SPH 上海医药
SHANGHAI PHARMA

Shanghai Pharmaceuticals Holding Co., Ltd.*

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

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

ANNUAL REPORT
2014

* *For identification purpose only*

Important Notice

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

(II) All directors of the Company attended the meeting of the board of directors aimed at approving the 2014 annual report and convened on 26 March 2015.

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

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

(V) The plan for profit distribution or conversion of capital reserve fund into share capital for the Reporting Period considered by the board of directors: Shanghai Pharmaceuticals intends to distribute to all shareholders a cash dividend of RMB2.90 (tax inclusive) for every 10 Shares on the basis of the total share capital of 2,688,910,538 Shares as at the end of 2014, which is subject to the approval by the annual general meeting of the Company for 2014.

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

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

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

Contents

Definitions and Warnings of Significant Risks

I. DEFINITIONS

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

Definitions of Common Terms

"the Group", "Group", "the Company", "Company" or "Shanghai Pharmaceuticals"	Shanghai Pharmaceuticals Holding Co., Ltd.（上海醫藥集團股份有限公司）, a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shanghai Stock Exchange with stock code 601607.SH, and on the Main Board of the Hong Kong Stock Exchange with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable
"Articles of Association" or "Articles"	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
"Reporting Period"	the 12-month period from 1 January 2014 to 31 December 2014
"YOY"	year-on-year
"Shares"	shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
"A Shares"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"H Shares"	overseas shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"HK$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"PRC" or "China"	the People's Republic of China; unless the context otherwise requires, references to the PRC or China herein do not include Hong Kong, Macau or Taiwan
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

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

II. WARNINGS OF SIGNIFICANT RISKS

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

Basic Corporate Information

I. CORPORATE INFORMATION

Name of the Company in Chinese	上海醫藥集團股份有限公司
Chinese abbreviation of the name of the Company	上海醫藥
Name of the Company in English	Shanghai Pharmaceuticals Holding Co., Ltd.
Legal representative of the Company	Mr. Lou Dingbo
Authorised representatives of the Company	Mr. Lou Dingbo, Ms. Han Min

II. CONTACT PERSON AND CONTACT DETAILS

	Secretary of the board of directors, Joint Company Secretary	Securities Affairs Representative
Name	Han Min	Dong Linqiong
Contact address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Telephone	+8621-63730908	+8621-63730908
Facsimile	+8621-63289333	+8621-63289333
E-mail	pharm@sphchina.com	pharm@sphchina.com

III. BASIC INFORMATION

Registered address of the Company	No. 92 Zhangjiang Road, Pudong New Area, Shanghai
Postal code of the registered address of the Company	201203
Office address of the Company	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai
Postal code of the office address of the Company	200020
Principal place of business in Hong Kong	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Website of the Company	http://www.sphchina.com
E-mail	pharm@sphchina.com
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, No. 166 Lujiazui East Road, Pudong New Area, Shanghai, the PRC
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

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

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

V. STOCK INFORMATION OF THE COMPANY

Stock Information of the Company				
Type of stock	**Stock exchange on which shares are listed**	**Stock abbreviation**	**Stock code**	**Prior to the change of stock code**
A Shares	Shanghai Stock Exchange	上海醫藥	601607	600849
H Shares	Hong Kong Stock Exchange	SH PHARMA	02607	Not applicable

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

(I) Basic Information

Registration date	9 April 2010
Place of registration	Shanghai City Administration for Industry and Commerce
Registration number of the business license of the enterprise	310000000026221
Tax registration number	Hu 31011513358488x
Organization code	13358488-X

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

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

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

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

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

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

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

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

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

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

VII. OTHER RELEVANT INFORMATION

<table>
<tr><td rowspan="4">Name of accounting firm engaged by the Company (domestic)</td><td>Name</td><td>PricewaterhouseCoopers Zhong Tian LLP</td></tr>
<tr><td>Office address</td><td>11/F, PricewaterhouseCoopers Center, No. 202 Hu Bin Road, Shanghai, the PRC</td></tr>
<tr><td rowspan="2">Name of signing accountant</td><td>Ke Zhenhong</td></tr>
<tr><td>Liu Wei</td></tr>
<tr><td rowspan="3">Accounting firm engaged by the Company (overseas)</td><td>Name</td><td>PricewaterhouseCoopers, Certified Public Accountants, Hong Kong</td></tr>
<tr><td>Office address</td><td>22nd Floor, Prince's Building, Central, Hong Kong</td></tr>
<tr><td>Name of signing accountant</td><td>Not applicable</td></tr>
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Summary of Accounting Data and Financial Indicators

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

(I) Major Accounting Data

Unit: RMB

		2013			2012	
Major accounting data	**2014**	After adjustments	Before adjustments	Change compared to the corresponding period last year (%)	After adjustments	Before adjustments
Operating revenue	**92,398,893,626.70**	78,222,817,357.35	78,222,817,357.35	18.12	68,078,117,819.19	68,078,117,819.19
Net profit attributable to equity holders of listed Company	**2,591,129,073.77**	2,213,577,876.66	2,242,925,141.06	17.06	2,052,871,698.55	2,052,871,698.55
Net profit after deduction of non-recurring profit or loss attributable to equity holders of listed Company	**2,161,174,797.86**	2,067,125,810.03	2,067,125,810.03	4.55	1,794,965,958.94	1,794,965,958.94
Net cash flows from operating activities	**1,335,674,135.37**	973,449,693.95	973,449,693.95	37.21	1,150,774,970.90	1,150,774,970.90

		End of 2013			End of 2012	
	End of 2014	After adjustments	Before adjustments	Change compared to the end of the corresponding period last year (%)	After adjustments	Before adjustments
Net assets attributable to equity holders of listed Company	**27,822,129,424.69**	25,953,812,431.68	25,953,812,431.68	7.20	24,639,299,336.20	24,639,299,336.20
Total assets	**64,340,558,156.78**	56,311,521,570.36	56,311,521,570.36	14.26	51,069,037,985.13	51,069,037,985.13

(II) Major Financial Indicators

Unit: RMB

Major financial indicators	2014	2013 After adjustments	2013 Before adjustments	Change compared to the corresponding period last year (%)	2012 After adjustments	2012 Before adjustments
Basic earnings per share (RMB per share)	**0.9636**	0.8232	0.8341	17.06	0.7635	0.7635
Diluted earnings per share (RMB per share)	**0.9636**	0.8232	0.8341	17.06	0.7635	0.7635
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	**0.8037**	0.7688	0.7688	4.55	0.6675	0.6675
Weighted average return on net assets (%)	**9.67**	8.75	8.87	increase of 0.92 percentage point	8.62	8.62
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	**8.07**	8.17	8.17	decrease of 0.1 percentage point	7.53	7.53

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

(I) Results

Unit: RMB'000

	For the year ended 31 December 2010	2011	2012	2013	**2014**
Revenue	38,692,157	54,899,873	68,078,118	78,222,817	**92,398,894**
Profit before income tax	2,283,250	3,035,102	3,087,727	3,225,640	**3,799,734**
Income tax expenses	(415,885)	(589,072)	(627,139)	(628,368)	**(807,717)**
Profit for the year	1,867,365	2,446,030	2,460,588	2,597,272	**2,992,017**
Attributable to:					
Equity holders of the Company	1,456,195	2,042,239	2,052,872	2,213,579	**2,591,131**
Non-controlling interest	411,170	403,791	407,716	383,693	**400,886**

(II) Assets and Liabilities

Unit: RMB'000

	For the year ended 31 December				
	2010	2011	2012	2013	**2014**
Total assets	30,163,469	47,667,824	51,069,038	56,311,522	**64,340,559**
Total liabilities	17,335,241	21,686,359	23,368,164	27,310,542	**33,241,407**
Total equity	12,828,228	25,981,465	27,700,874	29,000,980	**31,099,152**
Attributable to:	1,867,365	2,446,030	2,460,588	2,597,272	**2,992,017**
Owners of the Company	10,009,718	23,078,471	24,639,299	25,953,813	**27,822,133**
Non-controlling interests	2,818,510	2,902,994	3,061,575	3,047,167	**3,277,019**

Note: The financial information for 2010, 2011 and 2012 is extracted from the financial statements prepared under the Hong Kong Financial Reporting Standards. The financial information for 2013 and 2014 is extracted from the financial statements of 2014 prepared under the Hong Kong Financial Reporting Standards.

