.98	Expansion in the scope of merger and acquisition and growth of business during the Reporting Period
Dividends receivable	274,730,002.86	0.43	9,544,624.19	0.02	2,778.37	Increase in dividends received from associates during the Reporting Period
Long-term receivables	252,911,978.93	0.39	118,680,121.16	0.21	113.10	Increase in payment of security deposits during the Reporting Period
Construction in progress	632,603,481.79	0.98	905,322,662.28	1.61	-30.12	Conversion of construction in process into fixed assets during the Reporting Period
Construction materials	301,316.23	0.0005	3,239,889.61	0.01	-90.70	Increase in requisition of construction materials during the Reporting Period
Deferred income tax assets	264,590,931.01	0.41	199,806,284.15	0.35	32.42	Increase in deductible temporary differences recognised during the Reporting Period
Other non-current assets	402,813,375.94	0.63	171,933,770.36	0.31	134.28	Increase in prepaid construction cost during the Reporting Period
Short-term borrowings	7,932,394,326.58	12.33	5,897,961,043.81	10.47	34.49	Expansion in the scope of merger and acquisition and growth of business during the Reporting Period

Name of item	Amount at the end of Reporting Period	Amount at the end of Reporting Period as a percentage of total assets (%)	Amount at the end of previous period	Amount at the end of previous period as a percentage of total assets (%)	Percentage change of amount at the end of Reporting Period compared to that of previous period (%)	Explanation
Advance from customers	515,773,646.56	0.80	309,065,006.96	0.55	66.88	Expansion in the scope of merger and acquisition and growth of business during the Reporting Period
Tax payable	546,502,723.65	0.85	393,620,916.69	0.70	38.84	Increase in tax payable during the Reporting Period
Interests payable	42,030,485.45	0.07	25,420,266.00	0.05	65.34	Increase in outstanding interest at end of the Reporting Period
Non-current liabilities due within a year	20,730,000.00	0.03	26,408,904.00	0.05	-21.50	Decrease in long-term borrowings due within a year during the Reporting Period
Deferred income	554,263,213.86	0.86	1,038,417,559.29	1.84	-46.62	Transfer of gains on relocation compensation during the Reporting Period
Long-term staff remuneration payables	70,472,127.38	0.11	34,613,140.99	0.06	103.60	Increase in termination benefits payable during the Reporting Period
Deferred income tax liabilities	380,162,990.98	0.59	288,812,292.71	0.51	31.63	Increase in fair value of identifiable assets for business combination not under common control during the Reporting Period

(1) Capital structure

As at 31 December 2014, the debt asset ratio (total liabilities divided by total assets) of Shanghai Pharmaceuticals was 51.66% (31 December 2013: 48.50%), representing an increase of 3.16 percentage points on a YOY basis. Interest coverage ratio (EBIT divided by interest expenses) was 7.50 times (2013: 8.80 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 2014, the balance of the Company borrowings was RMB8.059 billion, of which the balance of USD denominated borrowings was equivalent to RMB86 million and the balance of HKD denominated borrowings was equivalent to RMB19 million. As at 31 December 2014, the Company had net accounts receivable and notes receivable of RMB21.408 billion (31 December 2013: RMB16.567 billion), representing a YOY increase of 29.22%. The increase in account receivables was mainly attributed to the increase in the scale of operation and the expansion in scope of consolidation. As at 31 December 2014, the balance of the Company's accounts payable and notes payable was RMB20.436 billion (31 December 2013: RMB16.876 billion), representing a YOY increase of 21.10%. The increase in accounts payable was mainly attributed to the increase in the scale of operation and the expansion in scope of consolidation. Details of the Company's loans and borrowings are set out in Notes IV (26), (36), (37) to the financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and Note 25 to the financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

(2) Property, Plant and Equipment and Investment Properties

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

(3) Properties (at fair value)

As at 31 December 2014, the revalued amount of investment properties of Shanghai Pharmaceuticals amounted to RMB736.44 million.

(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.	12,835.00	2014/9/5	2015/6/23
Shanghai Pharmaceutical Distribution Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	9,000.00	2014/4/16	2015/4/13

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

(5) Pledge of assets

- 1 As at 31 December 2014, the net value of buildings and machinery of RMB172,765,778.27 (at cost of RMB279,949,633.65) and the land use rights with site area of 548,162.57 square meters (at cost of RMB106,787,716.22 and book value of RMB84,843,074.94) were pledged to secure short-term borrowings of RMB365,450,000.00, long-term borrowings of RMB79,371,879.85 and long-term borrowings due within one year of RMB15,000,000.00.
- 2 As at 31 December 2014, the accounts receivable of RMB202,868,076.80 and notes receivable of RMB166,288,374.32 was pledged to secure short-term bank loans of RMB310,580,660.78.

IV. Core Competence Analysis

1. Industrial chain advantage

With its business covering pharmaceutical research and development, manufacturing services, Shanghai Pharmaceuticals has established its unique comprehensive strength in industrial chain by continuously integrating core resources of the industrial chain and focusing on coordinated development of its businesses.

2. Brand advantage

Aiming at becoming a reliable and time-honored supplier of safe pharmaceuticals and ready to embrace innovation challenges ahead, the Company has established “Shanghai Pharmaceuticals”, the positive and stable main brand image whose public recognition is on the rise. The Company adheres to the main brand-driven development strategy and optimizes its brand structure in a reasonable manner. In addition, the Company enjoyed high recognition in the market thanks to the synergy produced by the combination of those established brands with long history and rich connotation and the “Shanghai Pharmaceuticals” brand.

3. Technical advantage

Shanghai Pharmaceuticals enjoys a well-established product base and has a R&D system with the Central Research Institute at its core. In addition, Shanghai Pharmaceuticals has established close relationship with Mitsubishi Tanabe, Shenyang Pharmaceutical University, the People’s Liberation Army Second Military Medical University of China, Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. through open cooperation. As a result, Shanghai Pharmaceuticals has developed a series of product offerings under the R&D which combine generic and innovative drugs, chemical drugs, antibody drugs and traditional Chinese medicine, and owns a number of innovative drugs under application for clinical approval or in the process of clinical study.

4. Manufacturing advantage

By strictly implementing the new GMP requirements, Shanghai Pharmaceuticals has 20 types of regular products for all-year-around production and streamlined all aspects of the pharmaceutical production process by fully employing lean management, thereby improved drug quality and reducing production costs. Currently, a number of its active pharmaceutical ingredients or preparations have attained quality certification issued by WHO, FDA, EU and other developed countries.

5. Network advantage

Shanghai Pharmaceuticals has a sound distribution network and abundant retail resources in Eastern China, Northern China and Southern China which enjoys highest market shares in the Chinese pharmaceutical market, and is continuously expanding into Central China and Western China. Relying on its advanced logistics and warehousing system and leading supply chain extension solutions, Shanghai Pharmaceuticals offers premium services to its customers.

6. Information technology advantage

To enhance digitalization and in response to the State's requirements for further integration of IT application with industrialization, Shanghai Pharmaceuticals has actively promoted the information technology construction, established its overall blueprint planning in respect of information technology, and launched the Group's ten major sharing platforms represented by master data as well as the construction of MES pilot smart factory, thus providing strong support to the accomplishment of the Group's strategic goals and management objectives.

7. Financial advantage

Shanghai Pharmaceuticals has a sound financial structure, prominent advantages in management efficiency as well as smooth and diversified financing channels.

8. Team advantage

Shanghai Pharmaceuticals stands firmly to the guidance of "innovation, integrity, cooperation, inclusiveness and responsibility". Its management and the management teams of its subsidiaries are full of entrepreneurial spirit, and the Company's employees of all levels have highly open thinking, strong learning ability, excellent professionalism, well motivated innovation enthusiasm and good team work spirits.

V. Analysis of investments

1. Overall analysis of external investment in equity interests

	<i>Unit: RMB10,000</i>
Investment in the Reporting Period	260,145.34
Change in the increase/decrease in the amount of investment	63,588.43
Investment in the same period last year	196,556.91
Percentage increase/decrease in the amount of investment (%)	32.35

Particulars of major invested company

Invested Company name	Principal operations	Percentage of the equity interest in the invested company (%)
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100
Beijing Xin Hai Feng Yuan Biopharma Technology Development Co., Ltd.	Sale of pharmaceuticals	100
Shanghai Shangshi Group Finance Co., Ltd.	Financial services	30

(1) Securities Investment

No.	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	Profit		
							in total securities investment at the end of the period (%)	or loss during the Reporting Period (RMB)		
1	Share	600618	Chlor-Alkali Chemical	186,500	50,820	505,659.00	100	165,673.20		
	Other securities investments held at the end of the period					/				
	Gains or losses on securities investments sold in the Reporting Period					/	/	/		
	Total					186,500	/	505,659.00	100	165,673.20

(2) Equity interests in other listed companies

Unit: RMB

Security code	Securities short name	Initial investment cost	Equity interest (%)	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 share
600377	Jiangsu Expressway	1,000,000.00	<1	7,300,000.00	380,000.00	1,720,000.00	Available-for-sale financial assets	Purchase
600329	Zhongxin Pharmaceutical	91,473.00	<1	1,395,862.72	4,573.60	241,486.08	Available-for-sale financial assets	Debt set-off
000931	Centek	99,300.00	<1	209,916.00		63,756.00	Available-for-sale financial assets	Purchase
600675	China Enterprise	390,000.00	<1	5,399,547.16	65,592.20	867,126.14	Available-for-sale financial assets	Purchase
601328	Bank of Communications	4,720,101.05	<1	3,899,568.80	149,101.16	1,697,459.36	Available-for-sale financial assets	Purchase
000048	Kondarl	134,547.00	<1	1,600,414.27		-81,761.94	Available-for-sale financial assets	Transferred in from merger
000166	Shenwan Hongyuan	1,250,000.00	<1	8,553,600.00	352,000.00	7,303,600.00	Available-for-sale financial assets	Corporate restructuring
06881(HK)	China Galaxy	50,000,000.00	<1	76,759,970.00	1,327,407.48	23,612,850.00	Available-for-sale financial assets	Corporate restructuring
08231(HK)	Fudan-Zhangjiang	31,955,101.23	22.77	149,498,591.94	26,857,585.69		Long-term equity investment	Purchase
Total		89,640,522.28	/	254,617,470.89	29,136,260.13	35,424,515.64	/	/

Explanation on equity interest held in other listed companies

As at 31 December 2014, the Company held equity interest in Shenwan Hongyuan the shares of which were to be listed.

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

None

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

None

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

(1) Asset management mandates

Unit: RMB

Name of partner	Type of asset management mandate	Amount of asset management mandate	Commencement	Termination	Remuneration determination method	Estimated profit	Actual principal amount recovered	Actual profit obtained	Whether undergone legal procedures	Impairment provision amount provided	whether a connected transactions	Source of funds and indicate	
			date of asset management mandate	date of asset management mandate								Whether involving litigation	whether the funds are raised
Bank A	Principal preservation with floating return	100,000,000.00	2014/1/16	2014/6/26	Interest paid pursuant to agreement		100,000,000.00	1,600,273.97	Yes	0	No	No	Self-owned fund
Bank A	Principal preservation with floating return	50,000,000.00	2014/3/11	2014/6/26	Interest paid pursuant to agreement		50,000,000.00	533,835.62	Yes	0	No	No	Self-owned fund
Bank A	Principal preservation with floating return	50,000,000.00	2014/3/11	2014/6/26	Interest paid pursuant to agreement		50,000,000.00	533,835.62	Yes	0	No	No	Self-owned fund
Bank A	Principal preservation with floating return	50,000,000.00	2014/5/15	2014/6/26	Interest paid pursuant to agreement		50,000,000.00	195,616.44	Yes	0	No	No	Self-owned fund
Bank A	Principal preservation with floating return	50,000,000.00	2014/5/15	2014/6/26	Interest paid pursuant to agreement		50,000,000.00	195,616.44	Yes	0	No	No	Self-owned fund
Bank B	Principal preservation with floating return	50,000,000.00	2014/4/1	2014/4/24	Interest paid pursuant to agreement		50,000,000.00	119,726.03	Yes	0	No	No	Self-owned fund
Bank B	Principal preservation with floating return	50,000,000.00	2014/4/1	2014/4/24	Interest paid pursuant to agreement		50,000,000.00	119,726.03	Yes	0	No	No	Self-owned fund
Total	/	400,000,000.00	/	/	/		400,000,000.00	3,298,630.15	/	0	/	/	/

Cumulative amount of principal and profit overdue: (RMB)
Explanation on asset management mandates

(2) Entrusted loans

None

(3) Other asset management mandates and investment in derivatives

During the year, the Company gained total profits of RMB6,137,418.55 by transaction of state bonds buy-back.

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. According to the Proposal Regarding Adjustment to Amounts for Use of Proceeds from H Share Offering considered and approved at the General Meeting held in 2013, the Executive Committee under the Board of Directors of the Company was authorized by the General Meeting to adjust the proportion of the balance of the proceeds to be used for different purposes from time to time in accordance with the actual situation of business development, on the condition that the original purposes for the use of the proceeds shall remain unchanged. During the Reporting Period, in line with the needs for the Company's overall development planning and business development and to improve efficiency in the use of funds, the Executive Committee under the Board of Directors of the Company has made moderate adjustments to the use of the remaining proceeds available as at 31 December 2013 as follows:

Unit: HKD10,000

Use of proceeds	Before adjustment		Adjusted	After adjustment	
	Proportion	Amount		Proportion	Amount
Expansion and enhancement of the distribution network and integration of the existing distribution network	46%	712,645	63,000	50.07%	775,645
Strategic acquisition of domestic and international pharmaceutical business and internal integration of existing pharmaceutical business	36%	557,723	-118,524	28.35%	439,199
Investment in the information technology system and platform	1%	15,493	-8,767	0.43%	6,726
Further enhancement of product portfolio and products under R&D through investment in the product R&D platform	3%	46,477	-10,644	2.31%	35,833
Working capital requirements and general corporate purposes	14%	216,892	74,935	18.84%	291,827
Total	100%	1,549,230		100%	1,549,230

As at 31 December 2014, 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	Total accumulative proceeds used	Total remaining unused proceeds	Use and whereabouts of unused proceeds
2011	Initial Public Offering	1,549,230	191,697	1,394,372	154,858	Deposited in offshore wholly-owned subsidiaries by means of shareholder loans for the purpose of capital preservation and appreciation.