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

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

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

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

✓Applicable ☐Not applicable

Unit: RMB

Non-recurring Profit and Loss Item	**Amount in 2014**	Notes (if applicable)	Amount in 2013	Amount in 2012
Profit or loss on disposal of non-current assets	**273,191,524.20**		62,773,676.93	52,059,379.56
Government grants recognised in profit or loss for the current period excluding those closely related to the Group's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume	**159,516,888.70**		145,389,308.56	154,957,223.51
Profit or loss on debt restructuring			29,087,237.27	10,033,519.30
Except for the effective hedging activities related to the Group's ordinary activities, profit or loss arising from changes in fair value of financial assets and financial liabilities held for trading, and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets	**4,596,184.54**		682,554.69	677,638.39
Reversal of provisions on receivables assessed for impairment on an individual basis	**2,837,764.88**		4,144,095.43	22,577,426.66
Other non-operating income and expenses other than the aforesaid items	**108,289,581.22**		-40,960,037.18	123,151,323.76
Other profit or loss items that meet the definition of non-recurring profit or loss	**106,302,930.99**		2,229,142.25	
Effect on minority interests	**-23,180,850.99**		-17,361,218.01	-20,243,277.65
Effect on income tax	**-201,599,747.63**		-39,532,693.31	-85,307,493.92
Total	**429,954,275.91**		146,452,066.63	257,905,739.61

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

Unit: RMB

Item	Balance at the beginning of period	Balance at the end of period	Change during the period	Effect on the profit for the period
Financial assets at fair value with changes recognised through profit or loss for the period	339,985.80	505,659.00	165,673.20	165,673.20
Available-for-sale financial assets	73,589,989.23	105,118,878.95	31,528,889.72	
Total	73,929,975.03	105,624,537.95	31,694,562.92	165,673.20

Report of the Board of Directors

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

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, in line with the overall deployment of its "333" strategy, was driven 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 and vigorously pushed 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, 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.

Key Honours of the Company

During the Reporting Period, the Group was awarded with the following key honours, which further enhanced the status of the Group in the industry and the capital market:

- 2014 Integrity Top 50 Listed on the Main Board (2014主板誠信50強) awarded by www.cnlist.com (中國上市公司網) and China Information Agency (中國信息報社) under the State Statistics Bureau;

- 2013 Top 100 Competitive Brand of Industrial Enterprises in PRC (2013中國工業企業品牌競爭力百強);

- ranking 11th among the top 100 enterprises in the pharmaceutical industry in China in 2013 released by Ministry of Industry and Information Technology;

- ranking 3rd among wholesale enterprises in terms of principal operating income in 2013 issued by the Ministry of Commerce;

- Outstanding Enterprises in Shanghai in respect of Promotion of Employment (上海市促進就業先進企業) awarded by Shanghai Municipal Peoples' Government;

- ranking 19th among the top 100 enterprises in Shanghai and 8th among the top 50 enterprises in the manufacturing industry in Shanghai in 2014 jointly released by Shanghai Enterprise Confederation (上海市企業聯合會), Shanghai Entrepreneurs Association (上海市企業家協會) and Shanghai Federation of Economic Organisations (上海市經濟團體聯合會);

- ranking 3rd among the top 100 enterprises in the pharmaceutical industry in China in 2013 according to Medicine Economic Press (醫藥經濟報) published by SFDA South Medicinal Economic Institution (國家食品藥品監督管理局南方醫藥經濟研究所);

- ranking 166th among the top 500 enterprises in China and 73th among the top 500 enterprises in the manufacturing industry in China in 2014 released by China Enterprise Confederation (中國企業聯合會) and China Entrepreneurs Association (中國企業家協會);

- Outstanding Unit in Ideological and Cultural Construction in the Pharmaceutical Industry in China for 2009-2014 and Outstanding Research Accomplishments in Ideological and Cultural Construction in the Pharmaceutical Industry in China for 2009-2014 issued by China Research Association of Pharmaceutical Labour's Ideological and Political Work (中國醫藥職工思想政治工作研究會) and Chinese Pharmaceutical Association for Enterprises Culture Construction (中國醫藥企業文化建設協會);

- ranking 3rd among the top 10 conglomerates in the pharmaceutical industry in China in 2014, 2nd among the top 100 manufacturing enterprises in comprehensive strength in the pharmaceutical manufacturing industry in China in 2014, 2nd among the outstanding corporate brands of preparations export enterprises in the pharmaceutical manufacturing industry in China in 2014 and 9th among the outstanding corporate brands of APIs export enterprises in the pharmaceutical industry in China in 2014 issued by China Pharmaceutical Industry Association (中國化學製藥工業協會), China Association of Pharmaceutical Commerce (中國醫藥商業協會), China Nonprescription Medicines Association (中國非處方藥物協會), China Pharmaceutical Enterprises Promotion Association (中國醫藥企業發展促進會);

- ranking 67th among the list of the top 500 enterprises in China in 2014 and 2nd among the most acclaimed pharmaceutical manufacturing companies in China in 2014 issued by Fortune (Chinese edition);

- 2014 TOP 100 best employers issued by dajie.com (大街網);

- Enterprise with Public Satisfaction (公眾滿意企業) issued by the Organising Committee of Shanghai Public Satisfaction Survey (上海城市公眾滿意度調查活動組委會).

• Pharmaceutical Research & Development (the "R&D") and manufacture

1. Pharmaceutical R&D

During the Reporting Period, the Company's R&D expenses amounted to a total of 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 in 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 the 2014 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呱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-class prize of the 2013 Shanghai Technological Invention Award. The project "Development of and Industrialization Research on Trichosanthes Peel Injection" ("瓜蔞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 suspension 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.) was 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, an increase of three products in the number of the kind as compared with 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 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
5	Live combined bifidobacterium	Digestive and metabolic disease	35,560
6	Wangbi tablets	Musculo-skeletal system	28,152
7	Calcium dibutyryladenosine 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	Musculo-skeletal system	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 the 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》) in accordance with 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 a total of 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 member 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.

- 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 costs of sales and administration accounted for 3.53%, representing a decrease of 0.06 percentage point as compared with the corresponding period of last year. The operating profit margin after deducting the sales and administration expenses 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. The construction of the logistics project of Ningbo Pharmaceuticals, a subsidiary of Shanghai Pharmaceutical Distribution Co., Ltd. had been completed 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.

• 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 to 33, of which 21 were newly added. 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 office supplies in the standalone counter 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 8 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 phases. 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 Group 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 by acquiring 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 by acquiring 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 progressed in an orderly manner as planned.

(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
Net cash flow 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						
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 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

Unit: RMB10,000

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, 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 "Use of Proceeds" 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 operating cost 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	36,553,650.43	14,060,032.95	61.54	62.78	18.31	+14.46 percentage point
Offsetting	-4,467,267,506.84	-4,472,957,538.29				

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 consolidation 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 consolidation 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 receivable 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

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
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 consolidation and growth of business during the Reporting Period
Advance from customers	515,773,646.56	0.80	309,065,006.96	0.55	66.88	Expansion in the scope of consolidation 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
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 part of 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 merger and acquisition. 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 merger and acquisition. 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) Mortgage of assets

1. As at 31 December 2014, the book 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 mortgaged 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 and 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 more than 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

Unit: RMB10,000

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 in total securities investment at the end of the period (%)	Profit or loss during the Reporting Period (RMB)
1	Share	600618	Chlor-Alkali Chemical	186,500	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	Percentage of 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	/	/

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 date of asset management mandate	Termination date of asset management mandate	Remuneration determination method	Estimated profit	Actual principal amount recovered	Actual profit obtained	Whether undergone legal procedures	Impairment provision amount provided	wheter a connected transactions	Whether involving litigation	Source of funds and indicate whether the funds are raised funds	Connected relationship
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	None
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	None
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	None
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	None
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	None
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	None
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	None
Total	/	400,000,000.00	/	/	/		400,000,000.00	3,298,630.15	/	0	/	/	/	/
Cumulative amount of principal and profit overdue: (RMB)														0
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

	Before adjustment			After adjustment	
Use of proceeds	**Proportion**	**Amount**	**Adjusted**	**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 manufacturing 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 manufacturing 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

☐Applicable ✓Not applicable

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".

II. 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 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.

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

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

☐Applicable ✓Not applicable

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

✓Applicable ☐Not applicable

The Board of Directors has approved the implementation of the newly issued accounting standards by the Company starting from 1 July 2014 and the retrospective adjustments made to corresponding items in the comparative financial statements. The Board of Directors has approved the change in accounting estimation on provision for bad debt on receivables since 31 December 2014.

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

☐Applicable ✓Not applicable

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

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

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

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

Calculated on the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2014 was RMB967,674,000 based on the financial statements prepared under the Hong Kong Financial Reporting Standards. In addition, details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2014 are set out in the financial statements.

According to the profit distribution plan of the Company for 2014 as resolved at the 14th meeting of the fifth session of the board of directors of Shanghai Pharmaceuticals, the profit distribution plan of the Company is to distribute to all shareholders a cash dividend of RMB2.90 (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, fully protected the legal interests of small and medium investors. The independent non-executive directors of the Company have provided their view in this regard.

About withholding of tax for non-PRC resident shareholders 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税收政策的通知) (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.

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

☐Applicable ✓Not applicable

(III) Plan or Proposal for the Distribution of Profit and Conversion of Capital Reserve Fund into Share Capital for the Latest Three Years (including the Reporting Period) of the Company

Unit: RMB

Year of dividends	Bonus share for every 10 Shares	Dividend for every 10 Shares (tax inclusive)	Conversion into share capital for every 10 Shares	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of listed Company based on the consolidated statement for the year of dividends	Percentage in net profit attributable to shareholders of listed Company based on the consolidated statement (%)
2014	0	2.9	0	779,784,056.02	2,591,129,073.77	30.09
2013	0	2.6	0	699,116,739.88	2,213,577,876.66	31.58
2012	0	2.4	0	645,338,529.12	2,052,871,698.55	31.44

V. POSITIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

(I) Performing social responsibilities

Details are set out in the "2014 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

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

During the Reporting Period, subsidiaries of the Company as pharmaceuticals production enterprises strictly complied with national and local laws and regulations and emission standards; all pharmaceuticals production enterprises within the key monitoring scope of the Group identified sources of environmental risks. The Group realised an effective control on environmental risks by preparing summary statements on sources of environmental risks and conducting the monthly follow-up examination on the sources of environmental risks, thus ensuring the pollution emissions were up to standards.

VI. OTHER DISCLOSURE MATTERS

(I) Opinions on the classified information provided in the report of the Board of Directors and accounts

There were no material changes during the year.

(II) Charity and other donations

Details are set out in the "2014 Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company.

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

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

(IV) Share capital

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

(V) Information about directors, supervisors and senior management

The information about the Company's directors, supervisors and senior management as at 31 December 2014 is set out in the section below headed "Directors, Supervisors, Senior Management and Employees".

(VI) Management service contracts

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

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

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

(VIII) Directors and supervisors' rights to share subscription

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

(IX) Directors and supervisors' interests in competing business

As at 31 December 2014, none of the Company's directors or supervisors had any competing interests that constitute or may constitute direct or indirect competition with the Group's business.

Significant Events

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

✓Applicable ☐Not applicable

(I) Litigations, arbitrations not disclosed in interim announcements or with subsequent development

Unit: RMB10,000

During the reporting period:									
Plaintiff	Defendant	Party liable for joint liabilities	Type of litigation (arbitration)	Summary of litigation (arbitration)	Amount involved in litigation (arbitration)	Whether the litigation (arbitration) incurs anticipated liabilities and related amount	Progress of litigation (arbitration)	Result and impact of litigation (arbitration)	Enforcement of litigation (arbitration)
Investments 2234 Overseas Fund VII B.V. (投資2234海外第七號基金公司)	Shanghai Pharmaceutical (Group) Co., Ltd., Shanghai Pharmaceuticals Holding Co., Ltd	Nil	Civil action	On 22 October 2014, Investments 2234 Overseas Fund VII B.V. (投資2234海外第七號基金公司) (the Plaintiff) lodged a lawsuit in Shanghai No. 1 Intermediate People's Court, claiming that 1) the Trademark License Agreement (商標使用許可合同) entered into on 25 October 2013 for the grant of free use of its trademarks by Shanghai Pharmaceutical (Group) Co., Ltd. (Defendant 1) to Shanghai Pharmaceuticals Holding Co., Ltd. (Defendant 2) shall be revoked; 2) Defendant 2 shall return Defendant 1 the gains arising from the use of trademarks of Defendant 1 with a maximum value of RMB38 million; 3) Defendant 1 and Defendant 2 shall be liable for the cost of proceedings. On 3 November 2014, Shanghai No. 1 Intermediate People's Court had the case registered and delivered case materials to Defendant 1 and Defendant 2 the next day.	3,800	No	On 13 March 2015, Shanghai No. 1 Intermediate People's Court delivered its judgment rejecting all claims of the Plaintiff and held that the cost of the proceedings, being RMB231,800, should be borne by the Plaintiff. Up to date, there has been no appeal by the Plaintiff in relation to the initial judgment.	The court rejected all claims of the Plaintiff in the initial judgment	Not relevant for the time being

II. APPROPRIATION AND SETTLEMENT OF FUNDS DURING THE REPORTING PERIOD

☐Applicable ✓Not applicable

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

Nil

IV. ASSET TRANSACTIONS AND BUSINESS COMBINATIONS

✓Applicable ☐Not applicable

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

Overview and Type of Events	Search 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. Ltd. 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 further acquisition 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
Acquisition of 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) Events not disclosed in interim announcements or with subsequent development

1. Acquisition of assets

   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 year.

3. Assets swap

   There was no material assets swap during the year.

4. Business combination

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

V. SHARE INCENTIVES OF THE COMPANY AND ITS INFLUENCE

☐Applicable ✓Not applicable

VI. SIGNIFICANT CONNECTED TRANSACTIONS

✓Applicable ☐Not applicable

(I) Connected transactions relating to daily operations

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

Overview of Events	Search Index
The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Continuing Connected Transactions in 2014 was approved at the 7th meeting of the fifth session of the Board of Directors on 28 March 2014. Pursuant to the Proposal, from January to December 2014, the estimated amount of continuing connected transactions between the Company (and its subsidiaries) and Shanghai Pharmaceutical (Group) (and its subsidiaries) shall not exceed RMB130 million, in which the amount receivable by the Group from the sale of raw materials and products and the provision of distribution agency services to Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB10 million; the amount payable by the Group for the procurement of raw materials and products and the commissioned processing services from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB20 million; the amount payable by the Group for leasing premises and production equipments from Shanghai Pharmaceutical (Group) and its subsidiaries shall not exceed RMB100 million (Note 1). The actual amount of the continuing connected transactions conducted by the Company and its subsidiaries with Shanghai Pharmaceutical (Group) and its subsidiaries in 2014 did not exceed the amount approved at the meeting of the Board stated above.	The Company's announcement Lin No. 2014-004
The Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Entry into Financial Services Framework Agreement and Connected Transactions was approved at the 2013 annual general meeting held on 8 May 2014. For the period from the effective date of the Agreement to the date of 2014 annual general meeting of Shanghai Pharmaceuticals, the maximum daily balance of deposits by the Group with Shanghai Shangshi Group Finance Co., Ltd. (the "Finance Company") shall not exceed RMB1.2 billion; for the period from the effective date of the Agreement to the date of 2014 annual general meeting of Shanghai Pharmaceuticals, maximum outstanding balance of comprehensive credit facilities provided by the Finance Company to the Group shall not exceed RMB1.8 billion (Note 2). As at 31 December 2014, neither the maximum daily balance of deposits by the Group with the Finance Company nor the comprehensive credit facilities actually provided by the Finance Company to the Group have exceeded the aforesaid amounts approved at the annual general meeting.	The Company's announcement Lin No. 2014-005, The Company's announcement Lin No. 2014-013

Note 1: These connected transactions (as defined under the Listing Rules of the Shanghai Stock Exchange) entered into with Shanghai Pharmaceutical (Group) and its subsidiaries also constitute the "connected transactions with connected persons at the level of the Company" defined under Chapter 14A of the Hong Kong Listing Rules. During the period from January to December 2014, among these daily connected transactions: (1) the relevant percentage ratios (as defined under Chapter 14 of the Hong Kong Listing Rules, the same below) other than profits ratio corresponding to the actual amount of the transactions in relation to the sale of raw materials and products and the provision of distribution agency services were less than 0.1%; (2) the relevant percentage ratios other than profits ratio corresponding to the actual amount of the transactions in relation to the procurement of raw materials and products and the commissioned processing services were less than 0.1%; (3) the relevant percentage ratios other than profits ratio corresponding to the actual amount from leasing premises and production equipment were more than 0.1% but less than 5%.