Unit: HKD10,000

Use of proceeds	Intended amount of proceeds to be used	Accumulative proceeds used	Percentage of proceeds used to the total	Proceeds remaining unused
Expansion and enhancement of the distribution network and integration of the existing distribution network	775,645	671,696	87%	103,949
Strategic acquisition of domestic and international pharmaceutical business and internal integration of existing pharmaceutical business	439,199	409,973	93%	29,226
Investment in the information technology system and platform	6,726	2,563	38%	4,163
Further enhancement of product portfolio and products under R&D through investment in the product R&D platform	35,833	32,737	91%	3,096
Working capital requirements and general corporate purposes	291,827	277,403	95%	14,424
Total	1,549,230	1,394,372	/	154,858

4. Analysis on major subsidiaries and invested companies

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

Unit: RMB10,000

Name of company	Nature of business	Company shareholding percentage	Registered capital	Scale of assets	Owners' equity	Operating income	Net profit
Shanghai Pharmaceutical Distribution Co., Ltd.	Sale of pharmaceuticals	100%	339,312.78	2,587,666.02	656,859.67	5,608,936.68	92,746.65
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	130,000.00	1,244,764.16	212,848.47	1,986,397.20	35,501.64
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100%	119,161.13	245,784.79	162,299.64	270,368.07	10,928.56
Shanghai No.1 Biochemical and Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	100%	22,500.00	144,192.32	115,341.62	120,008.21	36,171.08
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	96.90%	105,242.91	179,282.24	104,294.50	175,576.92	-8,573.32
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100%	58,947.00	351,454.28	107,546.25	415,435.96	11,569.84
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75%	12,850.00	138,968.88	99,777.95	112,797.47	13,064.88
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75.89%	7,879.03	298,155.43	144,234.89	467,336.34	14,878.64
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	54,580.00	232,102.15	176,628.26	99,103.50	42,605.50
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.52%	9,300.00	82,973.47	49,729.45	68,677.97	110.29
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	51.01%	5,316.00	65,152.44	27,649.96	38,004.84	2,044.86
Xiamen Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	61.00%	8,403.00	33,888.94	28,399.31	33,250.65	4,078.38
Liaoning Herbapex Pharmaceutical (group) Co., Ltd.	Production and sale of pharmaceuticals	55.00%	5,100.00	44,753.82	24,410.59	51,573.45	4,295.64
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100.00%	9,364.18	30,709.00	16,788.69	20,342.55	384.38
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.	Wholesale of chemical APIs	100.00%	7,139.00	12,527.09	9,722.85	21,865.45	376.64
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	12,700.00	51,083.24	40,069.26	34,060.86	2,102.38
Dongying (Jiangsu) Pharmaceuticals Co., Limited	Production and sale of pharmaceuticals	90.25%	14,132.19	28,380.09	26,685.77	13,065.16	5,625.46
Shanghai Pharmaceutical Pharma Sales Co., Ltd.	Sale of pharmaceuticals	100.00%	5,000.00	39,376.95	8,766.62	60,540.40	1,273.02

5. Projects financed by non-raised capital

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

6. Material acquisition and disposal relating to subsidiaries and associates in the Reporting Period

Details are set out in the subsection below headed “ASSET TRANSACTIONS AND BUSINESS MERGER” in the section headed “SIGNIFICANT EVENTS”.

BOARD OF DIRECTORS’ DISCUSSION AND ANALYSIS ON THE OUTLOOK AND PROSPECTS OF THE COMPANY

(i) Competitive landscape and development trend of the industry

China’s economic development has entered into the state of “New Normal”. As adversely affected by various factors including tightening regulatory requirements, exercise of control over medical insurance reimbursements, reduced price of medicine tenders, the growth of the pharmaceutical industry decreased significantly in 2014, with a growth rate of 13.06% and 12.31% in revenue and profit respectively, down by 4.85 percentage points and 5.25 percentage points year-on-year, according to the data from CFDA South Medicine Economic Research Institute. The pharmaceutical distribution industry recorded an increase of approximately 14% in revenue, down by approximately 0.9 percentage point on a YOY basis.

According to the report on the work of the government for 2015, the targeted GDP growth rate is reduced to 7%, indicating a possible further slower growth of financial investment in medical treatment and public health. Meanwhile, against the backdrop of slowdown in the growth of medical end market, sluggish retail market, depressed foreign trade and export situation, and a new round of price reduction in tenders for public hospital procurement as well as other negative factors, the pharmaceutical industry will continue to encounter grim challenges in 2015.

However, challenges are always accompanied by opportunities. The driving force of the pharmaceutical industry remains unchanged. In addition, the implementation of favourable policies including privatization of medical institutions, tiered medical service, accelerated review and approval of pharmaceuticals, procurement and tender reform and sales of prescription drug through the Internet, coupled with cross-border penetration of external capital, will accelerate development of the industry and promote industrial upgrading and innovation.

(ii) Development strategy of the Company

Three-year development goal (from 2013 to 2015): Business scale 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

Shanghai Pharmaceuticals is developing progressively by following the current development strategy known as the “three three-year plans”, which is to achieve “foundation” development for the first three-year period, to achieve “ramp-up” development for the second three-year period and to achieve “take-off” development for the third three-year period. As 2015 marks the conclusion of the three-year period of “foundation” development (2013-2015), the Company clearly put forward its overall operating principles: lean manufacturing, cost efficiency, quality first; Internet-oriented thinking, innovative service model; to adapt to the new normal, stay market-oriented and fast response; to brave new challenges, make responsive changes and achieve a revenue of over RMB100 billion. Under the leadership of the Board of Directors and the management team of the Company, the staff will strive to secure double-digit growth in both revenue and profit attributable to shareholders and maintain fine business quality.

To meet the annual targets, the Company continued to promote the building of a learning-oriented and concerted team, and established 20 annual priorities for the year based on its anticipation of opportunities and challenges which the Company will face in 2015. Specifically, as to the R&D and manufacturing of pharmaceuticals, the Company will push forward the construction of its industrialization base for pilot tests and regulate the management of the R&D projects by optimizing its R&D management and control system, with a view to continuously improve the contribution rate of new products. As to pharmaceutical marketing, the Company will continue to optimize the business model of its marketing center, further focus on strategic and key products and implement one business strategy for each product model, so as to significantly increase sales revenue of industrial products. As to production and manufacturing, the Company will optimize its production base network, promote Lean Six Sigma management and step up its efforts in expansion of manufacturing capacity. As to pharmaceutical services, the Company will accelerate merger and acquisition, promote logistics network construction, enhance network coverage, and improve customer service through innovation of supply chain service model. In addition, the Company will improve business quality and increase market share by enhancing supply chain management capabilities, and will also rapidly expand into O2O sales of prescription drugs through establishment of an E-commerce company, thus making strategy arrangement in advance.

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

In 2015, 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 and bonds.

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

In 2015, the Company will stick to the acquisition strategy focusing on both commerce and industry. In respect of networks of medical services, the Company will improve the existing network in core regions, and strategically penetrate into the north-eastern and north-western regions as and when appropriate; in respect of pharmaceutical manufacturing, the focus 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 biotech pharmaceutical and general healthcare industry when appropriate. The source of the funds required will be the same as (iv).

(vi) Potential risk

1. Certain drugs may be exposed to the risks of a new round of price reduction in tenders in various provinces and municipalities, unsuccessful bidding and re-negotiation of price;
2. Price fluctuation in bulk medicinal materials may pose relatively significant impact on the Company's costs of Chinese medicine products;
3. The Company may be exposed to contingent foreign exchange risk in settlement of overseas procurement denominated in foreign currencies;
4. The Company may be exposed to price fluctuation in export of active pharmaceutical ingredients.

The management of the Company will proactively propose plans and adopt effective measures in response to the above mentioned potential risks so as to minimize their impacts on the overall business operation of the Company.

MATERIAL ACQUISITION AND DISPOSAL

- (i) Acquisition and disposal of asset and merger of business by the Company which had been disclosed in the temporary announcements and had no change in the subsequent implementation process

Overview and type of matters

Query Index

Shanghai Pharmaceuticals jointly established a R&D company with Sichuan Green Angel Private Equity Center LLP, Sichuan Kelun Pharmaceutical Co., Ltd., Beijing Ruijian Tianxing Biotechnology Co., Ltd. and Meishan Western Medical Valley Investment Development Co., Ltd.

Company announcement Lin No. 2014-020. Unless otherwise specified hereafter, such announcement has been published on the Shanghai Securities News, Securities Times and the website of the Shanghai Stock Exchange www.sse.com.cn. 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.

Acquisition of part of the equity interests in Beijing Xin Hai Feng Yuan Biomedical Development Co. and certain other pharmaceutical distribution companies by SPH Keyuan Xinhai Pharmaceutical Co., Ltd., a wholly-owned subsidiary of Shanghai Pharmaceuticals.

Company announcement Lin No. 2014-021

Acquisition of 75% equity interests in Shandong SPH Pharmaceutical Co., Ltd. and injection for 35% equity interests in Shandong SPH Shanglian Pharmaceuticals Co., Ltd. by Shanghai Pharmaceutical Distribution Co., Ltd., a wholly-owned subsidiary of Shanghai Pharmaceuticals.

Company announcement Lin No. 2014-023

Cash injection for 51% equity interests in Xingquan Global Co., Ltd. (星泉環球有限公司) by Shanghai Industrial Medicine Research & Development Co., Ltd. (上實醫藥科研開發有限公司), a wholly-owned subsidiary of Shanghai Pharmaceuticals.

Company announcement Lin No. 2014-035

(ii) Matters undisclosed in temporary announcements or those with subsequent progress

1. Asset acquisitions

Except for those disclosed in section (i) above, the Company did not have any other major asset acquisitions during the year.

2. Disposal of assets

There was no material disposal of assets during the Reporting Period.

3. Assets swap

There was no material assets swap during the year.

4. Business merger

Except for those disclosed in section (i) above, the Company did not have any other material business merger during the year.

CONTINGENT LIABILITIES AND MATERIAL LITIGATIONS

For the year ended 31 December 2014, the Company had no major contingent liabilities or any material litigation.

In 2014, one of the Group's subsidiaries, Xiamen Traditional Chinese Medicine Co., Ltd., received legal documents and materials regarding an appeal brought by Zhangzhou Pientzhuang Pharmaceutical Co., Ltd. from Zhangzhou Intermediate People's Court, in relation to an unfair competition dispute, against Xiamen Traditional Chinese Medicine Co., Ltd., Xiamen Evening News Media Development Co., Ltd. (廈門晚報傳媒發展有限公司) and Xiamen Daily Press (廈門日報社). It is not anticipated that any material liabilities will arise from this dispute.

In November 2014, the Group received legal documents regarding an appeal brought by Investments 2234 China Fund 1B.V. from Shanghai No 1 Intermediate People's Court, in relation to the power to write off debts dispute, against Shanghai Pharmaceutical (Group) and the company. The appeal was rejected by the Court in March 2015 subsequently. It is not anticipated that any material liabilities will arise from this dispute.

HUMAN RESOURCES

For the year ended 31 December 2014, the Company (including its subsidiaries) had a total of 39,891 employees.

Shanghai Pharmaceuticals consistently sticks to the remuneration policy based on “position, capability, and performance”, and has established management measures on the assessment of the operation results and remuneration of the senior officers of the Company, as well as on the assessment of the operation responsibility and remuneration of the subsidiaries. Meanwhile, based on the specialties of positions, varied remuneration systems of management, sales and marketing staff, research and development staff, technic and quality control staff and production staff are established, with reasonable connections among each system. These systems have effectively motivated the employees and stimulated creativity, and have continually improved the Company’s business results and facilitated the achievement of the Company’s strategic goals.

Based on the Company’s strategies and annual work priorities, Shanghai Pharmaceuticals offers professional, effective, and 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.

DIVIDEND

According to the profit distribution plan of the Company for 2014 as resolved at the fourteenth meeting of the fifth session of the Board of Directors of Shanghai Pharmaceuticals, the Company is to distribute to all shareholders a cash dividend of RMB2.90 (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 2014, subject to approval by the shareholders’ annual general meeting of the Company for 2014. The profit distribution plan complied with the Articles of Association and approval procedures of the Company, and fully protected the legal interests of small and medium investors. The independent non-executive directors have provided their views in this regard.

About withholding of tax for non-PRC resident shareholders and investors of Shanghai-Hong Kong Stock Connect:

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.

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.
3. For investors of the Hong Kong Stock Exchange (including enterprises and individuals) investing in the A Shares of the Company listed on the Shanghai Stock Exchange (the “Northbound Trading”), their dividends will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited as the nominee account holding such Shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding. For investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may authorise a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.
4. For investors of the Shanghai Stock Exchange (including enterprises and individuals) investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the “Southbound Trading”), the Company has entered into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H Shares for Southbound Trading, will receive the cash dividends

distributed by the Company and distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depositary and clearing system. The cash dividends for the investors of H Shares of Southbound Trading will be paid in RMB. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知) (Caishui [2014] No.81), for dividends received by mainland investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by mainland securities investment funds from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold or pay the income tax of dividends for mainland enterprise investors and those enterprise investors shall report and pay the relevant tax themselves.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the period from January to December 2014, none of the Company (including its subsidiaries) purchased, sold or redeemed any listed shares of Shanghai Pharmaceuticals.

AUDIT COMMITTEE

The audit committee under the board of directors of the Company consists of three directors, namely 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, mainly responsible for communication, supervision and review of the internal and external audit of the Company. The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2014.

THE SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's overseas auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2014. The work carried out by PricewaterhouseCoopers did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, PricewaterhouseCoopers did not issue any assurance on the preliminary results announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE “CORPORATE GOVERNANCE CODE”) AS SET OUT IN APPENDIX 14 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING RULES”)

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 August 2014, the Company had arranged liability insurance cover for the Company’s directors, supervisors and senior management. 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 Board Diversity Policy of Shanghai Pharmaceuticals.

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.

COMPLIANCE WITH THE MODEL CODE (THE “MODEL CODE ”) FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS AS SET OUT IN APPENDIX 10 OF THE LISTING RULES

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

INFORMATION DISCLOSURE

The annual report of the Company for 2014 will be despatched to the shareholders of the Company in due course, and will be published on the website of Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company’s website (<http://www.sphchina.com>).

By order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
LOU Dingbo
Chairman

Shanghai, the PRC, 27 March 2015

As at the date of this announcement, the executive directors of the Company are Mr. LOU Dingbo, Mr. CHO Man and Mr. HU Fengxiang; the non-executive directors are Mr. ZHOU Jie and Mr. JIANG Ming; and the independent non-executive directors are Mr. CHEN Naiwei, Mr. WAN Kam To, Mr. TSE Cho Che, Edward and Mr. LI Zhenfu.

** For identification purpose only*

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2014

Independent Auditor's Report
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 3 to 123, which comprise the consolidated and Company balance sheets as at 31 December 2014, 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.



羅兵咸永道

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

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 2014, 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2015

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Land use rights	7	1,095,630	944,990
Investment properties	8	275,115	277,004
Property, plant and equipment	9	5,197,819	5,016,525
Intangible assets	10	5,260,312	4,260,141
Investments in jointly controlled entities	12	374,742	340,679
Investments in associates	13	2,370,871	2,355,821
Deferred income tax assets	26	264,591	199,806
Available-for-sale financial assets	14	187,433	149,748
Other non-current prepayments	15	402,813	133,154
Other long-term receivables	16	252,912	118,680
		<u>15,682,238</u>	<u>13,796,548</u>
Current assets			
Inventories	17	13,088,153	10,996,520
Trade and other receivables and other current assets	18	23,950,884	18,539,629
Financial assets at fair value through profit or loss	20	506	340
Restricted cash	19	417,634	333,118
Cash and cash equivalents	19	11,190,420	12,645,367
		<u>48,647,597</u>	<u>42,514,974</u>
Assets classified as held for sale	8	10,724	-
		<u>48,658,321</u>	<u>42,514,974</u>
Total assets		<u>64,340,559</u>	<u>56,311,522</u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	2,688,910	2,688,910
Share premium	22	14,081,665	14,122,285
Other reserves	22	1,042,233	917,561
Retained earnings	23		
- Proposed final dividends	38	779,784	699,117
- Others		9,229,541	7,525,940
		<u>27,822,133</u>	<u>25,953,813</u>
Non-controlling interests		<u>3,277,019</u>	<u>3,047,167</u>
Total equity		<u>31,099,152</u>	<u>29,000,980</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	25	105,408	125,195
Deferred income tax liabilities	26	380,163	288,812
Termination benefit obligations	28	70,472	39,077
Other non-current liabilities	27	682,818	1,158,563
		<u>1,238,861</u>	<u>1,611,647</u>
Current liabilities			
Trade and other payables and other current liabilities	24	23,701,260	19,571,893
Current income tax liabilities		348,162	202,632
Borrowings	25	7,953,124	5,924,370
		<u>32,002,546</u>	<u>25,698,895</u>
Total liabilities		<u>33,241,407</u>	<u>27,310,542</u>
Total equity and liabilities		<u>64,340,559</u>	<u>56,311,522</u>
Net current assets		<u>16,655,775</u>	<u>16,816,079</u>
Total assets less current liabilities		<u>32,338,013</u>	<u>30,612,627</u>

The notes on pages 12 to 123 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 123 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.