Note 2: These connected transactions under the Financial Services Framework Agreement (as defined under the Listing Rules of the Shanghai Stock Exchange) also constitute the "connected transactions with connected persons at the level of the Company" defined under Chapter 14A of the Hong Kong Listing Rules. As of 31 December 2014, among these connected transactions: (1) the relevant percentage ratios other than profits ratio for actual deposit services, calculated on an annual basis, were higher than 0.1% but lower than 5%; (2) actual loan services were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for these loan services; (3) the relevant percentage ratios other than profits ration for actual settlement and other financial services, calculated on an annual basis, were less than 0.1%.

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

   Pursuant to the Financial Services Framework Agreement, upon the formal establishment of the Finance Company on 1 September 2014, the Company and the Finance Company entered into the Financial Services Agreement on 16 October 2014. The content and principles stated in the Financial Services Agreement are consistent with those of the Financial Services Framework Agreement. The Financial Services Agreement will expire on the date on which the Company convenes the 2014 annual general meeting.

3. Events not disclosed in interim announcements

Unit: RMB10,000

<table>
<tr><th>Connected party</th><th>Connected relationship</th><th>Type of the connected transaction</th><th>Particulars of the connected transaction</th><th>Pricing principle of the connected transaction</th><th>Trading price of the connected transaction</th><th>Amount of the connected transaction</th><th>Proportion in the amount of transactions of the same type (%)</th><th>Settlement method of the connected transaction</th><th>Market price</th><th>Reason for the difference between trading price and market price</th></tr>
<tr><td>Shanghai HuaJiu Material Supply and Marketing Co., Ltd.</td><td>A wholly-owned subsidiary of the parent company</td><td>Procurement of merchandises</td><td>Pharmaceutical packaging</td><td>Market price</td><td>568.37</td><td>568.37</td><td>0.16</td><td>Cash</td><td>568.37</td><td>Nil</td></tr>
<tr><td>Shanghai Pharmaceutical (Group) Co., Ltd.</td><td>The parent company</td><td>Other outflows</td><td>Property leasing</td><td>Market price</td><td>2,499.91</td><td>2,499.91</td><td>51.32</td><td>Cash</td><td>2,499.91</td><td>Nil</td></tr>
<tr><td>Shanghai Asia Pioneer Pharmaceutical Co., Ltd.</td><td>A wholly-owned subsidiary of the parent company</td><td>Other outflows</td><td>Property and equipment leasing</td><td>Market price</td><td>1,645.21</td><td>1,645.21</td><td>33.78</td><td>Cash</td><td>1,645.21</td><td>Nil</td></tr>
<tr><td>Shanghai Indu-Land Property Co., Ltd.</td><td>A wholly-owned subsidiary of the parent company</td><td>Other outflows</td><td>Property leasing and property service</td><td>Market price</td><td>507.52</td><td>507.52</td><td>10.42</td><td>Cash</td><td>507.52</td><td>Nil</td></tr>
<tr><td>Shanghai Asia Pioneer Pharmaceutical Co., Ltd.</td><td>A wholly-owned subsidiary of the parent company</td><td>Providing labour</td><td>Providing labour</td><td>Market price</td><td>108.92</td><td>108.92</td><td>0.12</td><td>Cash</td><td>108.92</td><td>Nil</td></tr>
<tr><td colspan="4">Total</td><td>/</td><td>/</td><td>5,329.93</td><td>/</td><td>/</td><td>/</td><td>/</td></tr>
<tr><td colspan="4">Details of substantial sales return</td><td colspan="7">Nil</td></tr>
<tr><td colspan="4">Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)</td><td colspan="7">It is the daily operating needs for the Company to sell products and offer labor resources to Shanghai Pharmaceutical (Group), purchase products and receive labor resources and lease property and production equipment from Shanghai Pharmaceutical (Group).</td></tr>
<tr><td colspan="4">Effect of the connected transaction on the independence of the listed company</td><td colspan="7">The aforesaid daily connected transactions are within the operating scope of the Company and are necessary and continuous, and will not have any impact on the independence of the Company.</td></tr>
<tr><td colspan="4">The Company's dependence on the connected party and relevant solutions (if any)</td><td colspan="7">/</td></tr>
<tr><td colspan="4">Explanation of connected transaction</td><td colspan="7">/</td></tr>
</table>

Note: The above transactions also constituted "connected transactions with connected persons at the level of the Company" under Chapter 14A of the Hong Kong Listing Rules.

During the period from January to December 2014, except for transactions related to leasing of premises and production equipment, the relevant percentage ratios corresponding to other connected transactions, other than profits ratios, were less than 0.1%, and therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

4. Confirmation of continuing connected transactions between Shanghai Pharmaceuticals and its connected persons in 2014

(1) Property and equipment leasing

As one of the controlling shareholders of the Company, Shanghai Pharmaceutical (Group) and its subsidiaries are all connected persons of the Company. The continuing connected transactions between the Company and Shanghai Pharmaceutical (Group) and its subsidiaries in respect of property and equipment leasing are exempt from independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules, but shall be subject to reporting, annual review and announcement requirements. During the period from January to December 2014, the amount of property and equipment leasing payable by the Company as a lessee was RMB46,526,500.

Unit: RMB10,000

Date of transaction	Lessee	Lessor	Connected relationship	Transaction	Actual amount	Annual cap
From 1 January 2014 to 31 December 2014	Shanghai LeiYunshang Pharmaceutical Co., Ltd.	Shanghai Pharmaceutical (Group)	Parent company	Property	736.16	/
	Shanghai HuaYu Pharmaceutical Co., Ltd.		Parent company		80.69	/
	Shanghai Pharmaceuticals Holding Co., Ltd.		Parent company		541.03	/
	Shanghai Huashi Pharmacy Distribution Co., Ltd (上海華氏大藥房配送中心有限公司)		Parent company		401.97	/
	Shanghai Medical Instruments Co., Ltd.		Parent company		281.29	/
	Shanghai Zhonghua Pharmaceutical Co., Ltd.		Parent company		228.72	/
	Wholesale Department, Shanghai Medical Instruments Co., Ltd. (上海醫療器械批發部)		Parent company		54.00	/
	Shanghai Haichang Medical Plastic Plant		Parent company		65.19	/
	Shanghai Sanwei Changjiang Biochemistry Pharmacy Plant (上海三維長江生化製藥廠)		Parent company		51.53	/
	Shanghai Sanwei Pharmacy Shipu Chemical Drugs Plant (上海三維製藥公司石浦藥物化工廠)		Parent company		15.35	/
	Shanghai Pharmaceutical Imp. & Exp. Co.,Ltd.		Parent company		18.17	/
	Shanghai Traditional Chinese Medicine Co., Ltd.		Parent company		11.70	/
	Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.		Parent company		7.62	/
	Shanghai Sine Pharmaceutical Laboratories Co., Ltd.- Headquarters		Parent company		6.49	/
	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Shanghai Indu-Land Property Co., Ltd.	A wholly-owned subsidiary of the parent company	Property	12.04	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				141.24	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				158.25	/
	Shanghai Pharmaceuticals Holding Co., Ltd.				196.00	/
	Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	A wholly-owned subsidiary of the parent company	Property and equipment	1,645.21	/
	Total	/	/	/	4,652.65	10,000.00

Every lease agreement entered into between the Group and Shanghai Pharmaceutical (Group) and its subsidiaries had fixed annual rent and property management fee, strictly complied with fair market principles, including but not limited to property and equipment leasing at fair and reasonable market price.

(2) Deposit service

Shanghai Shangshi, the Company, Shanghai Industrial Capital Co., Ltd. ("SI Capital") and SIIC Dongtan Investment & Development (Holdings) Co., Ltd. ("SIIC Dongtan") respectively hold 40%, 30%, 20% and 10% of equity interest in the Finance Company. Shanghai Shangshi is one of the controlling shareholders of the Company, and SI Capital and SIIC Dongtan are wholly-owned subsidiaries of Shanghai Shangshi. Both Shanghai Shangshi and the Finance Company are connected persons of the Company. On 12 May 2014, the Company entered into the Financial Service Framework Agreement with Shanghai Shangshi and the Finance Company. Upon the the formal establishment of the Finance Company on 1 September 2014, the Company and the Finance Company entered into a Financial Services Agreement on 16 October 2014, the content of which was in line with that of the Financial Services Framework Agreement. The deposit service under the Financial Services Agreement was exempt from independent shareholders approvals required under the Hong Kong Listing Rules but subject to reporting, annual review and announcement requirements.