 Director



 Director


COMPANY BALANCE SHEET



	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
Assets			
Non-current assets			
Land use rights	7	27,936	23,858
Investment properties	8	-	10,959
Property, plant and equipment	9	143,976	143,322
Intangible assets	10	10,351	7,181
Investments in subsidiaries	11	16,304,469	13,638,554
Investments in associates	13	713,927	386,927
Available-for-sale financial assets	14	32,528	25,556
		<u>17,233,187</u>	<u>14,236,357</u>
Current assets			
Trade and other receivables and other current assets	18	4,554,283	6,808,808
Cash and cash equivalents	19	2,495,428	2,273,740
		7,049,711	9,082,548
Assets held for sale	8	10,724	-
		<u>7,060,435</u>	<u>9,082,548</u>
Total assets		<u>24,293,622</u>	<u>23,318,905</u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	2,688,910	2,688,910
Share premium	22	16,406,754	16,363,491
Other reserves	22	604,357	495,792
Retained earnings	23		
- Proposed final dividends	38	779,784	699,117
- Others		187,890	93,222
Total equity		<u>20,667,695</u>	<u>20,340,532</u>

COMPANY BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		8,052	6,246
Other non-current liabilities	27	57,465	66,983
		<u>65,517</u>	<u>73,229</u>
Current liabilities			
Trade and other payables and other current liabilities	24	3,200,410	2,505,144
Borrowings	25	360,000	400,000
		<u>3,560,410</u>	<u>2,905,144</u>
Total liabilities		<u>3,625,927</u>	<u>2,978,373</u>
Total equity and liabilities		<u>24,293,622</u>	<u>23,318,905</u>
Net current assets		<u>3,500,025</u>	<u>6,177,404</u>
Total assets less current liabilities		<u>20,733,212</u>	<u>20,413,761</u>

The notes on pages 12 to 123 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 123 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.


 Director 


 Director 

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Revenue	6	92,398,894	78,222,817
Cost of sales	32	<u>(81,223,392)</u>	<u>(68,185,822)</u>
Gross profit		<u>11,175,502</u>	<u>10,036,995</u>
Distribution and selling expenses	32	(4,826,367)	(4,407,225)
General and administrative expenses	32	<u>(3,285,838)</u>	<u>(2,880,636)</u>
Operating profit		<u>3,063,297</u>	<u>2,749,134</u>
Other income	29	205,832	213,089
Other gains – net	30	357,785	31,198
Gains on disposal of subsidiaries and associates	31	156,013	50,546
Finance income	34	207,036	242,106
Finance costs	34	(603,232)	(459,849)
Share of profit of jointly controlled entities	12	102,205	86,344
Share of profit of associates	13	<u>310,798</u>	<u>313,072</u>
Profit before income tax		3,799,734	3,225,640
Income tax expense	35	<u>(807,717)</u>	<u>(628,368)</u>
Profit for the year		<u>2,992,017</u>	<u>2,597,272</u>
Profit attributable to:			
Owners of the Company		2,591,131	2,213,579
Non-controlling interests		<u>400,886</u>	<u>383,693</u>
		<u>2,992,017</u>	<u>2,597,272</u>
Earnings per share attributable to owners of the Company during the year (expressed in RMB per share)			
-Basic and diluted	37	<u>0.96</u>	<u>0.82</u>

The notes on pages 12 to 123 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Dividends	38	<u>779,784</u>	<u>699,117</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Profit for the year	2,992,017	2,597,272
Other comprehensive income:		
<i><u>Items that may be reclassified to profit or loss</u></i>		
Change in value of available-for-sale financial assets		
- Gross	14 32,208	3,778
- Tax	26 (8,052)	(944)
Currency translation differences	(2,892)	(7,061)
Other comprehensive income for the year, net of tax	<u>21,264</u>	<u>(4,227)</u>
Total comprehensive income for the year	<u>3,013,281</u>	<u>2,593,045</u>
Attributable to:		
- Owners of the Company	2,612,655	2,213,029
- Non-controlling interests	<u>400,626</u>	<u>380,016</u>
Total comprehensive income for the year	<u>3,013,281</u>	<u>2,593,045</u>

The notes on pages 12 to 123 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company						Total	Non-controlling interests		Total equity
		Share capital	Share premium	Other reserves	Retained earnings	RMB'000	RMB'000		RMB'000	RMB'000	
Balance at 1 January 2013		2,688,910	14,396,727	835,395	6,718,267	24,639,299		3,061,575		27,700,874	
Comprehensive income		-	-	-	2,213,579	2,213,579		383,693		2,597,272	
Profit for the year		-	-	-	-	-		-		-	
Other comprehensive income		-	-	-	-	-		-		-	
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)	
Total other comprehensive income		-	-	(550)	-	(550)		(3,677)		(4,227)	
Total comprehensive income		-	-	(550)	2,213,579	2,213,029		380,016		2,593,045	
Transactions with owners		-	-	-	-	-		-		-	
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		-	-	-	-	-		100,646		100,646	
Changes in ownership interests in subsidiaries without change of control		-	(309,576)	-	-	(309,576)		(279,726)		(589,302)	
Dividends		-	-	-	(645,339)	(645,339)		(268,072)		(913,411)	
Appropriation to statutory reserves	22, 23	-	-	53,369	(53,369)	-		-		-	
Others		-	-	29,347	(8,081)	21,266		(6,719)		14,547	
Total transaction with owners		-	(274,442)	82,716	(706,789)	(898,515)		(394,424)		(1,292,939)	
Balance at 31 December 2013		2,688,910	14,122,285	917,561	8,225,057	25,953,813		3,047,167		29,000,980	

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Note	Attributable to owners of the Company						Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total RMB'000	
Balance at 1 January 2014		2,688,910	14,122,285	917,561	8,225,057	3,047,167	29,000,980	
Comprehensive income		-	-	-	2,591,131	400,886	2,992,017	
Profit for the year		-	-	-	2,591,131			
Other comprehensive income		-	-	-	-	-	-	
Available-for-sale financial assets		-	-	-	-	-	-	
- Gross	14	-	-	31,050	-	1,158	32,208	
- Tax	26	-	-	(7,762)	-	(290)	(8,052)	
Currency translation differences, net	22	-	-	(1,764)	-	(1,128)	(2,892)	
Total other comprehensive income		-	-	21,524	-	(260)	21,264	
Total comprehensive income		-	-	21,524	2,591,131	400,626	3,013,281	
Transactions with owners								
Capital injections from non-controlling interests		-	-	-	-	15,730	15,730	
Contribution from the parent of the Company	22	-	120,000	-	120,000	-	120,000	
Acquisitions of subsidiaries	43	-	-	-	-	143,100	143,100	
Changes in ownership interests in subsidiaries without change of control	42	-	(133,555)	-	-	(103,057)	(236,612)	
Dividends		-	-	-	(699,117)	(203,335)	(902,452)	
Appropriation to statutory reserves	22, 23	-	-	103,148	(103,148)	-	-	
Disposal of subsidiaries		-	(27,065)	-	(4,598)	(17,370)	(17,370)	
Others		-	(40,620)	103,148	(806,863)	(5,842)	(37,505)	
Total transaction with owners		-	(40,620)	103,148	(806,863)	(170,774)	(915,109)	
Balance at 31 December 2014		2,688,910	14,081,665	1,042,233	10,009,325	3,277,019	31,099,152	

The notes on pages 12 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2014	2013
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	39(i)	1,829,417	1,421,017
Interest paid		(552,450)	(410,058)
Income tax paid		(698,625)	(696,285)
Net cash generated from operating activities		<u>578,342</u>	<u>314,674</u>
Cash flows from investing activities			
Cash paid in respect of acquisition of subsidiaries and associates	43	(819,573)	(582,884)
Cash injection in associates		(327,000)	(6,283)
Proceeds from redemption of treasury bills		700,000	-
Purchases of treasury bills		(700,000)	-
Purchases of property, plant and equipment ("PP&E") and investment properties		(1,165,804)	(887,939)
Proceeds from disposal of PP&E and investment properties	39(ii)	151,999	35,833
Purchases of land use rights and intangible assets		(125,689)	(17,120)
Interest received		204,882	248,718
Dividends received		263,540	247,710
Proceeds from disposal of available-for-sale financial assets	39(iv)	7,210	14,256
Proceeds from disposal of financial assets at fair value through profit or loss		-	3,263
Proceeds from disposal of subsidiaries and associates	39(v)	63,366	119,653
(Payment of)/Proceeds from plant relocation, net		(72,586)	168,568
Compensation received from the parent of the Company		120,000	-
Compensation received from the parent of an associate in respect of its business scope change		106,593	-
Deposit paid in respect of an investment project		(55,000)	-
Other cash flows generated from investing activities		<u>8,371</u>	<u>12,143</u>
Net cash used in investing activities		<u>(1,639,691)</u>	<u>(644,082)</u>
Cash flows from financing activities			
Cash injection from non-controlling interests		17,200	35,475
Proceeds from borrowings		14,785,569	11,641,631
Repayments of borrowings		(13,978,766)	(10,550,241)
Dividends paid by the Group		(1,023,696)	(873,921)
Acquisitions of non-controlling interests		(236,669)	(586,451)
Other cash flows generated from financing activities		<u>40,000</u>	<u>22,000</u>
Net cash used in financing activities		<u>(396,362)</u>	<u>(311,507)</u>
Net decrease in cash and cash equivalents		(1,457,711)	(640,915)
Cash and cash equivalents at beginning of year		12,645,367	13,300,901
Exchange gains /(losses) on cash and cash equivalents		<u>2,764</u>	<u>(14,619)</u>
Cash and cash equivalents at end of year		<u>11,190,420</u>	<u>12,645,367</u>

The notes on pages 12 to 123 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 2013 and 2014, 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 26 March 2015.

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 certain available-for-sale financial assets and financial assets at fair value through profit or loss.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Company Ordinance (Cap.32) for the years ended 31 December 2014 and 2013.

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 on or after 1 January 2014 and have an immaterial impact on the Group:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.
- Amendment to HKAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.
- Amendments to HKFRS 10 and HKFRS 12 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 to HKFRS 12 to introduce disclosures that an investment entity needs to make.
- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

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)

- HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised.

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

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, 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. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

(c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on 1 January 2015 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

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.

(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.

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 (continued)

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 and jointly controlled entities 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 and jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate or a jointly controlled entity, any difference between the cost of the associate and the jointly controlled entity and the Group's share of the net fair value of the associate's and jointly controlled entity's identifiable assets and liabilities is accounted for as goodwill.

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 and jointly controlled entities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) Jointly controlled entities and associates (continued)

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.

In the previous years, the Group applied a policy of accounting for gain or losses on dilution of equity interest in jointly controlled entities and associates in the consolidated income statements. In year 2014, the Group changed its accounting policy for recording the gain or losses on dilution of equity interest in jointly controlled entities and associates in equity directly. The Company's shares are dual-listed on the Main Board Hong Kong Stock Exchange and the Shanghai Stock Exchange. The Company's directors are of the view that applying this new accounting policy as described above can minimise the differences between the financial statements prepared under the PRC generally accepted accounting standards and HKFRSs, and can provide more comparable and relevant information to the readers of the financial statements in the PRC and overseas. This change in accounting policy has been accounted for retrospectively and the comparative financial information of the consolidated financial statements for the year ended 31 December 2014 has been restated in order to comply with HKAS 8 "Accounting policies, changes in accounting estimates and errors". The directors are also of the view that this change of accounting policy is not material to the Group's consolidated financial statements for the year ended 31 December 2013 and 2014 and has no financial impact on the consolidated balance sheet of the Group as at 1 January 2013.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.5 Foreign currency translation (continued)

(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
- Buildings outside Hong Kong	useful lives
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.7 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are 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. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise.

3.8 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The Group acquires the right to use certain land. The premiums paid for such 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 years using the straight-line method.

3.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 identified net assets acquired.

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 the CGU containing the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.9 Intangible assets (continued)

(c) Trademarks and patent rights

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

(d) Know-how

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

(e) Research and development

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

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset and use or sell it;
- (iii) there is an ability to use or sell the intangible asset;
- (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 Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

3.12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

(a) Classification (continued)

(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 3.16 and 3.17).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.13 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3.14 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.14 Impairment of financial assets (continued)

(b) Assets classified as available for sale (continued)

For debt securities, if any such evidence exists 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 or loss. 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.

For equity investments, 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 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 or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using first-in, first-out, specific identification 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.

3.16 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.

3.17 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.

3.18 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.19 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.

3.20 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.

3.21 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.

3.22 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.22 Current and deferred income tax (continued)

(b) Deferred income tax

(i) Inside basis differences

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

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.23 Employee benefits

(a) Pension obligations

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

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

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

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

(c) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.24 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.

3.25 Government grants

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

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

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

3.26 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.26 Revenue recognition (continued)

(b) Sales of goods – retail pharmacy operations

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

(c) Rental income

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

(d) Interest income

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

(e) Sales of services

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

(f) Dividend income

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

3.27 Leases (as a lessee)

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.

3.28 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.29 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

(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 2014, 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 RMB14,343,000 (2013: higher/lower RMB6,427,000), mainly as a result of foreign exchange gains/losses (2013: 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 2014, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB1,300,822,000 and RMB6,757,710,000, 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 2014, 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 RMB2,765,000 (2013: lower/higher RMB3,051,000) 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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2014					
Borrowings (Note 25)	7,953,124	9,221	80,691	15,496	8,058,532
Interests payments on borrowings	146,934	5,657	8,100	25	160,716
Financial liabilities as included in trade and other payables	22,505,870	-	-	-	22,505,870
	<u>30,605,928</u>	<u>14,878</u>	<u>88,791</u>	<u>15,521</u>	<u>30,725,118</u>
At 31 December 2013					
Borrowings (Note 25)	5,924,370	21,320	88,210	15,665	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
	<u>24,676,656</u>	<u>27,297</u>	<u>101,915</u>	<u>15,694</u>	<u>24,821,562</u>

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 2014 and 2013, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44 (d).

4.2 Capital management

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Capital management (continued)

The gearing ratios are as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Total borrowings	8,058,532	6,049,565
Total equity	31,099,152	29,000,980
Total capital	39,157,684	35,050,545
Gearing ratio (%)	21%	17%

4.3 Fair value estimation

(a) The table below analyses the Group's financial instruments carried at fair value as at 31 December 2014 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); 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 financial assets that are measured at fair value as at 31 December 2013 and 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2014				
Financial assets at fair value through profit or loss	506	-	-	506
Available-for-sale financial assets	19,805	85,314	-	105,119
	<u>20,311</u>	<u>85,314</u>	<u>-</u>	<u>105,625</u>
As at 31 December 2013				
Financial assets at fair value through profit or loss	340	-	-	340
Available-for-sale financial assets	19,193	54,397	-	73,590
	<u>19,533</u>	<u>54,397</u>	<u>-</u>	<u>73,930</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

- (a) fair value measurements by level of the following fair value measurement hierarchy (continued)

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

- (i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments traded in Shanghai Stock Exchange and Shenzhen Stock Exchange classified as trading securities or available-for-sale.

- (ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group's financial assets included in level 2 are all equity investments of which the fair value can be measured by related quoted market prices.

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 2013 and 2014 approximated to their carrying amount.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

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

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

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

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets.

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 2014

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	9,484,527	79,225,739	3,309,285	379,343	-	92,398,894
Inter-segment revenue	1,618,907	2,774,495	67,170	89,709	(4,550,281)	-
Segment revenue	<u>11,103,434</u>	<u>82,000,234</u>	<u>3,376,455</u>	<u>469,052</u>	<u>(4,550,281)</u>	<u>92,398,894</u>
Segment operating profit	1,173,864	1,937,456	36,716	(79,581)	(5,158)	3,063,297
Other income						205,832
Other gains - net						357,785
Gains on disposal of subsidiaries and associates						156,013
Finance costs - net						(396,196)
Share of profit of jointly controlled entities	82,364	19,841	-	-	-	102,205
Share of profit of associates	286,048	22,543	-	2,207	-	310,798
Profit before income tax						3,799,734
Income tax expense						(807,717)
Profit for the year						<u>2,992,017</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

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)	-
Segment revenue	<u>10,708,614</u>	<u>68,010,284</u>	<u>2,992,109</u>	<u>412,312</u>	<u>(3,900,502)</u>	<u>78,222,817</u>
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						31,198
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						3,225,640
Income tax expense						(628,368)
Profit for the year						<u>2,597,272</u>

Other segment items included in the consolidated financial statements for the year ended 31 December 2014 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	369,629	126,483	23,265	31,460	-	550,837
Amortisation of intangible assets and land use rights	33,813	88,731	489	11,548	-	134,581
Capital expenditure	665,239	364,360	17,152	109,872	-	1,156,623

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

The segment assets and liabilities as at 31 December 2014 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	222,372	152,370	-	-	-	374,742
Investment in associates	1,888,749	152,900	-	329,222	-	2,370,871
Other assets	15,278,944	42,144,675	978,025	24,351,005	264,591	83,017,240
Elimination						<u>(21,422,294)</u>
Total assets						<u>64,340,559</u>
Segment liabilities	4,672,254	31,115,542	646,418	3,804,656	728,325	40,967,195
Elimination						<u>(7,725,788)</u>
Total liabilities						<u>33,241,407</u>

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	64,075,968	32,513,082
Unallocated:		
Current income tax liabilities	-	348,162
Deferred tax assets/liabilities – net	264,591	380,163
Total	<u>64,340,559</u>	<u>33,241,407</u>

The segment assets and liabilities as at 31 December 2013 are as follows:

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	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						<u>(19,981,506)</u>
Total assets						<u>56,311,522</u>
Segment liabilities	5,826,595	23,677,865	610,139	2,880,670	491,444	33,486,713
Elimination						<u>(6,176,171)</u>
Total liabilities						<u>27,310,542</u>

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

	Assets RMB'000	Liabilities RMB'000
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
Total	<u>56,311,522</u>	<u>27,310,542</u>

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	
	2014 RMB'000	2013 RMB'000
Opening net book amount	944,990	905,359
Additions	131,789	26,865
Transfer from PP&E (Note 9)	26,367	-
Transfer from investment properties (Note 8)	-	21,415
Acquisition of subsidiaries	60,978	20,644
Amortisation charge (Note 32)	(29,473)	(29,293)
Disposals	(15,123)	-
Disposal of subsidiaries	(23,898)	-
Closing net book amount	<u>1,095,630</u>	<u>944,990</u>

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost of sales	1,609	1,631
Distribution and selling expenses	3,504	2,223
General and administrative expenses	24,360	25,439
	<u>29,473</u>	<u>29,293</u>

- (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	
	2014 RMB'000	2013 RMB'000
Land use rights, secured	<u>84,843</u>	<u>84,340</u>

- (c) As at 31 December 2014, 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 RMB115,766,000 (2013: RMB15,104,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Land use rights (continued)

The Company

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Opening net book amount	23,858	24,498
Additions	4,781	-
Amortisation charge	(703)	(640)
Closing net book amount	<u>27,936</u>	<u>23,858</u>

8 Investment properties

The Group

Investment properties are located in Hong Kong and the PRC with estimated use lives between 50 years and 100 years.

The movement of investment properties is analysed as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost	430,160	420,447
Accumulated depreciation	(155,045)	(143,443)
Net book amount	<u>275,115</u>	<u>277,004</u>
Opening net book amount	277,004	312,740
Addition	934	-
Acquisition of subsidiaries	21,872	-
Transfer from owner-occupied PP&E (Note 9)	-	571
Transfer to owner-occupied PP&E (Note 9)	-	(1,187)
Transfer to land use rights (Note 7)	-	(21,415)
Transfer to assets held for sale (note)	(10,724)	-
Depreciation (Note 32)	(13,971)	(13,705)
Closing net book amount	<u>275,115</u>	<u>277,004</u>

Note:

The Group entered into a noncancelable agreement with a third party on 15 November 2014 to have certain investment properties auctioned (the "Auction"). The Auction was estimated to be completed in 2015 by the Group. Hence, the investment properties held by the Group was reclassified and presented as "assets classified as held for sale" in the consolidated balance sheet as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Investment properties (continued)

The Group

(a) As at 31 December 2014, the fair values of the investment properties were approximately RMB736,443,000 (2013: RMB747,680,000). 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	
	2014	2013
	RMB'000	RMB'000
Rental income	75,880	52,470

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of sales	13,971	13,705

(d) The location of the Group's investment properties is as follows:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
In Hong Kong		
- Lease of between 10 to 50 years	-	-
- Lease of over 50 years	1,909	-
Outside Hong Kong		
- Leases between 10 to 50 years	273,206	277,004
	<u>275,115</u>	<u>277,004</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Investment properties (continued)

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	
	2014 RMB'000	2013 RMB'000
Cost	-	13,092
Accumulated depreciation	-	(2,133)
Net book amount	-	10,959
Opening net book amount	10,959	11,195
Depreciation	(235)	(236)
Transfer to assets held for sale	(10,724)	-
Closing net book amount	-	10,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment

The Group

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 1 January 2013							
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
Year ended 31 December 2013							
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	105,861	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	(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
At 31 December 2013							
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
Year ended 31 December 2014							
Opening net book amount	2,465,389	1,069,184	132,647	104,520	339,462	905,323	5,016,525
Acquisition of subsidiaries (Note 43)	138,372	17,083	7,318	8,735	4,360	5,720	181,588
Additions	7,123	39,122	20,693	86,409	133,167	625,229	911,743
Internal transfer	301,157	323,252	5,713	14,968	96,537	(741,627)	-
Transfer to land use rights (Note 7)	-	-	-	-	-	(26,367)	(26,367)
Transfer to intangible assets (Note 10)	-	-	-	-	-	(26,648)	(26,648)
Disposals (Note 39(ii))	(86,514)	(52,024)	(4,955)	(3,522)	(25,088)	-	(172,103)
Depreciation charge	(151,526)	(137,010)	(40,141)	(48,976)	(159,213)	-	(536,866)
Disposal of subsidiaries	(9,498)	(7,180)	(972)	(2,013)	(76)	(109,026)	(128,765)
Provision for impairment	(1,003)	(17,624)	(305)	(1,212)	(551)	-	(20,695)
Translation difference	(401)	(130)	(46)	(16)	-	-	(593)
Closing net book amount	2,663,099	1,234,673	119,952	158,893	388,598	632,604	5,197,819
At 31 December 2014							
Cost	4,129,612	2,676,506	322,465	542,946	836,819	635,773	9,144,121
Accumulated depreciation	(1,440,885)	(1,380,385)	(201,785)	(381,929)	(446,896)	-	(3,851,880)
Impairment	(25,628)	(61,448)	(728)	(2,124)	(1,325)	(3,169)	(94,422)
Net book amount	2,663,099	1,234,673	119,952	158,893	388,598	632,604	5,197,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment (continued)

The Group

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Cost of sales (Note 32)	260,165	230,264
Distribution and selling expenses (Note 32)	38,820	37,468
General and administrative expenses (Note 32)	237,881	215,046
	<u>536,866</u>	<u>482,778</u>

- (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	
	2014 RMB'000	2013 RMB'000
Property, plant and equipment, pledged	<u>172,766</u>	<u>204,796</u>

- (c) As at 31 December 2014, 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 RMB240,085,000 (2013: RMB328,046,000).
- (d) During the year ended 31 December 2014, the Group capitalised borrowing costs amounting to RMB3,402,000 (2013: RMB1,479,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of approximately 6.55%.
- (e) The location of the Group's buildings is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
In Hong Kong		
- Lease of between 10 to 50 years	-	-
- Lease of over 50 years	4,045	-
Outside Hong Kong		
- Leases between 10 to 50 years	2,659,054	2,465,389
	<u>2,663,099</u>	<u>2,465,389</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment (continued)

The Company

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 1 January 2013							
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
Year ended 31 December 2013							
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
At 31 December 2013							
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
Year ended 31 December 2014							
Opening net book amount	64,853	12,996	3,150	3,013	48,912	10,398	143,322
Additions	-	-	483	452	7,924	19,111	27,970
Internal transfer	-	-	564	1,495	2,592	(4,651)	-
Transfer to intangible assets (Note 10)	-	-	-	-	-	(7,491)	(7,491)
Disposals	-	-	(27)	-	-	(650)	(677)
Depreciation charge	(3,162)	(1,426)	(1,048)	(2,112)	(11,400)	-	(19,148)
Closing net book amount	61,691	11,570	3,122	2,848	48,028	16,717	143,976
At 31 December 2014							
Cost	118,364	15,848	7,288	11,549	120,635	16,717	290,401
Accumulated depreciation	(56,673)	(4,278)	(4,166)	(8,701)	(72,607)	-	(146,425)
Net book amount	61,691	11,570	3,122	2,848	48,028	16,717	143,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets

The Group

	Goodwill RMB'000	Business network RMB'000	Trademarks and patent rights RMB'000	Know-how RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013							
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	<u>3,172,826</u>	<u>382,584</u>	<u>69,210</u>	<u>23,344</u>	<u>22,012</u>	<u>4,890</u>	<u>3,674,866</u>
Year ended 31 December 2013							
Opening net book amount	3,172,826	382,584	69,210	23,344	22,012	4,890	3,674,866
Acquisition of subsidiaries	470,468	32,525	-	100,609	-	465	604,067
Transfer from PP&E(Note9)	-	-	-	-	5,793	-	5,793
Additions	-	-	9,042	-	9,047	35,444	53,533
Disposal of subsidiaries	-	-	-	-	(273)	-	(273)
Amortisation charge(Note32)	-	(50,940)	(8,061)	(8,500)	(6,298)	(4,046)	(77,845)
Closing net book amount	<u>3,643,294</u>	<u>364,169</u>	<u>70,191</u>	<u>115,453</u>	<u>30,281</u>	<u>36,753</u>	<u>4,260,141</u>
At 31 December 2013							
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	<u>3,643,294</u>	<u>364,169</u>	<u>70,191</u>	<u>115,453</u>	<u>30,281</u>	<u>36,753</u>	<u>4,260,141</u>
Year ended 31 December 2014							
Opening net book amount	3,643,294	364,169	70,191	115,453	30,281	36,753	4,260,141
Acquisition of subsidiaries(Note 43)	830,125	189,009	-	15,500	2,084	5,760	1,042,478
Transfer from PP&E(Note9)	-	-	-	-	26,648	-	26,648
Additions	-	-	5,623	498	10,514	20,267	36,902
Disposal	-	-	-	-	(248)	(501)	(749)
Amortisation charge(Note32)	-	(59,579)	(9,183)	(16,377)	(11,370)	(8,599)	(105,108)
Closing net book amount	<u>4,473,419</u>	<u>493,599</u>	<u>66,631</u>	<u>115,074</u>	<u>57,909</u>	<u>53,680</u>	<u>5,260,312</u>
At 31 December 2014							
Cost	4,565,393	696,453	108,303	255,151	110,008	92,824	5,828,132
Accumulated amortisation	-	(202,854)	(41,672)	(63,984)	(52,099)	(21,376)	(381,985)
Impairment	(91,974)	-	-	(76,093)	-	(17,768)	(185,835)
Net book amount	<u>4,473,419</u>	<u>493,599</u>	<u>66,631</u>	<u>115,074</u>	<u>57,909</u>	<u>53,680</u>	<u>5,260,312</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets (continued)

The Group

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

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of sales	6,191	5,750
Distribution and selling expenses	69,113	54,224
General and administrative expenses	29,804	17,871
	<u>105,108</u>	<u>77,845</u>

(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	
	2014	2013
	RMB'000	RMB'000
Production segment	586,435	586,435
Distribution segment	3,962,601	3,132,476
Others	16,357	16,357
	<u>4,565,393</u>	<u>3,735,268</u>

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 2014 are as follows:

	Production segment	Distribution segment
Growth rate to extrapolate cash flows beyond the budget period	3%	3%
Gross margin	30% - 80%	6% - 7%
Discount rate	21% - 24%	16% - 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	
	2014 RMB'000	2013 RMB'000
Cost	19,068	11,561
Accumulated amortisation	(8,717)	(4,380)
Net book amount	<u>10,351</u>	<u>7,181</u>
Opening net book amount	7,181	6,846
Transfer from PP&E (Note 9)	7,491	2,115
Additions	16	817
Amortisation charge	(4,337)	(2,597)
Closing net book amount	<u>10,351</u>	<u>7,181</u>

11 Investments in subsidiaries

The Company

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Investments, at cost		
- Unlisted shares	<u>16,304,469</u>	<u>13,638,554</u>
Due from subsidiaries	<u>4,454,855</u>	<u>6,668,821</u>
Due to subsidiaries	<u>3,115,798</u>	<u>2,411,390</u>

The amounts due from/to subsidiaries are unsecured and without fixed terms of repayment. The amounts of approximately RMB2,977,048,000 due from subsidiaries are interest bearing.

The carrying amounts of the Company's receivables from and payables to subsidiaries approximated their fair values as at the balance sheet dates.