Date of transaction	Connected persons	Connected relationship	Transaction	Actual maximum daily balance of deposits	Cap on maximum daily balance of deposits
From the effective date of the Agreement to 31 December 2014	The Finance Company	Subsidiary of controlling shareholder	Deposit	RMB220 million	RMB1.2 billion

The Finance Company undertakes to offer favourable interest rates for the Group's deposits with reference to the prevailing market rates, which should not be lower than those published by the People's Bank of China at the time, nor those offered by other major commercial banks in China in the same period or by the Finance Company to third parties, for the same type of deposits.

(3) Confirmation of Continuing Connected Transactions

The directors of the Company (including independent non-executive directors) confirm that, all of the above connected transactions for the year ended 31 December 2014 are conducted in the daily and ordinary course of business of the Group on normal commercial terms in compliance with the relevant connected transaction agreement, and are fair and reasonable and in the interest of the shareholders of the Company as a whole. PricewaterhouseCoopers, the overseas auditor of the Company, has been engaged to report on the continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information) issued by the Hong Kong Institute of Chartered Public Accountants and with reference to Practice Note No.740 (Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules). It has also confirmed that any of the above continuing connected transactions was (1) approved by the board of directors of the Company; (2) carried out in accordance with the relevant agreement regulating the transaction; and (3) a transaction the amount of which has not exceeded the total annual cap amount for such continuing connected transactions as announced on 29 March 2014. All the transactions above, which are subject to reporting, annual review and announcement requirements, did not involve provision of products and services by the Company.

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

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

Overview of Events	Search Index
Shanghai Medical Instruments Co., Ltd., a subsidiary of the Company, made the transfer of the 75% equity interest held in Shanghai Shengli Medical Instruments Co., Ltd.:On 4 June 2014, the ninth meeting of the fifth session of the board of directors of Shanghai Pharmaceuticals passed a resolution, pursuant to which Shanghai Medical Instruments Co., Ltd. ("Shanghai Medical Instruments"), a wholly-owned subsidiary of the Company, had approved to transfer 75% equity interests in Shanghai Dental Instrument Factory Co., Ltd. ("Victor Medical") to The Wing Fat Printing Co. Ltd. ("Wing Fat Printing") at a consideration of RMB8.505525 million; meanwhile, Wing Fat Printing will, on behalf of Victor Medical, repay the shareholders' loans (including the principal and interest) of Victor Medical in an amount of RMB75.3210 million to Shanghai Medical Instruments (the abovementioned amount is as at the date of 31 May 2014, the actual repayment amount shall be the actual carrying amount as at the date of the completion of the equity transaction).	The Company's announcement Lin No. 2014-019

Note: Shanghai Industrial Holdings Limited ("SIHL") beneficially owns 93.47% equity interests in Wing Fat Printing. SIHL is a subsidiary of SIIC, a controlling shareholder of the Company. Therefore, under Chapter 14A of the Hong Kong Listing Rules, Wing Fat Printing is a connected person of the Company, and such transaction constitutes a connected transaction as defined in the Hong Kong Listing Rules, as well as a connected transaction as defined in the Listing Rules of the Shanghai Stock Exchange.

2. Events disclosed in interim announcements with subsequent development or changes during implementation
   None for the year.

3. Events not disclosed in interim announcements
   Save as disclosed in Section (II)1 above, the Group did not have any other connected transactions in relation to the acquisition and disposal of material assets.

(III) Material connected transaction relating to joint external investment

The Group had no material connected transaction relating to joint external investment.

(IV) Credits and liabilities with related parties

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

   Nil

2. Events not disclosed in interim announcements

   Nil

(V) Significant related parties

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules in respect of the above connected transactions. Save as disclosed above, significant related party transactions which do not constitute connected transactions under the Listing Rules in the year are disclosed in Note 44 of the annual financial statements prepared under the Hong Kong Financial Reporting Standards.

VII. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

(I) Trusteeship, contracting and leasing

☐Applicable ✓Not applicable

(II) Guarantees

✓Applicable ☐Not applicable

Unit: RMB10,000

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed-company	Guarantee	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharmaceutical Distributor Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	900.00		2013/04/15	2014/04/15	Joint and several liability guarantee	Yes	No		No	No	Associated Company
Shanghai Pharmaceutical Distributor Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	900.00		2014/04/16	2015/04/13	Joint and several liability guarantee	No	No		No	No	Associated Company
Shanghai Pharmaceutical Distributor Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	1,329.00		2013/09/06	2014/09/05	Joint and several liability guarantee	Yes	No		No	No	Associated Company
Shanghai Pharmaceutical Distributor Co., Ltd.	Wholly-owned subsidiary	Chongqing Pharmaceutical Shanghai Distribution Co., Ltd.	1,283.50		2014/09/05	2015/06/23	Joint and several liability guarantee	No	No		No	No	Associated Company

Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)	2,183.50
Total balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)	2,183.50
Guarantees provided by the Company to its subsidiaries	
Total value guaranteed for its subsidiaries during the Reporting Period	
Total balance guaranteed for its subsidiaries at the end of the Reporting Period (B)	
Total value guaranteed by the Company (including those provided to its subsidiaries)	
Total value guaranteed (A+B)	2,183.50
Percentage of total value guaranteed in the Company's net assets (%)	0.07
Among which:	
Value guaranteed for shareholders, de facto controller and related parties (C)	
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D)	2,183.50
Amount of total value guaranteed exceeding 50% of net assets (E)	
Total of value guaranteed for the above three items (C+D+E)	2,183.50
Details of possible joint and several settlement liabilities for undue guarantee	
Details of guarantee	

(III) Other material contracts

Nil

VIII. FULFILMENT STATUS OF COMMITMENTS

✓Applicable ☐Not Applicable

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

Pursuant to the Hong Kong Prospectus of 6 May 2011, each of Shanghai Pharmaceutical (Group) and SIIC executed a non-competition deed in favour of the Company, undertaking, among other things, that:

(i) in the event it acquires, procures or otherwise comes to possess businesses or assets that compete or could potentially compete with the businesses of the Company, it shall, pursuant to its non-competition deed, irrevocably grant the Company the right of first refusal to acquire all of such businesses or assets at any time;

(ii) it and its subsidiaries shall avoid any business or operations that may compete with the Company;

(iii) it shall avoid investing in any other companies or enterprises that compete with the business and operations of the Company; and

(iv) it shall bear all losses and expenses directly and indirectly incurred by the Company as a result of a breach by it of its undertakings set forth in its non-competition deed.

The Company has received the respective statements of Shanghai Pharmaceutical (Group) and SIIC confirming their compliance with their commitments pursuant to the respective non-competition deeds during the period of the year 2014.

IX. APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

Unit: RMB

Change of appointment	No
	Current engagement
Name of the domestic accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration for the domestic accounting firm	Charged a total of RMB20 million together with the overseas accounting firm (relevant disbursement and taxation expenses inclusive)
Number of years of service of the domestic accounting firm	4 years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration for the overseas accounting firm	Charged a total of RMB20 million together with the domestic accounting firm (relevant disbursement and taxation expenses inclusive)
Number of years of service of the overseas accounting firm	4 years

	Name	Remuneration
Accounting firm for internal control audit	PricewaterhouseCoopers Zhong Tian LLP	RMB1.45 million (relevant disbursement and taxation expenses inclusive)

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

Nil

XI. RISKS OF SUSPENSION OR TERMINATION OF LISTING

(I) Causes of suspension or termination of listing as well as measures adopted by the Company to avoid suspension or termination of listing

Nil

(II) Detailed arrangement and plan for investors' relation management after termination of listing

Not applicable

XII. CONVERTIBLE CORPORATE BONDS

☐Applicable ✓Not applicable

XIII. EFFECT OF NEW ACCOUNTING STANDARDS ON CONSOLIDATED FINANCIAL STATEMENTS

(I) Effect of changes in long-term equity investment standards on consolidated financial statements (I)

Unit: RMB

Invested company	Basic transaction information	Equity attributable to shareholders of the parent company at 1 January 2013 (+/-)	31 December 2013		
			Long-term equity investment (+/-)	Financial assets available for sale (+/-)	Equity attributable to shareholders of the parent company (+/-)
Shanghai Interunited Co., Ltd.			-22,161,434.00	22,161,434.00	
Shanghai Shenyin & Wanguo Securities Co., Ltd.			-1,250,000.00	1,250,000.00	
Shanghai Kunpeng Investment Development Co., Ltd.			-8,263,436.00	8,263,436.00	
Shanghai Pharmacy Holding Co., Ltd.			-5,020,000.00	5,020,000.00	
Jiangsu Quanyi Bio-tech Holding Co., Ltd.			-1,800,000.00	1,800,000.00	
Jinhua Xianyuan Dendrobium candidum Planting Base			-1,000,000.00	1,000,000.00	
Other sporadic investments			-36,663,351.92	36,663,351.92	
Total	/		-76,158,221.92	76,158,221.92	

(II) Effect of changes in long-term equity investment standards on consolidated financial statements (II)

Unit: RMB

Invested company	Basic transaction information	1 January 2013		31 December 2013	
		Capital reserve (+/-)	Retained earnings (+/-)	Capital reserve (+/-)	Retained earnings (+/-)
Shanghai Fudan-zhangjiang Bio-Pharmaceutical Co., Ltd.				29,347,264.40	-29,347,264.40
Total	/			29,347,264.40	-29,347,264.40

(III) Effect of changes in employees' salary

There was no material impact.

(IV) Effect of changes in the scope of consolidation

There was no material impact.

(V) Effect of changes in classification of joint venture arrangement

There was no material impact.

(VI) Effects of other changes

Other new standards have been approved and adopted by the Company's Board of Directors on 29 October 2014, which brought about some changes in the reclassification of financial statement accounts and the content disclosed in the notes, but with no material impact on the Group's financial statements.

(VII) Others

Nil

XIV.STATEMENTS ABOUT OTHER SIGNIFICANT EVENTS

✓Applicable ☐Not Applicable

Overview of events	Search index
The Company's holding subsidiary, Xiamen Traditional Chinese Medicine Co., Ltd, received the "Opinions on Relevant Issues about Pien Tze Huang of Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd by Fujian Provincial Food and Drug Administration" (Letter from Fujian Food and Drug Administration [2014] No.208)	The Company's announcement Lin No. 2014-018
Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd applied to Trademark Bureau of State Administration for Industry and Commerce of the People's Republic of China (hereinafter referred to as Trademark Bureau of State Administration for Industry and Commerce) for registering trademarks of "Pill of Eight Treasures Pien Tze Huang" (Application No.11683990) and "Pien Tze Huang Pill of Eight Treasures" (Application No.11683929) on items under the fifth category of "traditional Chinese medicine" on 1 November 2012. However, the Company's holding subsidiary, Xiamen Traditional Chinese Medicine Co., Ltd, filed an application for objection to Trademark Application to Trademark Bureau of State Administration for Industry and Commerce, asking for the rejection of registering these two contentious trademarks according to relevant regulations.	The Company's announcement Lin No. 2014-022

Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd (hereinafter referred to as "Pien Tze Huang" sued Xiamen Traditional Chinese Medicine Co., Ltd (hereinafter referred to as "Xiamen Traditional Chinese Medicine"), Xiamen Evening News Media Development Co., Ltd and Xiamen Daily at Zhangzhou Municipal Intermediate People's Court (hereinafter referred to as "Zhangzhou Intermediate Court") for unfair competition, but Xiamen Traditional Chinese Medicine filed an application for objection to jurisdiction to Zhangzhou Intermediate Court on 13 March 2014. On 4 April 2014, Xiamen Traditional Chinese Medicine received (2014) Zhangzhou Civil Judgment No.35-3, in which Zhangzhou Intermediate Court rejected the objection to the case's jurisdiction by Xiamen Traditional Chinese Medicine. On 13 April 2014, Xiamen Traditional Chinese Medicine appealed to Fujian Provincial Higher People's Court (hereinafter referred to as "Fujian Higher Court) for objection to jurisdiction. On 23 June 2014, Fujian Higher Court issued (2014) Fujian Final Civil Judgment No.660 to revoke Zhangzhou Civil Judgment No.35-3 and transferred the case to the jurisdiction of Xiamen Municipal Intermediate People's Court (hereinafter referred to as "Xiamen Intermediate Court"). On 18 August 2014, Xiamen Traditional Chinese Medicine received (2014) No.937 Notice from Xiamen Municipal Intermediate People's Court, Fujian Province. It was noted that Fujian Higher Court further transferred the case to the jurisdiction of Fuzhou Municipal Intermediate People's Court (hereinafter referred to as "Fuzhou Intermediate Court"). On 22 October 2014, Xiamen Traditional Chinese Medicine received notice from Fuzhou Intermediate Court that the time period for producing evidence on the case was extended to 7 November 2014. On 5 December 2014, Xiamen Traditional Chinese Medicine received Notice on Members of Collegial Panel from Fuzhou Intermediate Court and the statement of claim submitted by Pien Tze Huang. Some amendments were made to the original statement of claim. On 19 December 2014, Xiamen Traditional Chinese Medicine filed an objection to the jurisdiction of Fuzhou Intermediate Court for the reason that the amended claims were beyond its scope of jurisdiction. On 9 January 2015, Xiamen Traditional Chinese Medicine received (2014) Fuzhou Civil Judgment No 1431-1, in which Fuzhou Intermediate Court rejected the objection to its jurisdiction. On 19 January 2015, Xiamen Traditional Chinese Medicine put forward again the objection to jurisdiction to Fujian Higher Court. On 4 March 2015, Fujian Higher Court issued (2015) Fujian Final Civil Judgment No.446 and rejected the appeal with a final ruling, and the case is therefore ruled to be under the jurisdiction of Fuzhou Intermediate Court.

Up to now, the Objection to Trademark Application on "Pill of Eight Treasures Pien Tze Huang" (Application No.11683990) and "Pien Tze Huang Pill of Eight Treasures" (Application No.11683929) to Trademark Bureau of State Administration for Industry and Commerce of the People's Republic of China submitted by Xiamen Traditional Chinese Medicine, is still under the procedure of examination.

Changes in Share Capital and Information about Shareholders

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in share capital

During the Reporting Period, there was no change in the total number of shares and share capital structure of the Company.

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

(II) Changes in trade-restricted shares

During the Reporting Period, there was no change in the trade-restricted shares of the Company.

As at 31 December 2014, the total share capital of the Company was 2,688,910,538 Shares, including 2,688,828,938 Shares without trade restrictions, comprising 1,922,935,018 A Shares and 765,893,920 H Shares). As at the date of this annual report, the Company has sufficient public float to meet the minimum public float requirements stipulated under the Securities Law of the People's Republic of China and the Hong Kong Listing Rules.

II. ISSUE AND LISTING OF SECURITIES

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

Unit: share; Currency: HKD

Class of Share and its derivative securities	Date of issue	Issue price (or rates)	Volume of issue	Listing date	Number of Shares approved for listing and trading	Date of termination of trading
Ordinary Shares						
Public offering of H Share	20 May 2011	23.00	664,214,000	20 May 2011	664,214,000	/
Public offering of H Share	11 June 2011	23.00	32,053,200	11 June 2011	32,053,200	/

Details of issue of securities over the past three years up to the end of the Reporting Period (please specify separately for bonds with different interest rates during the duration period):

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

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

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

III. SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Number of shareholders

Aggregate number of shareholders as at the end of the Reporting Period	90,469
Aggregate number of shareholders as at the end of the 5th trading day prior to the disclosure date of the annual report	83,666

Note 1: Among the aggregate 90,469 shareholders as at the end of the Reporting Period, 87,465 were A-share holders and 3,004 were H-share holders.

Note 2: Among the aggregate 83,666 shareholders as at the end of the 5th trading day prior to the disclosure date of the annual report, 80,718 were A-share holders and 2,948 were H-share holders.