In 2014 and 2013, 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 2014 and 2013, non-controlling interests presented in the consolidated balance sheets were approximately RMB3,277,019,000 and RMB3,047,167,000, 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 2014

Summarised balance sheet	Current		Total	Non-current		Total		Carrying amount of non-controlling interest
	Assets	Liabilities	Net current assets	Assets	Liabilities	Non-current assets	Net assets	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	2,235,000	(1,484,586)	750,414	746,554	(54,619)	691,935	1,442,349	531,744
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,238,262	(391,909)	846,353	151,426	-	151,426	997,779	249,445
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	1,550,377	(1,231,376)	319,001	235,588	(51,131)	184,457	503,458	181,369
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	2,354,591	(2,165,974)	188,617	137,629	(5,083)	132,546	321,163	191,116
	<u>7,378,230</u>	<u>(5,273,845)</u>	<u>2,104,385</u>	<u>1,271,197</u>	<u>(110,833)</u>	<u>1,160,364</u>	<u>3,264,749</u>	<u>1,153,674</u>

Summarised income statement	Revenue	Profit before income tax	Profit for the year	Total comprehensive income	Total comprehensive income allocated to		Dividends to non-controlling interests
					Non-Controlling Interests	Controlling Interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	4,673,363	182,756	148,786	150,258	53,842	26,382	
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	1,127,975	151,044	130,649	130,649	32,662	29,276	
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	4,633,202	84,586	61,939	61,939	22,211	9,097	
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	4,880,386	70,911	52,050	52,050	30,473	18,640	
	<u>15,314,926</u>	<u>489,297</u>	<u>393,424</u>	<u>394,896</u>	<u>139,188</u>	<u>83,395</u>	

Summarised cash flows	Net cash generated from operating activities	Net cash generated from/(used in) investing activities	Net cash generated from/(used in) financing activities	Net increase in cash and cash equivalents	Cash, cash equivalents at beginning of year	Cash and cash equivalents at end of year
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	100,253	(167,918)	216,661	148,969	649,155	798,124
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	99,334	8,197	(135,000)	(27,451)	480,382	452,931
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	7,586	(20,075)	2,866	(9,199)	213,008	203,809
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	35,235	(75,644)	(42,448)	(82,858)	177,288	94,430
	<u>242,408</u>	<u>(255,440)</u>	<u>42,079</u>	<u>29,461</u>	<u>1,519,833</u>	<u>1,549,294</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Investments in subsidiaries (continued)

The Group

(a) Material non-controlling interests (continued)

Year ended 31 December 2013

Summarised balance sheet	Current		Total	Non-current		Total	Carrying amount of non-controlling interest	
	Assets	Liabilities	Net current assets	Assets	Liabilities	Non-current assets	Net assets	interest
	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
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	1,920,009	(1,709,871)	210,138	78,159	(3,693)	74,466	284,604	162,772
	<u>6,573,422</u>	<u>(4,421,921)</u>	<u>2,151,501</u>	<u>1,043,155</u>	<u>(104,040)</u>	<u>939,115</u>	<u>3,090,616</u>	<u>1,082,725</u>

Summarised income statement	Revenue RMB'000	Profit before	Profit for the	Total	Total comprehensive	Dividends to
		income tax	year	comprehensive	income allocated to	Non-Controlling
		RMB'000	RMB'000	RMB'000	income	Interests
						Interests
						RMB'000
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
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	4,106,426	68,040	49,586	49,586	27,990	5,498
	<u>13,699,107</u>	<u>540,766</u>	<u>434,172</u>	<u>434,588</u>	<u>118,897</u>	<u>125,577</u>

Summarised cash flows	Net cash generated from operating activities RMB'000	Net cash generated from/(used in) investing activities	Net cash generated from/(used in) financing activities	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
		from/(used in) investing activities	in) financing activities			
		RMB'000	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
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	(95,594)	(2,752)	167,821	69,475	107,813	177,288
	<u>121,298</u>	<u>(159,438)</u>	<u>109,731</u>	<u>71,417</u>	<u>1,448,416</u>	<u>1,519,833</u>

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	
	2014 RMB'000	2013 RMB'000
Share of net assets, unlisted	376,391	340,679
Provision for impairment	(1,649)	-
	<u>374,742</u>	<u>340,679</u>
At 1 January	340,679	309,020
Additions	-	70,500
Share of profit for the year	102,205	86,344
Dividends declared	(60,844)	(125,185)
Others	(7,298)	-
End of the year	<u>374,742</u>	<u>340,679</u>

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

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

Shanghai Hutchison Pharmacy Co., Ltd. (上海和黄药业有限公司)

Summarised balance sheet

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Current		
Total current assets	469,911	456,997
Total current liabilities	(324,807)	(234,509)
Non-current		
Total non-current assets	434,136	227,748
Total non-current liabilities	(119,900)	(35,622)
Net assets	459,340	414,614

Summarised statement of comprehensive income

	For the year ended 31 December	
	2014 RMB'000	2013 RMB'000
Revenue	1,003,684	898,579
Profit before income tax expense	196,735	166,321
Income tax expense	(32,009)	(26,298)
Profit for the year	164,726	140,023
Total comprehensive income	164,726	140,023
Dividends declared by the jointly controlled entity to the Group	60,000	124,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Investments in jointly controlled entities (continued)

The Group

Reconciliation of summarised financial information

For the year ended 31 December

	2014	2013
	RMB'000	RMB'000
Opening net assets 1 January	414,614	382,013
Capital injection	-	141,000
Profit for the year	164,726	140,023
Dividends	(120,000)	(248,422)
Closing net assets	<u>459,340</u>	<u>414,614</u>
Interest in associates @ 50%	229,670	207,307
Unrealised profit	(7,298)	-
Carrying value	<u>222,372</u>	<u>207,307</u>

13 Investments in associates

The Group

As at 31 December

	2014	2013
	RMB'000	RMB'000
Share of net assets, listed	149,499	122,641
Share of net assets, unlisted	2,297,137	2,308,945
Provision for impairment	(75,765)	(75,765)
	<u>2,370,871</u>	<u>2,355,821</u>
Market value of listed shares (HKD)	<u>1,365,927</u>	<u>1,304,985</u>
At 1 January	2,355,821	2,236,288
Additions	327,000	141,046
Share of profit for the year	310,798	313,072
Dividends declared	(474,713)	(297,806)
Deemed disposal of investment in associates	(100,677)	-
Disposals	(6,053)	(71,986)
Others	(41,305)	35,207
End of the year	<u>2,370,871</u>	<u>2,355,821</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

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	
	2014 RMB'000	2013 RMB'000
Current		
Total current assets	9,051,245	7,018,407
Total current liabilities	(8,124,332)	(5,944,427)
Non-current		
Total non-current assets	2,067,218	1,521,466
Total non-current liabilities	(1,470,000)	(470,000)
Net assets	1,524,131	2,125,446
Summarised statement of comprehensive income	For the year ended 31 December	
	2014 RMB'000	2013 RMB'000
Revenue	9,383,810	8,648,469
Profit before income tax expense	708,879	666,536
Income tax expense	(175,038)	(194,226)
Profit for the year	533,841	472,310
Total comprehensive income	533,841	472,310
Dividends declared by the associate to the Group	340,547	197,638
Reconciliation of summarised financial information	For the year ended 31 December	
	2014 RMB'000	2013 RMB'000
Opening net assets 1 January	2,125,446	1,867,387
Capital injection	-	444,543
Profit for the year	533,841	472,310
Dividends	(1,135,156)	(658,794)
Closing net assets	1,524,131	2,125,446
Interest in associates @ 30%	457,239	637,634
Unrealised profit	(26,676)	-
Carrying value	430,563	637,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

(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	
	2014 RMB'000	2013 RMB'000
Current		
Total current assets	1,052,676	863,630
Total current liabilities	(362,372)	(232,320)
Non-current		
Total non-current assets	1,256,130	1,271,257
Total non-current liabilities	(12,355)	(7,049)
Non-controlling interest	917	(1,430)
Net assets attributable to owners	1,934,996	1,894,088

Summarised statement of comprehensive income

	For the year ended 31 December	
	2014 RMB'000	2013 RMB'000
Revenue	1,380,482	1,197,518
Profit before income tax expense	187,708	215,535
Income tax expense	(38,821)	(34,850)
Profit for the year	148,887	180,685
Total comprehensive income	148,887	180,685
Dividends declared by the associate to the Group	45,013	35,969

Reconciliation of summarised financial information

	For the year ended 31 December	
	2014 RMB'000	2013 RMB'000
Opening net assets 1 January	1,894,088	1,800,487
Profit for the year	151,234	181,760
Dividends	(110,326)	(88,159)
Closing net assets	1,934,996	1,894,088
Interest in associates @ 40.8%	789,478	772,788
Unrealised profit	(3,357)	-
Goodwill	63,033	63,033
Carrying value	849,154	835,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Company

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Investment, at cost		
- Listed shares	19,148	19,148
- Unlisted shares	757,593	430,593
Provision for impairment	(62,814)	(62,814)
	<u>713,927</u>	<u>386,927</u>
Market value of listed shares	<u>907,261</u>	<u>866,783</u>

In 2014, the Company established an associate with certain related parties by a cash injection of RMB300,000,000. The details are set out in Note 44(a).

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	
	2014 RMB'000	2013 RMB'000
Listed equity investment, at fair value	<u>96,565</u>	<u>73,590</u>
Unlisted equity investment, cost		
- at fair value	8,554	-
- at cost	142,455	135,192
Provision for impairment of unlisted equity investment	(60,141)	(59,034)
Unlisted equity investment, net	<u>90,868</u>	<u>76,158</u>
	<u>187,433</u>	<u>149,748</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Available-for-sale financial assets (continued)

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January	149,748	149,057
Acquisition of subsidiaries	6	-
Additions	8,250	300
Fair value change recognised in equity	32,208	3,778
Disposals	(2,779)	(3,387)
End of the year	<u>187,433</u>	<u>149,748</u>

The fair value of listed/listing 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	
	2014 RMB'000	2013 RMB'000
Listed/listing equity investment, at fair value	1,600	1,682
Unlisted equity investment, cost		
- at fair value	8,554	-
- at cost	22,374	23,874
	<u>32,528</u>	<u>25,556</u>
At 1 January	25,556	24,896
Net amount recognised in equity	7,222	660
Disposals	(250)	-
End of the year	<u>32,528</u>	<u>25,556</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Other non-current prepayments

As at 31 December 2014 and 2013, other non-current prepayments primarily represented construction cost prepaid by the Group.

16 Other long-term receivables**The Group**

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Other long-term receivables		
– Long-term deposits (note)	252,912	118,680
– Others	-	10,523
Less: Provision for impairment	-	(10,523)
	<u>252,912</u>	<u>118,680</u>

Note:

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

17 Inventories**The Group**

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Raw materials	967,423	778,108
Work in progress	343,012	409,074
Finished goods	11,777,718	9,809,338
	<u>13,088,153</u>	<u>10,996,520</u>

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

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cost of sales, distribution and selling expenses and general and administrative expenses (Note 32)	<u>79,335,045</u>	<u>66,579,227</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables and other current assets

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade receivables from third parties		
Accounts receivable	20,711,859	15,779,816
Less: allowance for impairment	(911,466)	(751,437)
Accounts receivable – net	19,800,393	15,028,379
Notes receivable	1,466,423	1,383,035
Trade receivables – net	21,266,816	16,411,414
Other receivables from third parties	1,603,153	1,516,367
Less: allowance for impairment	(780,192)	(702,211)
Other receivables – net	822,961	814,156
Amounts due from related parties (Note 44(c))	435,497	231,375
Less: allowance for impairment	(12,119)	(11,408)
Amounts due from related parties – net	423,378	219,967
Prepayments (Note b)	1,072,447	715,810
Tax recoverable	355,941	369,560
Interest receivables	9,341	8,722
	23,950,884	18,539,629

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

(b) As of 31 December 2014 and 2013, prepayments are in connection with:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Purchases of:		
- Raw materials and merchandise	1,012,049	650,937
- Prepaid expenses and others	60,398	64,873
	1,072,447	715,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables and other current assets (continued)

The Group

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
RMB	25,595,076	19,973,202
HKD	3,884	-
USD	44,062	20,607
Other currencies	11,639	10,876
	<u>25,654,661</u>	<u>20,004,685</u>

- (d) As of 31 December 2014, trade receivables of approximately RMB202,868,000 (2013: RMB697,523,000) and notes receivable of approximately RMB166,288,000 (2013: RMB18,563,000) have been pledged by the Group for securing borrowings of approximately RMB310,581,000 (2013: RMB701,615,000) (Note 25).
- (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 2014 and 2013 are as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Less than 3 months	16,642,077	12,733,837
3 months to 6 months	3,634,030	3,040,424
6 months to 12 months	1,075,717	621,263
1 year to 2 years	155,209	97,289
Over 2 years	671,249	670,038
	<u>22,178,282</u>	<u>17,162,851</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables and other current assets (continued)

The Group

As of 31 December 2014, trade receivables due from third parties of approximately RMB1,902,175,000 (2013: RMB1,388,590,000) 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	
	2014 RMB'000	2013 RMB'000
6 months to 12 months	1,075,717	621,263
1 year to 2 years	155,209	97,289
Over 2 years	671,249	670,038
	<u>1,902,175</u>	<u>1,388,590</u>
Less: Expected recovery	(1,111,087)	(684,888)
Impairment	<u>791,088</u>	<u>703,702</u>

As of 31 December 2014, trade receivables due from third parties of approximately RMB20,276,107,000 (2013: RMB15,774,261,000) were within 180 days. The impairment of these trade receivables was approximately RMB120,378,000 (2013: RMB47,735,000).

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	
	2014 RMB'000	2013 RMB'000
At beginning of the year	1,475,579	1,460,676
Provision for impairment (Note 32)	198,911	60,458
Write-off against uncollectible and other deductions	(32,642)	(45,555)
Others	61,929	-
At the end of year	<u>1,703,777</u>	<u>1,475,579</u>

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	
	2014 RMB'000	2013 RMB'000
Trade receivables		
Accounts receivable	119,438	119,438
Less: Provision for impairment	(119,438)	(119,438)
	<u>-</u>	<u>-</u>
Accounts receivable - net	-	-
Notes receivables	-	-
	<u>-</u>	<u>-</u>
Trade receivables - net	-	-
	<u>-</u>	<u>-</u>
Other receivables	544,377	576,970
Less: Provision for impairment	(444,949)	(436,983)
	<u>99,428</u>	<u>139,987</u>
Other receivables - net	99,428	139,987
	<u>99,428</u>	<u>139,987</u>
Due from subsidiaries and other related parties (Note)	4,454,855	6,668,821
	<u>4,554,283</u>	<u>6,808,808</u>
	<u><u>4,554,283</u></u>	<u><u>6,808,808</u></u>

Note:

Amounts due from subsidiaries and other related parties represents other receivables and dividends receivable, out of which approximately RMB2,977,048,000 were interest bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Cash and cash equivalents and restricted cash

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Cash at bank	11,600,507	12,970,916
Cash on hand	7,547	7,569
	<u>11,608,054</u>	<u>12,978,485</u>
Less: restricted cash (Note a)	(417,634)	(333,118)
Cash and cash equivalents	<u>11,190,420</u>	<u>12,645,367</u>
Denominated in:		
– RMB	11,405,459	12,729,494
– HKD	36,356	141,742
– USD	143,500	71,369
– EUR	5,719	10,063
– Other currencies	17,020	25,817
	<u>11,608,054</u>	<u>12,978,485</u>

- (a) As of 31 December 2014 and 2013, certain of the Group's bank deposits have been pledged for the following purposes:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Bank deposits pledged for:		
– issue of notes payable	401,321	306,419
– others	16,313	26,699
	<u>417,634</u>	<u>333,118</u>

- (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

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

	As at 31 December	
	2014 % per annum	2013 % per annum
Effective interest rate	<u>0.35%~4.70%</u>	<u>0.35%~2.60%</u>

The Company

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Cash at bank	2,495,428	2,273,740
Less: restricted cash	-	-
Cash and cash equivalents	<u>2,495,428</u>	<u>2,273,740</u>
Denominated in:		
– RMB	2,472,733	2,239,837
– HKD	22,695	33,903
	<u>2,495,428</u>	<u>2,273,740</u>

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	
	2014 RMB'000	2013 RMB'000
Assets per balance sheet:		
Financial assets at fair value through profit or loss	506	340
Available-for-sale financial assets (Note 14)	187,433	149,748
Loans and receivables		
- Accounts and notes receivables (Note 18)	21,266,816	16,411,414
- Amounts due from related parties (Note 44(c))	419,762	208,626
- Other receivables (Note 18)	832,302	822,878
- Cash and bank balances (Note 19)	11,608,054	12,978,485
- Other long-term receivables	252,912	118,680
	<u>34,567,785</u>	<u>30,690,171</u>
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
- Accounts and notes payables (Note 24)	19,975,472	16,492,314
- Amounts due to related parties (Note 44(c))	492,363	413,138
- Accrual and other payables	2,038,036	1,732,882
- Borrowings (Note 25)	8,058,532	6,049,565
	<u>30,564,403</u>	<u>24,687,899</u>

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	
	2014 RMB'000	2013 RMB'000
Assets per balance sheet:		
Available-for-sale financial assets (Note 14)	32,528	25,556
Loans and receivables		
- Amounts due from subsidiaries and other related parties (Note 18)	4,454,855	6,668,821
- Accounts and other receivables (Note 18)	99,428	139,987
- Cash and bank balances (Note 19)	2,495,428	2,273,740
	<u>7,082,239</u>	<u>9,108,104</u>
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
- Accounts and notes payables (Note 24)	4,363	9,538
- Amounts due to subsidiaries (Note 24)	3,115,798	2,411,390
- Accrual and other payables (Note 24)	39,591	59,125
- Borrowings (Note 25)	360,000	400,000
	<u>3,519,752</u>	<u>2,880,053</u>