(II) Top 10 shareholders and top 10 shareholders without trade restrictions and their shareholdings at the end of the Reporting Period

Unit: Shares

Shareholdings of top ten shareholders							
Name of shareholder (in full)	Increase/decrease during the Reporting Period	Number of shares held at the end of the Reporting Period	Shareholding percentage (%)	Number of trade-restricted Shares held	Pledged or frozen		Nature
					Status	Number	
HKSCC NOMINEES LIMITED	-431,700	747,828,120	27.81	0	Unknown		Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	26.65	0	pledged	13,648,772	State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	500,000	238,586,198	8.87	0	Unknown		State-owned legal person and foreign shareholder
Shanghai Shengrui	-7,346,339	134,175,412	4.99	0	Unknown		State-owned legal person
Shenergy (Group) Co., Ltd.	0	81,199,520	3.02	0	Unknown		State-owned legal person
PICC Life Insurance Co., Ltd. – bonus – individual bonus	/	25,586,079	0.95	0	Unknown		Unknown
China Construction Bank Corp. Ltd. – Bosera Yufu CSI 300 Index Fund	/	18,605,403	0.69	0	Unknown		Unknown
Hong Kong Securities Clearing Company Limited	/	11,861,726	0.44	0	Unknown		Unknown
Morgan Stanley Investment Management Ltd. – Morgan Stanley China A Share Fund	/	10,031,192	0.37	0	Unknown		Unknown
Shanxi Trust Co., Ltd. – Xinhai No. 4 Assembly Funds Trust	-1,630,000	10,000,000	0.37	0	Unknown		Unknown

Shareholdings of top 10 shareholders without trade restrictions			
Name of shareholder	Number of Shares without trade restrictions	Class and number of Shares: Class	Class and number of Shares: Number
HKSCC NOMINEES LIMITED	747,828,120	Overseas listed foreign shares	747,828,120
Shanghai Pharmaceutical (Group)	716,516,039	RMB ordinary shares	716,516,039
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	238,586,198	RMB ordinary shares	222,301,798
		Overseas listed foreign shares	16,284,400
Shanghai Shengrui	134,175,412	RMB ordinary shares	134,175,412
Shenergy (Group) Co., Ltd.	81,199,520	RMB ordinary shares	81,199,520
PICC Life Insurance Co., Ltd. – bonus – individual bonus	25,586,079	RMB ordinary shares	25,586,079
China Construction Bank Corp. Ltd. – Bosera Yufu CSI 300 Index Fund	18,605,403	RMB ordinary shares	18,605,403
Hong Kong Securities Clearing Company Limited	11,861,726	RMB ordinary shares	11,861,726
Morgan Stanley Investment Management Ltd. – Morgan Stanley China A Share Fund	10,031,192	RMB ordinary shares	10,031,192
Shanxi Trust Co., Ltd. – Xinhai No. 4 Assembly Funds Trust	10,000,000	RMB ordinary shares	10,000,000
Note on connected relations or concerted actions of the above shareholders	SIIC is the De Facto Controller of Shanghai Shangshi, which is a Controlling Shareholder of Shanghai Pharmaceutical (Group). The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the "Administrative Measures on Disclosure of Changes in Shareholders' Shareholdings in Listed Companies".		
Note on shareholders of Preference Shares with voting rights restored and number of shares held	/		

Unit: Share

Number of and the trade restrictions on the Shares held by the top 10 Shareholders holding trade-restricted Shares					
			The listing and trading of trade-restricted Shares		
No.	**Name of shareholders holding trade-restricted Shares**	**Number of trade-restricted Shares**	**Time available for listing and trading**	**Number of additional Shares available for listing and trading**	**Trade restrictions**
1	Hainan Zhong Wang Investment and Management Company Limited	81,600	To be decided	0	The consideration payable to Shanghai Pharmaceutical (Group) in the equity division reform remained outstanding.
Note on connected relations or concerted actions of the above Shareholder		/			

Note 1: Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 16,284,400 H Shares held by SIIC and its wholly-owned subsidiaries. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

Note 2: The latest information of the 13,648,772 pledged Shares of Shanghai Pharmaceutical (Group): Pursuant to the equity transfer agreement entered into between Shanghai Pharmaceutical (Group) and China Great Wall Asset Management Corporation (hereinafter "Great Wall") (the vendor) in relation to the acquisition of 39.01% equity interest of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. by Shanghai Pharmaceuticals (Group), Great Wall has the option to receive cash or A Shares of Shanghai Pharmaceuticals as consideration within 10 working days from 1 March 2013 upon the expiry of the lock-up period of the Shares of Shanghai Pharmaceuticals held by Shanghai Pharmaceutical (Group). As such, Shanghai Pharmaceutical (Group) pledged 13,648,772 A Shares (floating shares with trade restrictions) of Shanghai Pharmaceuticals held by it to Great Wall on 20 September 2011 to secure the payment of such consideration and the share pledge period started from 20 September 2011 to 15 March 2015 (please refer to the Company's announcement No. Lin 2011-038 for more details). On 18 February 2013, the lock-up period of the aforesaid 13,648,772 pledged Shares expired (please refer to the Company's announcement No. Lin 2013-001 for more details). On 15 March 2013, Shanghai Pharmaceutical (Group) and Great Wall entered into a supplementary equity transfer agreement, pursuant to which, the parties agreed to extend the period of fulfilling the obligation of consideration payment in relation to the equity transfer by one year. On 27 March 2014, Shanghai Pharmaceutical (Group) and Great Wall entered into the second supplementary equity transfer agreement, pursuant to which the parties agreed to further extend the period of fulfiling the obligation of consideration payment in relation to the equity transfer by one year, as such Great Wall has the option to receive cash or A Shares of Shanghai Pharmaceuticals as consideration within 10 working days from 1 March 2015. In accordance with the share pledge agreement entered into between Shanghai Pharmaceutical (Group) and Great Wall, the pledge will be released upon payment of consideration by Shanghai Pharmaceutical (Group). Up to date, the parties are still in the progress of negotiation in respect to the extension of the agreement and no agreement has been entered into.

IV. CHANGES IN CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

(I) Controlling Shareholders

1 Legal persons

Unit: HKD

Name	Shanghai Industrial Investment (Holdings) Co., Ltd.
Person in charge of the company or legal representative	Wang Wei (王偉)
Date of establishment	17 July 1981
Organisation code	Enterprise registered in Hong Kong, the organisation code of its Shanghai Representative Office is X0725582-3
Registered capital	10,000,000
Principal business	Enhancing the five core businesses – financial investment, pharmaceuticals (whole industry chain), infrastructure (highways, water treatment, solid waste disposal and new energy), real estate, consumer goods, and actively developing new businesses such as elderly care and environmental protection.
Future development strategy	SIIC will maintain its innovation drives, market leadership, cross-border operations and integration of financial and real estate businesses, while keeping to set footholds in Hong Kong and Shanghai, orient itself towards the entire country, open up overseas markets, benefit from the exclusive advantages of its dual background of "non-domestic, state-owned assets" and cross-border capital platforms and channels, emphasise the principles of "diversification with concerted effort" and "integration of industry and finance", implement "capital operation, asset management, value management" concurrently, and optimise business distribution dynamically. Recently, SIIC has been enhancing the functions of the financial investment platform, strengthening pharmaceuticals, reinforcing infrastructure, improving property development and developing consumer product business steadily, proactively opening up emerging businesses including elderly care and environmental protection. In the medium- to long-term, SIIC sets itself to become a comprehensive multinational enterprise with positive values, international competitiveness and social responsibilities to match up with Shanghai's international status.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	(1) Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 00363) (2) Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange with stock code 00563) (3) Shanghai Industrial Environmental Holding Co., Ltd. (a company listed on the Main Board of Singapore Exchange with stock code 5GB) (4) Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) (5) Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 00981 and the New York Stock Exchange under the ticker symbol "SMI")

Unit: RMB

Name	Shanghai Shangshi (Group) Co., Ltd.
Person in charge of the company or legal representative	Wang Wei (王偉)
Date of establishment	20 August 1996
Organisation code	13227821-5
Registered capital	1,859,000,000
Principal business	Investment in industries, domestic trading (except those with special provisions), and operation and management of state-owned assets to the extent authorised
Future development strategy	Shanghai Municipal State-owned Assets Supervision and Administration Commission has authorised Shanghai Industrial Investment (Holdings) Co., Ltd. to operate Shanghai Shangshi (Group) Co., Ltd., which carries out its business operations in accordance with the strategic objectives determined by Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748)
Additional note	Nil