(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 2014, the Group's trade receivables due from third parties of approximately RMB20,276,107,000 (2013: RMB15,774,261,000) were within 180 days. Trade receivables that were within 6 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 during year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Financial instruments by category and credit quality of financial assets (continued)**(b) Credit quality of financial assets (continued)****(ii) Cash and cash equivalents**

As at 31 December 2014 and 2013, 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 2013 and 2014	1,923,016	765,894	1,923,016	765,894	2,688,910

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves

The Group

	Share premium	Statutory reserves	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
At 1 January 2013	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)	-	53,369	-	-	-	-	53,369
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)
Others	-	-	-	-	-	29,347	29,347
At 31 December 2013	14,122,285	855,496	1,969	28,227	(19,177)	51,046	15,039,846
Contribution from the intermediate holding company of the Company (Note (b))	120,000	-	-	-	-	-	120,000
Appropriation to statutory reserves (Note (a), 23)	-	103,148	-	-	-	-	103,148
Available-for-sale financial assets	-	-	-	-	-	-	-
- Gross	-	-	31,050	-	-	-	31,050
- Tax	-	-	(7,762)	-	-	-	(7,762)
Changes in ownership interests in subsidiaries without change of control	(133,555)	-	-	-	-	-	(133,555)
Currency translation difference	-	-	-	-	(1,764)	-	(1,764)
Others	(27,065)	-	-	-	-	-	(27,065)
At 31 December 2014	14,081,665	958,644	25,257	28,227	(20,941)	51,046	15,123,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Company

	Share premium	Statutory reserves	Available-for-sale financial Assets	Others	Total
	RMB'000	Note (a)	RMB'000	RMB'000	RMB'000
At 1 January 2013	16,328,357	420,912	3,437	-	16,752,706
Appropriation to statutory reserves (Note (a), 23)	-	53,369	-	-	53,369
Contribution from the intermediate holding companies of the Company (Note (b))	35,134	-	-	-	35,134
Available-for-sale financial assets	-	-	660	-	660
- Gross	-	-	(165)	-	(165)
- Tax	-	-	-	17,579	17,579
Others	-	-	-	-	-
At 31 December 2013	16,363,491	474,281	3,932	17,579	16,859,283
Contribution from the intermediate holding companies of the Company (Note (b))	120,000	-	-	-	120,000
Appropriation to statutory reserves (Note (a), 23)	-	103,148	-	-	103,148
Available-for-sale financial assets	-	-	7,222	-	7,222
- Gross	-	-	(1,805)	-	(1,805)
- Tax	(76,737)	-	-	-	(76,737)
Others	-	-	-	-	-
At 31 December 2014	16,406,754	577,429	9,349	17,579	17,011,111

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Group and the Company

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

23 Retained earnings

	The Group RMB'000	The Company RMB'000
At 1 January 2013	6,718,267	1,012,542
Profit for the year	2,213,579	478,505
Dividends of the Company (Note 38)	(645,339)	(645,339)
Appropriation to statutory reserves (Note 22)	(53,369)	(53,369)
Others	(8,081)	-
	<hr/>	<hr/>
At 31 December 2013	8,225,057	792,339
Profit for the year	2,591,131	977,600
Dividends of the Company (Note 38)	(699,117)	(699,117)
Appropriation to statutory reserves (Note 22)	(103,148)	(103,148)
Others	(4,598)	-
	<hr/>	<hr/>
At 31 December 2014	<u>10,009,325</u>	<u>967,674</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables and other current liabilities

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Accounts payable to third parties	16,689,558	13,769,690
Notes payable	3,285,914	2,722,624
Advances received from customers	515,457	306,569
Payables for purchase of PP&E and land use rights	161,937	229,502
Staff welfare and salary payables	481,274	433,505
Tax liabilities other than income tax	198,341	190,989
Amounts due to related parties (Note 44)	492,680	415,634
Accrued expenses	724,017	562,159
Deposits	287,187	322,483
Payables arising from acquisition of subsidiaries	220,543	25,675
Dividends payable	77,670	83,252
Others	566,682	509,811
	<u>23,701,260</u>	<u>19,571,893</u>

- (a) As at 31 December 2014 and 2013, ageing analysis of the accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Less than 3 months	14,920,352	11,257,395
3 months to 6 months	3,742,074	4,465,571
6 months to 12 months	889,191	441,342
1 year to 2 years	241,246	161,167
Over 2 years	182,609	166,839
	<u>19,975,472</u>	<u>16,492,314</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables and other current liabilities (continued)

The Group

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
RMB	23,263,049	19,257,613
USD	329,765	228,582
EUR	11,452	39,822
HKD	79,445	42,950
Other currencies	17,549	2,926
	<u>23,701,260</u>	<u>19,571,893</u>

The Company

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Accounts payable	4,363	9,538
Amounts due to subsidiaries	3,115,798	2,411,390
Advances from customers	22,207	4,207
Tax liabilities other than income tax	5,414	5,793
Staff welfare and salary payables	13,037	15,091
Others	39,591	59,125
	<u>3,200,410</u>	<u>2,505,144</u>

Note:

Amounts due to subsidiaries represent other payables and are interest-free.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Non-current		
Long-term bank borrowings		
- guaranteed (Note a)	2,160	2,890
- secured (Note b)	79,372	91,829
- unsecured	19,443	26,043
Other borrowings	4,433	4,433
	<u>105,408</u>	<u>125,195</u>
Current		
Short-term bank borrowings		
- guaranteed (Note a)	61,000	52,700
- secured (Note b)	676,031	1,079,805
- unsecured	7,193,363	4,656,658
Other borrowings	2,000	108,798
	<u>7,932,394</u>	<u>5,897,961</u>
Current portion of long-term bank borrowings		
- guaranteed (Note a)	730	730
- secured (Note b)	15,000	25,679
- unsecured	5,000	-
	<u>7,953,124</u>	<u>5,924,370</u>
Total borrowings	<u><u>8,058,532</u></u>	<u><u>6,049,565</u></u>

- (a) As at 31 December 2014, the bank borrowings as guaranteed by the Group's non-controlling interests amounted to approximately RMB61,000,000 (2013: RMB52,700,000).

As at 31 December 2014, the bank borrowings as guaranteed by a related party amounted to approximately RMB2,890,000 (2013: RMB3,620,000) (Note 44(d)).

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Secured by:		
- PP&E and land use rights (Notes 7, 9)	459,822	495,698
- Trade receivables (Note 18)	310,581	701,615
	<u>770,403</u>	<u>1,197,313</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings (continued)

The Group

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
RMB	7,953,070	5,968,300
USD	86,443	38,770
HKD	19,019	42,495
	<u>8,058,532</u>	<u>6,049,565</u>

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Bank borrowings		
- RMB	5.66%	5.56%
- USD	1.88%	3.02%
- HKD	2.55%	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.

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Within 1 year	7,953,124	5,924,370
Between 1 and 2 years	9,221	21,320
Between 2 and 5 years	80,691	88,210
Wholly repayable within 5 years	8,043,036	6,033,900
Over 5 years	15,496	15,665
	<u>8,058,532</u>	<u>6,049,565</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings (continued)

The Group

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Within 6 months	6,543,855	1,737,318
Between 6 and 12 months	1,514,677	4,312,247
	<u>8,058,532</u>	<u>6,049,565</u>

- (g) The carrying amounts of short-term and current borrowings approximate their fair values, as the impact of discounting is not significant.
- (h) The carrying amounts of non-current borrowings approximate their fair values, as the interest rates of the non-current borrowings are close to the market rates. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

The Company

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Current		
Short-term borrowings		
- unsecured	<u>360,000</u>	<u>400,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2014 RMB'000	2013 RMB'000
Deferred income tax assets		
- To be recovered after more than 12 months	4,762	6,386
- To be recovered within 12 months	259,829	193,420
	<u>264,591</u>	<u>199,806</u>
Deferred income tax liabilities		
- To be recovered after more than 12 months	349,514	271,016
- To be recovered within 12 months	30,649	17,796
	<u>380,163</u>	<u>288,812</u>
Deferred income tax liabilities - net	<u>(115,572)</u>	<u>(89,006)</u>

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
At 1 January	(89,006)	(90,605)
Recognised in the consolidated income statements (Note 35)	36,467	32,422
Acquisition of subsidiaries	(54,981)	(24,020)
Recognised in equity	(8,052)	(6,803)
Deferred income tax liabilities - net	<u>(115,572)</u>	<u>(89,006)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income tax (continued)

The Group

Movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for impairment of assets RMB'000	Termination Benefit obligations RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013	111,030	12,396	28,921	39,397	191,744
Acquisition of subsidiaries	237	-	-	550	787
Recognised in the consolidated income statements	(1,238)	(4,599)	8,789	4,323	7,275
At 31 December 2013	110,029	7,797	37,710	44,270	199,806
Acquisition of subsidiaries	21,105	-	-	-	21,105
Recognised in the consolidated income statements	39,997	(249)	5,944	(2,012)	43,680
At 31 December 2014	171,131	7,548	43,654	42,258	264,591

Deferred income tax liabilities

	Fair value of intangible assets RMB'000	Deemed disposal RMB'000	Fair value gains from available-for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2013	135,595	138,766	2,309	5,679	282,349
Acquisition of subsidiaries	24,807	-	-	-	24,807
Recognised in the consolidated income statements	(17,064)	(3,485)	-	(4,598)	(25,147)
Recognised in equity	-	-	944	5,859	6,803
At 31 December 2013	143,338	135,281	3,253	6,940	288,812
Acquisition of subsidiaries	76,086	-	-	-	76,086
Recognised in the consolidated income statements	(18,814)	23,091	-	2,936	7,213
Recognised in equity	-	-	8,052	-	8,052
At 31 December 2014	200,610	158,372	11,305	9,876	380,163

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 RMB134,419,000 (2013: RMB208,384,000) in respect of tax losses amounting to approximately RMB537,676,000 (2013: RMB833,537,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB22,000,000, RMB30,111,000, RMB64,855,000, RMB99,323,000 and RMB321,387,000 will expire in 2015, 2016, 2017, 2018 and 2019, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Other non-current liabilities

The Group

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Medical reserve funds (Note a)	82,098	67,442
Project research and development funds (Note b)	193,687	203,051
Office and plant relocation funds (Note c)	360,577	835,366
Others	46,456	52,704
	<u>682,818</u>	<u>1,158,563</u>

- (a) During the years ended 31 December 2014 and 2013, 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 certain mutually agreed price 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 2014 and 2013 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 management 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 disposal of land, plant and equipment. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses and being used to compensate the disposal of land, plant and equipment arising from office relocation, will be recognised as other gain, net. Such funds are treated as advance received in respect of office and plant relocation. As at each respective balance sheet date, the management 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	
	2014	2013
	RMB'000	RMB'000
Project research and development funds	<u>57,465</u>	<u>66,983</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Termination benefit obligations

The Group

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Termination benefit	70,472	39,077

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	
	2014 RMB'000	2013 RMB'000
At beginning of year	39,077	52,353
Addition	55,024	-
Interest expenses	266	380
Benefits paid	(23,895)	(13,656)
At end of year	70,472	39,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Other income

The Group

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Government grants (Note a)	198,416	208,265
Dividend income from available-for-sale financial assets	7,416	4,824
	<u>205,832</u>	<u>213,089</u>

- (a) Government grants mainly represented subsidy income received from various government organisations to support the operation of the Group.

30 Other Gains – net

The Group

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Gain/(loss) of financial assets at fair value through profit or loss, net	166	(2,120)
Gain on disposals of financial assets at fair value through profit or loss	-	2,802
Gain on disposals of PP&E	22,561	1,358
Gain on disposals of available-for-sale financial assets	4,431	10,869
Gain on disposals of land use rights	200,921	-
Compensation from an associate's parent company (note (a))	106,957	-
Foreign exchange gains/(losses)	(11,035)	7,508
Relocation gain/(costs) (Note 27 (c))	7,267	(10,496)
Fixed return in an associate (note (b))	47,009	67,249
Others – net	(20,492)	(45,972)
	<u>357,785</u>	<u>31,198</u>

Note:

- (a) In 2014, the Group received compensation of approximately RMB106,957,000 from the parent company of an associate in respect of change of business of this associate.
- (b) Pursuant to an agreement entered into between the Group and other shareholders of an associate, the Group is guaranteed by the other shareholder a fixed return from this associate. The guaranteed return for current and prior years is paid/payable by the other shareholder of this associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Gains on disposal of subsidiaries and associates

The Group

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Gain on deemed disposal of investments in an associate (note)	106,304	-
Disposal of subsidiaries and associates	49,709	50,546
	<u>156,013</u>	<u>50,546</u>

Note:

On 30 June 2014, the Group acquired the additional 50% equity interest in Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. at a consideration of RMB256,830,000 (Xinhai Fengyuan) (the "Acquisition"). Before the Acquisition, Xinhai Fengyuan was an associate of the Group and accounted for using the equity method accounting. Because of the obtaining control over Xinhai Fengyuan, the Group began to consolidate it from the date of the Acquisition. Consequently, in recording such transaction, the Group recognised (a) deemed disposal of the 50% equity interest held in Xinhai Fengyuan at their fair value of RMB206,981,000 at the acquisition date; (b) deemed acquisition of 100% equity interest in Xinhai Fengyuan at a consideration of RMB463,811,000; and (c) deemed disposal gain of RMB106,304,000 in the income statement. Impact of the transaction is analysed as below:

	Year ended 31 December 2014 RMB'000
Fair value of the 50% equity investment previously held in Xinhai Fengyuan	206,981
Less: Carrying amount of net assets of Xinhai Fengyuan as an associate at the acquisition date	(100,677)
Gain on disposal of Xinhai Fengyuan	<u>106,304</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Expenses by nature

The Group

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Raw materials, merchandise and consumables used	80,697,334	67,569,736
Changes in inventories of finished goods and work in progress	(1,362,289)	(990,509)
Employee benefit expenses (Note 33)	3,885,662	3,336,994
Travelling and meeting expenses	1,149,589	1,146,966
Promotion and advertising costs	1,137,925	937,348
Depreciation of PP&E (Note 9)	536,866	482,778
Transportation costs	369,441	301,362
Real estate tax, stamp duties and other taxes	301,743	253,465
Operating lease rentals	300,304	278,845
Office expenditures	219,418	238,343
Energy and utilities	200,787	197,805
Provision for impairment of trade and other receivables (Note 18)	198,911	60,458
Repair and maintenance fee	181,509	147,732
Amortisation of intangible assets (Note 10)	105,108	77,845
Write-down of inventories to net realisable value	60,172	39,573
Amortisation of land use rights (Note 7)	29,473	29,293
Depreciation of investment properties (Note 8)	13,971	13,705
Auditor's remuneration	19,704	19,657
Others	1,289,969	1,332,287
Total cost of sales, distribution and selling expenses and general and administrative expenses	<u>89,335,597</u>	<u>75,473,683</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses

The Group

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Wages and salaries	2,790,814	2,425,484
Contributions to pension plans (Note (a))	405,687	341,744
Housing fund, medical insurance and other social insurance (Note (b))	439,920	347,201
Others	249,241	222,565
Total including directors' emoluments	<u>3,885,662</u>	<u>3,336,994</u>

- (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

(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 2014 is set out below:

Name	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
Mr. Lou Dingbo	-	-	-	-
Mr. Cho Man (also the CEO)	906	676	-	1,582
Mr. Hu Fengxiang	-	-	-	-
Mr. Zhou Jie	-	-	-	-
Mr. Jiang Ming	-	-	-	-
Mr. Chen Naiwei	230	-	-	230
Mr. Wan Kam To	250	-	-	250
Mr. Tse Cho Che	230	-	-	230
Mr. Li Zhenfu	200	-	-	200
<i>Supervisors</i>				
Mr. He Chuan (a)	-	-	-	-
Mr. Zhang Zhenbei (b)	-	-	-	-
Mr. Xin Keng	-	-	-	-
Mrs. Chen Xin	-	-	-	-
	1,816	676	-	2,492
	1,816	676	-	2,492

(a) Appointed on 16 December 2014.

(b) Retired on 16 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses (continued)

The Group

(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 2013 is set out below:

Name of director	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
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
<i>Supervisors</i>				
Mr. Zhang Zhenbei	-	-	-	-
Mr. Xin Keng (a)	-	-	-	-
Mrs. Chen Xin	-	-	-	-
Mr. Wu Junhao (b)	-	-	-	-
	1,827	1,535	42	3,404
	1,827	1,535	42	3,404

(a) Appointed on 5 June 2013.

(b) Retired on 5 June 2013.

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

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include one (2013: one) director whose emoluments during the year have been included in note (c) above. The emoluments payable to the five highest individuals during the year are as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Salaries and fee	5,085	4,233
Bonuses	8,934	8,851
Employer's contribution to pension scheme and others	342	359
	<u>14,361</u>	<u>13,443</u>

The emoluments fell within the following bands:

Emolument bands (in HKD)	Year ended 31 December	
	2014 Number	2013 Number
HKD2,000,001 – HKD2,500,000	2	-
HKD2,500,001 - HKD3,000,000	1	2
HKD3,000,001 - HKD3,500,000	-	1
HKD3,500,001 - HKD4,000,000	-	1
HKD4,000,001 - HKD4,500,000	1	-
HKD4,500,001 - HKD5,000,000	-	1
HKD5,000,001 - HKD6,000,000	-	-
HKD6,000,001 - HKD7,000,000	1	-
	<u>1</u>	<u>-</u>

- (e) In 2014 and 2013, 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	
	2014 RMB'000	2013 RMB'000
Interest income on bank deposits	206,069	239,305
Others	967	2,801
Total finance income	207,036	242,106
Interest expenses on borrowings	(409,973)	(274,919)
Interest expenses on notes and receivables discounted	(178,355)	(140,307)
Other costs	(18,306)	(46,102)
Finance costs	(606,634)	(461,328)
Less: Amount capitalised on qualifying assets (Note 9(d))	3,402	1,479
Total Finance costs	(603,232)	(459,849)
Net finance costs	(396,196)	(217,743)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2014 RMB'000	2013 RMB'000
Current income tax	844,184	660,790
Deferred income tax (Note 26)	(36,467)	(32,422)
	<u>807,717</u>	<u>628,368</u>

- (i) Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year. In 2014, the assessable income of the Group's subsidiaries in Hong Kong was insignificant.
- (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 2014, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by relevant 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 No.1 Biochemical and Pharmaceutical Co., Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Changzhou Pharmaceutical Factory Co., Ltd., Shanghai Zhongxi Pharmaceutical Machinery 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 enjoyed a preferential CIT rate of 15% for 2013 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Taxation (continued)

The Group

(a) Income tax expense (continued)

(iii) The tax on the Group's profit before income tax differs from the theoretical amount that could arise using the statutory CIT rates of 25% applicable to the years as follows:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Profit before income tax	3,799,734	3,225,640
Tax calculated at the domestic CIT rate applicable	949,934	806,410
Income not subject to taxation	(129,095)	(174,896)
Cost not deductible for taxation purposes	123,459	43,042
Preferential tax rate of certain subsidiaries	(131,386)	(150,087)
Utilisation of tax losses for which no deferred income tax asset was recognised	(85,542)	(27,347)
Tax losses for which no deferred income tax asset was recognised	80,347	131,246
Income tax expenses	<u>807,717</u>	<u>628,368</u>
Effective tax rate	<u>21.3%</u>	<u>19.5%</u>

The tax charge relating to component of other comprehensive income is as follows:

	Year ended 31 December					
	2014			2013		
	Before tax	Tax	After tax	Before tax	Tax	After tax
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets	32,208	(8,052)	24,156	3,778	(944)	2,834
Currency translation differences, net	(2,892)	-	(2,892)	(7,061)	-	(7,061)
	<u>29,316</u>	<u>(8,052)</u>	<u>21,264</u>	<u>(3,283)</u>	<u>(944)</u>	<u>(4,227)</u>
Current tax		-			-	
Deferred tax (Note 26)		(8,052)			(944)	
		<u>(8,052)</u>			<u>(944)</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Taxation (continued)

The Group

(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 2014 has been dealt with in the financial statements of the Company to the extent of approximately RMB977,600,000 (2013: RMB478,505,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 Earnings per share

For years ended 31 December 2014 and 2013, 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	
	2014	2013
Profit attributable to equity holders of the Company (RMB'000)	2,591,131	2,213,579
Number of ordinary shares (thousands)	2,688,910	2,688,910
Basic earnings per share (RMB)	0.96	0.82

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 2014 and 2013 were approximately RMB699,117,000 (RMB0.26 per share) and RMB645,339,000 (RMB0.24 per share) respectively. A dividend in respect of the year ended 31 December 2014 of RMB0.29 per share, amounting to a total dividend of RMB779,784,000, 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	
	2014 RMB'000	2013 RMB'000
Proposed final dividend of RMB0.29 (2013:RMB0.26) per share	779,784	699,117

The aggregate amounts of the dividends proposed in respect of 2014 and 2013 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	
	2014 RMB'000	2013 RMB'000
Profit before income tax	3,799,734	3,225,640
Adjustments for:		
- Share of profit from associates	(310,798)	(313,072)
- Share of profit from jointly controlled entities	(102,205)	(86,344)
- Fixed return on equity interest in a certain associate	(47,009)	(67,249)
- Depreciation of PP&E and investment properties	550,837	496,483
- Amortisation of land use rights and intangible assets	134,581	107,138
- Financial assets at fair value through profit or loss	(166)	(682)
- (Gain)/loss on disposals of		
- PP&E	(22,561)	(1,358)
- land use rights and intangible assets	(200,921)	-
- investment in subsidiaries and associates	(156,013)	(50,546)
- available-for-sale financial assets	(4,431)	(10,869)
- Provisions for impairment of		
- trade and other receivables	198,911	60,458
- inventories	60,172	39,573
- PP&E	20,695	14,285
- Dividend income on available-for-sale financial assets	(7,416)	(4,824)
- Financial cost - net	377,890	171,641
- Foreign exchange gain and loss - net	(2,764)	14,619
- Gain on relocation	(7,267)	(716)
- Compensation from an associate's parent company	(106,957)	-
- Other gains – others, net	(6,137)	22,023
	<u>4,168,175</u>	<u>3,616,200</u>
Changes in working capital:		
- Inventories	(1,582,833)	(1,150,066)
- Trade and other receivables and other current assets	11,911,109	(3,412,314)
- Trade and other payables and other current liabilities	(12,582,518)	2,475,818
- Restricted cash	(84,516)	(108,621)
	<u>1,829,417</u>	<u>1,421,017</u>

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	
	2014 RMB'000	2013 RMB'000
Net book amount (Note 9)	172,103	43,743
Gain on disposal (Note 30)	22,561	1,358
	<u>194,664</u>	<u>45,101</u>
Advance from disposal of PP&E and investment properties	28,115	-
Receivables in respect of disposal of PP&E and investment property	(13,395)	-
Cash receipt in prior year in respect of disposal of PP&E in current year	(145,557)	(9,268)
Receipt of proceeds from disposal of PP&E and investment properties in prior year	88,172	-
Proceeds from disposal	<u>151,999</u>	<u>35,833</u>

- (iii) In the cash flow statements, proceeds from disposals of land use rights and intangible assets (excluding goodwill) comprise:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Net book amount	15,872	-
Gain on disposal (Note 30)	200,921	-
	<u>216,793</u>	<u>-</u>
Cash receipt in prior year in respect of land use right and intangible assets	(216,793)	-
Proceeds from disposal	<u>-</u>	<u>-</u>

- (iv) In the cash flow statements, proceeds from disposals of available-for-sale financial assets comprise:

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Net book amount (Note 14)	2,779	3,387
Gain on disposal (Note 30)	4,431	10,869
	<u>7,210</u>	<u>14,256</u>

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	
	2014	2013
	RMB'000	RMB'000
Net book amount	20,327	151,158
Gain on disposal	156,013	50,546
Less: gain on deemed disposal	(106,304)	-
	<u>70,036</u>	<u>201,704</u>
Cash receipt in respect of disposal of associates in prior year	36,342	30,420
Cash and cash equivalents in subsidiaries disposed	(22,521)	(2,638)
Receivables in respect of disposal of subsidiaries	(20,491)	(99,600)
Offset other current liabilities	-	(10,233)
	<u>63,366</u>	<u>119,653</u>

40 Contingencies and guarantees

- (a) As of 31 December 2014, one of the Group's subsidiaries, Xiamen Traditional Chinese Medicine Co., Ltd., received legal documents and materials regarding an appeal brought by Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. from Zhangzhou Intermediate People's Court. It is not anticipated that any material liabilities will arise from this dispute.
- (b) In November 2014, the Company received legal documents regarding an appeal brought by Investments 2234 China Fund 1B.V. from Shanghai No 1 Intermediate People's Court. The appeal was rejected by the Court in March 2015 subsequently. It is not anticipated that any material liabilities will arise from this dispute.
- (c) Outstanding loan guarantees

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Outstanding loan guarantees provided to related parties	<u>21,835</u>	<u>42,290</u>

As of 31 December 2014, outstanding loan guarantees of approximately RMB21,835,000 (2013: RMB42,290,000) 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	
	2014	2013
	RMB'000	RMB'000
PP&E	433,803	106,869
Land use right	-	28,939
	<u>433,803</u>	<u>135,808</u>

(ii) Acquisition of equity interests

Pursuant to the agreement entered into between the Group and Allied Vison Holdings Limited on 26 December 2014, the Group will inject approximately RMB229,500,000 in Allied Vison Holdings Limited by cash in order to hold 51% equity interests of Star Fountain Global Limited ("Star Fountain Global"), the parent of Guangdong Sunnico Medical Technology Co., Ltd. (廣東桑尼克醫療科技有限公司). As at 31 December 2014, the above-mentioned transaction was not completed.

(b) Operating lease commitments

(i) The Group as the lessee:

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

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
No later than 1 year	218,680	171,332
Later than 1 year and no later than 2 years	151,828	139,603
Later than 2 years and no later than 5 years	168,235	137,479
Later than 5 years	133,790	121,070
	<u>672,533</u>	<u>569,484</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Commitments (continued)

(b) Operating lease commitments (continued)

(ii) The Group as 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	
	2014 RMB'000	2013 RMB'000
No later than 1 year	37,399	23,559
Later than 1 year and no later than 2 years	30,959	19,442
Later than 2 years and no later than 5 years	56,704	44,866
Later than 5 years	51,695	61,316
	<u>176,757</u>	<u>149,183</u>

(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 2014, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB120,136,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42 Significant transactions with non-controlling interests

(a) Significant acquisition of additional interests in the subsidiaries

(i) Transaction with non-controlling interests of Big Global Limited (Hong Kong) ("Big Global")

In 2014, the Group acquired additional 10.00% equity interests of Big Global for a purchase consideration of approximately RMB77,800,000 (the "Acquisition"). Subsequent to the Acquisition, the Group injected RMB100,000,000 to Big Global and acquired additional 1.25% equity interest in it (the "Injection"). The carrying amount of the non-controlling interests in Big Global of the Acquisition and the Injection was up to approximately RMB115,860,000. The Group recognised a decrease in non-controlling interests of approximately RMB115,860,000 and a decrease in equity attributable to owners of the Company of approximately RMB61,940,000. The effect of changes in the ownership interests of Big Global on the equity attributable to owners of the Company during the year is summarised as follows:

	2014 RMB'000
Carrying amount of non-controlling interests acquired	115,860
Consideration paid to non-controlling interests	(177,800)
	<hr/>
Excess of consideration paid recognised within equity	(61,940)
	<hr/> <hr/>

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2014.

	2014 RMB'000
Changes in equity attributable to owners of the company arising from:	
- Acquisition of additional interests in subsidiaries	(133,555)
	<hr/>
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	(133,555)
	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination

Significant business combinations not under common control

- (i) In 2014, the Group acquired 50% equity interests in Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. ("Xinhai Fengyuan"), 85% equity interests in SPH Keyuan Xinhai Pharmaceuticals Shanxi Co., Ltd.(Keyuan Shanxi) and 100% SPH Keyuan Xinhai Inner Mongolia Co., Ltd. (Keyuan Inner Mongolia) from certain independent third parties for a cash consideration of approximately RMB588,490,000 (the "Acquisition"). The Acquisition was completed on 30 June 2014, on which the Group effectively obtained the right to control their pharmaceutical business and consolidated them into the consolidated financial statements.

Before the Acquisition, the Group held 50% equity interest in Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. (北京信海豐園生物醫藥科技有限公司, "Xinhai Fengyuan"). The Group accounted for the investment using the equity accounting. In June 2014, the Group obtained the substantial control over Xinhai Fengyuan through acquiring the remaining 50% equity interests. Hence, Xinhai Fengyuan was consolidated by the Group subsequently.

As a result of the Acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB513,485,000 arising from the acquisition is attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entities. 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 2014.

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

Consideration	The Acquisition
	RMB'000
Fair value of the existing 50% equity investment in Xinhai Fengyuan before the Acquisition	206,981
Consideration for the purchase of remaining 50% equity investment in Xinhai Fengyuan and for the purchase of equity investment in Keyuan Shanxi and Keyuan Inner Mongolia	588,490
Total consideration	<u>795,471</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

Restricted cash	40,000
Cash and cash equivalents	65,440
PP&E	123,479
Investment properties	18,583
Land use rights	2,179
Intangible assets	141,848
Deferred income tax assets	16,453
Other non-current assets	618
Inventories	394,227
Trade and other receivables and other current assets	1,465,998
Deferred income tax liabilities	(59,356)
Other non-current liabilities	(389)
Trade and other payables and other current assets	(981,071)
Current income tax liabilities	(4,039)
Borrowings	(893,050)
Total identifiable net assets	330,920
Non-controlling interests	(48,934)
Goodwill	513,485
	795,471

The following table summarized the cash outflows from the Acquisition for the year ended 31 December 2014:

	RMB'000
Total cash consideration	588,490
Less: cash and cash equivalents in the subsidiaries acquired	(65,440)
consideration payable in respect of acquisition of the subsidiaries	(39,357)
Cash outflows from the acquisitions	483,693

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by the abovementioned entities was approximately RMB2,206,878,000 and RMB13,524,000, respectively. Had the acquisitions occurred on 1 January 2014, the Group's revenue and profit for the year would have been increased by approximately RMB2,126,940,000 and RMB11,904,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

- (ii) In May 2014, the Group acquired 75% equity interests in Shandong SPH Pharmaceutical Co., Ltd. from an independent third party, on which the Group effectively obtained the right to control its pharmaceutical business and consolidated it into the consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economics of scale. The goodwill of RMB282,530,000 arising from the acquisition attributable to the acquired synergies and economies of scale expected from combining the operations of the Group and the above entity and its subsidiaries. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the acquisition of approximately RMB407,290,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

Consideration	Shandong SPH Pharmaceutical Co., Ltd.
	RMB'000
Total cash consideration	<u>407,290</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	17,521
PP&E	25,213
Land use rights	46,667
Intangible assets	47,210
Deferred income tax assets	4,587
Other non-current assets	11
Inventories	181,492
Trade and other receivables and other current assets	953,852
Deferred income tax liabilities	(12,851)
Trade and other payables and other current liabilities	<u>(1,097,356)</u>
Total identifiable net assets	<u>166,346</u>
Non-controlling interests	(41,586)
Goodwill	<u>282,530</u>
	<u>407,290</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

The following table summarized the cash outflows from the above Acquisition for the year ended 31 December 2014:

	RMB'000
Total cash consideration	407,290
Less: cash and cash equivalents in the subsidiary acquired consideration payable in respect of acquisition of the subsidiary	(17,521) (170,100)
Cash outflows from the acquisitions	<u>219,669</u>

The revenue and profit for the year included in the consolidated income statement since the acquisition date contributed by Shandong SPH Pharmaceutical Co., Ltd. was approximately RMB1,665,584,000 and RMB18,353,000, respectively. Had the acquisitions occurred on 1 January 2014, the Group's revenue and profit for the year would have been increased by approximately RMB208,050,000 and RMB1,724,000 respectively.

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 Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai HuaJiu Material Supply and Marketing Co., Ltd. (上海華久物資供銷有限公司)	Controlled by Shanghai Pharma Group
The Wing Fat Printing Co., Ltd. (永發印務有限公司)	Controlled by Shanghai Industrial Group
Shanghai Real Property Management Co., Ltd. (上海上實資產經營有限公司)	Controlled by Shanghai Industrial Group
Shanghai industrial Dongtan Investment Development (Group) Co., Ltd. (上海實業東灘投資開發(集團)有限公司)	Controlled by Shanghai Industrial Group
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 Bracco Sine Pharmaceutical Corp., Ltd. (上海信誼博萊科藥業有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司)	Associate
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	Associate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

Name of related party	Nature of relationship
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Shanghai 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
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
Huangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司)	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
Shanghai Industrial Group Finance Co., Ltd. (上海上實集團財務有限公司)	Associate
Xinhai Fengyuan (北京信海豐園生物醫藥科技發展有限公司) (Note 2)	Former associate
Shanghai Baohua Industrial Co., Ltd. (上海保華實業公司) (Note 1)	Former associate
Beijing Xin Hai Kang Pharmaceutical Co., Ltd. (北京信海康醫藥有限公司) (Note 2)	Subsidiary of former associate
Henan Kangxin Pharmaceutical Co., Ltd. (河南省康信醫藥有限公司) (Note 2)	Subsidiary of former associate
Liu Yanjun (劉彥君)	Vice-President of the Company

Note 1:

In 2014, the Group disposed all the shares held in Shanghai Baohua Industrial Company.

Note 2:

In 2014, the Group acquired rest of shares of Xinhai Fengyuan which is the controlling shareholder of Beijing Xin Hai Kang Pharmaceutical Co., Ltd and Henan Kangxin Pharmaceutical Co., Ltd. Hence, the Group obtained control of Xinhai Fengyuan and its subsidiaries (together, the "Xinhai Fengyuan Group") and consolidated the Xinhai Fengyuan Group thereafter.

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 2014 and 2013, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Year end 31 December	
	2014 RMB'000	2013 RMB'000
Sales of goods and render of services		
Jiangxi Nanhua Medicines Co., Ltd.	519,534	489,117
Shanghai Luoda Pharmaceutical Co., Ltd.	74,132	63,256
Shanghai Hutchison Pharmaceutical Co., Ltd.	69,758	67,892
Henan Kangxin Pharmaceutical Co., Ltd.	59,273	122,038
Shanghai Deyi Pharmaceutical Co., Ltd.	54,254	64,379
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	53,934	54,688
Shanghai Ivyuan Pharmacy Co., Ltd.	33,948	31,061
Beijing Xin Hai Feng Yuan Biomedical Development Co.,Ltd.	27,729	617
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	11,995	7,007
Shanghai Huaren Pharmaceutical Co., Ltd.	9,363	12,618
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	8,533	4,157
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	3,572	2,715
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	5,809	8,079
Shanghai Roche Pharmaceutical Co., Ltd.	1,472	2,350
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	1,089	1,500
Others	3,838	7,817
	<u>938,233</u>	<u>939,291</u>

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 end 31 December	
	2014 RMB'000	2013 RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	2,247,115	2,150,640
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	712,971	692,553
Shanghai Hutchison Pharmaceutical Co., Ltd.	158,779	151,818
TECHPOOL BIO-PHARMA CO., LTD.	133,331	122,258
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	64,763	24,300
Shanghai Luoda Pharmaceutical Co., Ltd.	63,327	21,588
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	42,915	35,574
Beijing XinHai FengYuan Biomedical Development Co., Ltd.	24,217	43,253
Shanghai Deyi Pharmaceutical Co., Ltd.	21,093	9,541
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	17,575	13,726
Shanghai Huajiu Material supply and marketing Co., Ltd.	5,684	4,639
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	4,606	-
Huanren Manchu Municipality Grain Packaging Co., Ltd.	3,489	2,989
Shanghai Huaren Pharmaceutical Co., Ltd.	2,563	1,237
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	2,334	2,606
Others	4,497	6,540
	<u>3,509,259</u>	<u>3,283,262</u>

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	10,114	10,114
Shanghai Hutchison Pharmaceutical Co., Ltd.	2,874	1,186
	<u>12,988</u>	<u>11,300</u>

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	24,999	26,921
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	16,452	25,912
Beijing XinHai FengYuan Biomedical Development Co., Ltd.	2,181	4,247
Shanghai Indu-Land Property Co., Ltd.	5,075	4,392
	<u>48,707</u>	<u>61,472</u>

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	
	2014	2013
	RMB'000	RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	29,893	26,653

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 2014, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB29,893,000. Up to 31 December 2014, the Group has cumulatively paid approximately RMB120,135,500 to Fudan Zhangjiang with respect to the Agreements.

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Interest income		
Beijing XinHai Fengyuan Biomedical Development Co., Ltd.	967	2,801

Interest expense		
Shanghai Industrial Group Finance Co., Ltd.	5,992	-

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Deposit in related parties, net		
Shanghai Industrial Group Finance Co., Ltd.	220,024	-
Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	400,000	-

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 has paid the Group RMB120,000,000 in respect of the commitments in 2014.

In 2014, the Group acquired 100% equity interests of China International Pharmaceutical (Holding) Corporation Limited ("China International") from Shanghai Pharma Group at a cash consideration of approximately RMB45,372,000.

In 2014, the Group established Shanghai Industrial Group Finance Co., Ltd. (Shanghai Industrial Finance) (上海實業集團財務有限公司) with Shanghai Shangshi, Shanghai Real Property Management Co., Ltd. and Shanghai Industrial Dongtan Investment Development (Group) Co., Ltd. by a cash contribution of RMB300,000,000, representing 30% of the equity interest of Shanghai Industrial Finance.

In 2014, the Group disposed 75% equity interest of Shanghai Dental Instrument Factory Co., Ltd. ("Victor Medical") to The Wing Fat Printing Co. Ltd., a company controlled by Shanghai Industrial Group, at a cash consideration of approximately RMB8,506,000.

In 2014, the Group acquired 100% equity interest in Shanghai Jiaolian Medicine Research and Development Co., Ltd. (上海交聯藥物研發有限公司) from Mr. Liu Yanjun, the Vice-President of the Company, and his spouse at a fixed consideration of RMB10,000,000 with a floating consideration no more than RMB5,000,000.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

(b) Key management compensation

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Salaries	4,628	5,003
Bonuses	4,620	6,367
Pensions and others	558	566
	<u>9,806</u>	<u>11,936</u>

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

Amount due from related parties:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables	146,860	160,749
Other receivables	10,291	49,740
Prepayments	3,616	11,341
Dividends receivable	274,730	9,545
	<u>435,497</u>	<u>231,375</u>

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	76,056	59,956
Shanghai Luoda Pharmaceutical Co., Ltd.	16,784	13,095
Shanghai Hutchison Pharmaceutical Co., Ltd.	15,150	20,435
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	11,396	11,865
Shanghai Deyi Pharmaceutical Co., Ltd.	10,762	9,708
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,823	4,007
Shanghai Ivyuan Pharmacy Co., Ltd.	4,374	4,894
Shanghai Huaren Pharmaceutical Co., Ltd.	1,621	2,791
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	1,076	1,499
Henan Kangxin Pharmaceutical Co., Ltd.	-	21,907
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	-	5,762
Others	3,818	4,830
	<u>146,860</u>	<u>160,749</u>
Less: Provision for impairment	<u>(5,997)</u>	<u>(5,591)</u>
	<u>140,863</u>	<u>155,158</u>

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	
	2014 RMB'000	2013 RMB'000
Other receivables due from		
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	1,638	4,949
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	1,500
Beijing XinHai Fengyuan Biomedical Development Co., Ltd.	-	35,740
Others	7,153	7,551
	10,291	49,740
Less: Provision for impairment	(6,122)	(5,817)
	4,169	43,923

Other receivables are non-trade receivables and mainly represent 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	
	2014 RMB'000	2013 RMB'000
Less than 3 months	134,041	142,610
3 months to 6 months	4,642	9,454
6 months to 12 months	5,327	2,215
1 year to 2 years	1,132	33,419
Over 2 years	12,009	22,791
	157,151	210,489

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	
	2014 RMB'000	2013 RMB'000
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	3,302	10,010
Others	314	1,331
	<u>3,616</u>	<u>11,341</u>

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Dividends receivable		
Shanghai Roche Pharmaceutical Co., Ltd.	269,700	-
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	3,689	2,370
Shanghai Luoda Pharmaceutical Co., Ltd.	1,256	1,256
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	-	5,684
Others	85	235
	<u>274,730</u>	<u>9,545</u>

Amount due to related parties:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade Payables	460,413	383,533
Other Payables	23,255	21,526
Advances	317	2,496
Dividends Payable	8,079	8,079
Shanghai Industrial Group Finance Co., Ltd	616	-
	<u>492,680</u>	<u>415,634</u>

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	
	2014 RMB'000	2013 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	295,143	263,648
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	62,822	72,729
TECHPOOL BIO-PHARMA CO., LTD.	56,350	13,402
Shanghai Hutchison Pharmaceutical Co., Ltd.	13,431	5,424
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	12,535	10,291
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	6,854	1,714
Shanghai Deyi Pharmaceutical Co., Ltd.	3,553	3,496
Shanghai Huajiu Material supply and marketing Co., Ltd	3,322	3,242
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	2,929	1,812
Shanghai Luoda Pharmaceutical Co., Ltd.	1,831	425
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	480	760
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	-	3,097
Others	1,163	3,493
	<u>460,413</u>	<u>383,533</u>

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Other payables due to		
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	10,225	2,289
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,096	9,066
Shanghai Pharmaceutical (Group) Co., Ltd.	3,623	8,829
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	287	536
Others	24	806
	<u>23,255</u>	<u>21,526</u>

Other payables are all non-trade payables mainly and represent rental expenses due to 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	
	2014 RMB'000	2013 RMB'000
Less than 3 months	471,056	380,236
3 months to 6 months	715	2,008
6 months to 12 months	1,049	9,498
1 year to 2 years	56	2,989
Over 2 years	10,792	10,328
	<u>483,668</u>	<u>405,059</u>

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Advances due to		
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	259	215
Shanghai Baohua Industrial Co., Ltd.	-	2,064
Others	58	217
	<u>317</u>	<u>2,496</u>

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	8,000	8,000
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	<u>8,079</u>	<u>8,079</u>

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Interest payable		
Shanghai Industrial Group Finance Co., Ltd	616	-
	<u>616</u>	<u>-</u>

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)

Cash at bank and borrowings due from/to related parties:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Borrowings		
Shanghai Industrial Group Finance Co., Ltd	400,000	-
Cash at bank		
Shanghai Industrial Group Finance Co., Ltd	220,024	-

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Outstanding loan guarantees provided by the Group to		
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	12,835	13,290
Shanghai Luoda Pharmaceutical Co., Ltd.	9,000	9,000
Beijing XinHai Feng Yuan Biomedical Development Co., Ltd.	-	20,000
	21,835	42,290
Outstanding loan guarantees given to the Group by		
Shanghai Pharma Group	2,890	3,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries, jointly controlled entities and associates

As at 31 December 2014, 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		Principal activities and place of operations
			Direct %	Indirect %	
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	1,191,611	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. (上海上藥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	589,470	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	57.36	18.53	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
SPH Qingdao Growful Pharmaceutical Co., Ltd. (上海醫藥集團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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company		Principal activities and place of operations
			Direct %	Indirect %	
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	RMB'000 84,030	-	61	Medicine manufacture and trading in the PRC
Hangzhou Huojingyutang 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. (上海醫藥物資供應有限公司)	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	HKD6,904,834,385	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. (上海鈴謙連中醫藥有限公司) (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.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company		Principal activities and place of operations
			Direct %	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	RMB'000 20,000	-	65	Distribution of pharmaceutical products in the PRC
Shanghai Sifu Pharmaceutical Co., Ltd. (上海思葦醫藥有限公司)	PRC, 27 May 1994	60,000	-	60	Distribution of pharmaceutical products in the PRC
Shanghai Leliunshang Pharmaceutical Co., Ltd. (上海麗允上藥藥有限公司)	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公司)	PRC, 27 September 2003	76,667	-	100	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上海科園信海醫藥有限公司)	PRC, 14 June 1993	1,300,000	-	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)醫藥用品貿易有限公司)	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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company		Principal activities and place of operations
			Direct %	Indirect %	
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. (上海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	141,322	-	100	Pharmaceutical products manufacture and trading in the PRC
Shandong Shanghai Pharmaceutical Co., Ltd. (山東上藥醫藥有限公司)	PRC, 18 April 2014	20,000	-	75	Distribution of pharmaceutical products in the PRC
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)	PRC, 9 November 1988	50,000	-	100	Distribution of pharmaceutical products in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries, jointly controlled entities and associates (continued)

Principal jointly controlled entities and associates

As at 31 December 2014, the Company has direct and indirect interests in the following principal jointly controlled entity and associates:

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company		Principal activities and place of operations
			Direct %	Indirect %	
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黄药有限公司)	PRC, 30 April 2001	RMB'000 229,000	-	50	Pharmaceutical products manufacture and trading in the PRC
Shanghai Roche Pharmaceutical Co., Ltd.	PRC, 6 May 1994	USD134,897,142	-	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

46 Subsequent events

Pursuant to board resolution of the Company on 26 February 2015, Shanghai Huayu and Shanghai Jinhe Bio-technology Co., Ltd. (Jinhe, 上海金和生物技术有限公司), in which the Group held 100% and 51% equity interest respectively, will acquire equity interests in Dali Zhonggu Hongdoushan Biological Co., Ltd. (Dali Zhonggu, 大理中谷红豆杉生物有限公司) by cash contribution of approximately RMB160,000,000 and RMB110,000,000 (subject to SASAC's approval), respectively (the "Acquisition"). Upon the completion of the Acquisition, Shanghai Huayu and Jinhe will hold 40% and 27.5% equity interest of Dali Zhonggu, respectively.

Pursuant to board resolution of the Company on 9 March 2015, the Group will establish Shanghai Pharma Health Commerce Co., Ltd. (SPH Health Commerce, 上海医药大健康云商股份有限公司) with a natural person who is a non-controlling interest of one of the Group's subsidiaries. The registered capital of SPH Health Commerce will be RMB100,000,000, out of which the Group and the individual will contribute and hold 70% and 30% of the equity interest, respectively.

Pursuant to board resolution of the Company on 28 March 2015, the board of directors of the Company proposed a final dividend for the year ended 31 December 2014 (Note 38).