Unit: RMB

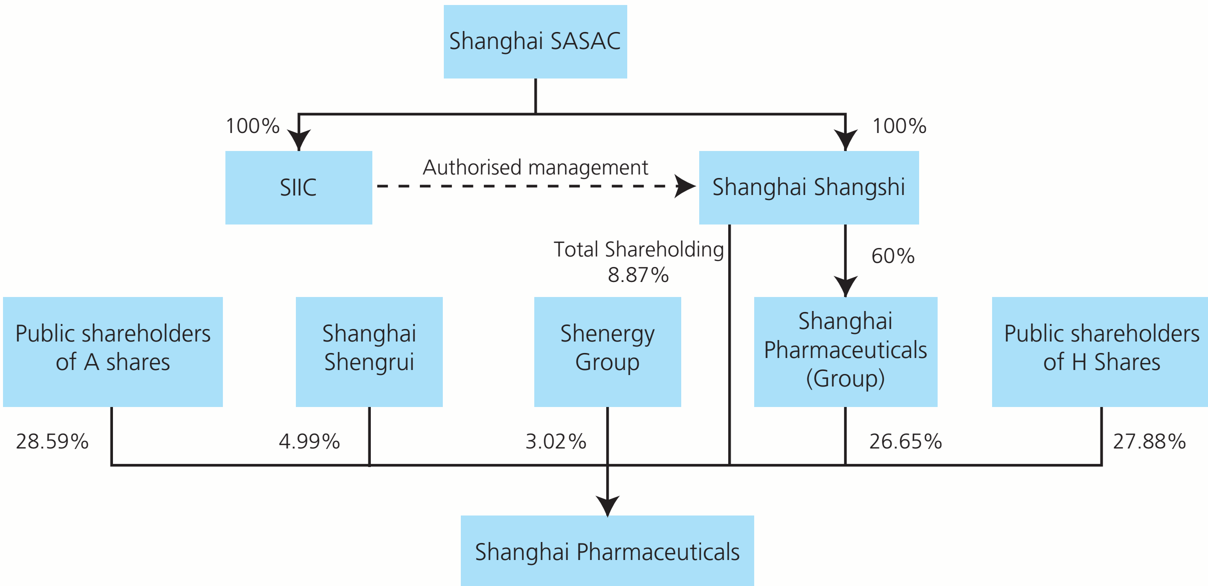
Name	Shanghai Pharmaceutical (Group) Co., Ltd.
Person in charge of the company or legal representative	Lou Dingbo (樓定波)
Date of establishment	23 April 1997
Organisation code	13454082-X
Registered capital	3,158,720,000
Principal business	Scientific research on pharmaceutical products, medical equipment and related products, production, sale, installation and maintenance of pharmaceutical equipment, investment in industries, and import and export business as approved by the State.
Future development strategy	Shanghai Pharmaceutical (Group) Co., Ltd. will be engaged in business operations based on the strategic objectives set by Shanghai Industrial Investment (Holdings) Co., Ltd.
Equity interests in other controlled and invested companies whose shares were listed in the PRC or overseas during the Reporting Period	Nil
Additional note	Nil

(II) De Facto Controller

1. Legal person

   The de facto controller of the Company is Shanghai SASAC.

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



V. DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

(I) Director's interests

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

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

As at 31 December 2014, according to the information available to the Company and to the knowledge of the directors, the following Shareholders had interests or short positions in the Shares or underlying shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the shareholders' general meetings of the Company:

Name of shareholder	Class of Shares	Nature of Interests in Shares	Number of Shares	Percentage of H Shares/A Shares held as at the end of the Reporting Period to the entire outstanding H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group Note 1(1)	A Shares/ H Shares	Interests of controlled corporation	955,102,237(L)	48.82(A Share)/ 2.13(H Share)	35.52
Shanghai Shangshi group Note 1(2)	A Shares	Beneficial owner/Interests of controlled corporation	938,317,837(L)	48.79	34.90
Shanghai Pharmaceutical (Group)	A Shares	Beneficial owner	716,516,039(L)	37.26	26.65
Shanghai Guosheng Note 1(3)	A Shares	Interests of controlled corporation	134,175,412(L)	6.98	4.99
Shanghai Shengrui	A Shares	Beneficial owner	134,175,412(L)	6.98	4.99
Credit Suisse (Hong Kong) Limited	H Shares	Interests commonly held with another person	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
Credit Suisse AG	H Shares	Interests of controlled corporation	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
JPMorgan Chase & Co.	H Shares	Beneficial owner/ Investment Manager/ Custodian/Approved lending agent	83,990,456(L) 0(S) 82,864,713(P)	10.97(L) 0.00(S) 10.82(P)	3.12(L) 0.00(S) 3.08(L)
Temasek Holdings (Private) Limited	H Shares	Interests of controlled corporation	75,101,000(L)	9.81(L)	2.79(L)
NSSF	H Shares	Beneficial owner	66,633,400(L)	8.70(L)	2.48(L)
Blackrock, Inc.	H Shares	Interests of controlled corporation	54,770,540(L)	7.15(L)	2.04(L)
Alliance Bernstein L.P.	H Shares	Investment Manager/ Interests of controlled corporation	45,994,500(L)	6.01(L)	1.71(L)
Templeton Investment Counsel, LLC	H Shares	Investment Manager	43,932,800(L)	5.74(L)	1.63(L)
The Capital Group Companies, Inc.	H Shares	Interests of controlled corporation	38,520,800(L)	5.03(L)	1.43(L)

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

Note 1: (1) SIIC is a wholly-owned subsidiary of Shanghai SASAC. SIIC group refers to SIIC and its wholly-owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate the State-owned Assets of Shanghai Overseas Companies, its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC group held 955,102,237 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 16,284,400 H Shares were directly held by SIIC group, and 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi group.

(2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,317,837 A Shares held by Shanghai Shangshi group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi group, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).

(3) Shanghai Guosheng is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shengrui is a wholly-owned subsidiary of Shanghai Guosheng and Shanghai Guosheng is therefore deemed to hold Shares of the Company through Shanghai Shengrui.

Note 2: (1) Figures disclosed above are based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk).

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

(3) Save as disclosed above, as at 31 December 2014, the Company was not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

VI. PRE-EMPTIVE RIGHTS

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

VII. PURCHASE, SALES AND REDEMPTION OF SHARES

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

During the period from January to December 2014, SIIC Investment Co., Ltd. (上海實業投資有限公司), a subsidiary of SIIC, the Controlling Shareholder of the Company, and its persons acting in concert had acquired in aggregate 500,000 H shares in Shanghai Pharmaceuticals.

SIIC Investment Co., Ltd. (上海實業投資有限公司) and its persons acting in concert plans to further increase its shareholding in Shanghai Pharmaceuticals in its own name within 12 months (commencing from 2 May 2014) and the aggregate of such increase (including the 250,000 H Shares acquired on 2 May 2014) will not exceed 2% of the total issued Shares of Shanghai Pharmaceuticals. The Company will follow the filing procedures in accordance with the requirements of PRC and Hong Kong regulatory authorities.

Information Related to Preference Shares

The Company had no preference shares related matters during the Reporting Period.

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND REMUNERATION

(I) Changes in shareholdings and remuneration of directors, supervisors and senior management, existing and resigned during the Reporting Period

Unit: Share

Name	Position (Note)	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/ decrease of Shares during the year	Reasons for change	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)
Lou Dingbo	Chairman, Executive Director	Male	53	5 June 2013	5 June 2016	40,000 A Shares	40,000 A Shares	0	/	0.00
Cho Man	Executive Director, President	Male	54	5 June 2013	5 June 2016	20,009 A Shares	20,009 A Shares	0	/	158.21
Hu Fengxiang	Executive Director	Male	59	5 June 2013	5 June 2016	10,000 A Shares	20,000 A Shares	10,000 A Shares	Purchased voluntarily	0.00
Zhou Jie	Non-Executive Director	Male	48	5 June 2013	5 June 2016	0	0	0	/	0.00
Jiang Ming	Non-Executive Director	Male	58	5 June 2013	5 June 2016	0	0	0	/	0.00
Chen Naiwei	Independent Non-Executive Director	Male	58	5 June 2013	5 June 2016	0	0	0	/	23.00
Wan Kam To	Independent Nonexecutive Director	Male	62	5 June 2013	5 June 2016	0	0	0	/	25.00
Tse Cho Che, Edward	Independent Non-executive Director	Male	59	5 June 2013	5 June 2016	0	0	0	/	23.00
Li Zhenfu	Independent Non-executive Director	Male	52	5 June 2013	5 June 2016	0	0	0	/	20.00
He Chuan	Chief Supervisor	Male	54	16 December 2014	5 June 2016	12,500 A Shares	12,500 A Shares	0	/	0.00
Xin Keng	Supervisor	Male	48	5 June 2013	5 June 2016	0	0	0	/	0.00
Chen Xin	Employee Supervisor	Female	52	5 June 2013	5 June 2016	10,000 A Shares	10,000 A Shares	0	/	0.00
Liu Yanjun	Vice President	Male	50	5 June 2013	5 June 2016	10,000 A Shares	60,000 A Shares	50,000 A Shares	Purchased voluntarily	106.45
Ren Jian	Vice President	Male	50	5 June 2013	5 June 2016	81,518 A Shares	81,518 A Shares	0	/	136.70
Shu Chang	Vice President	Male	57	5 June 2013	5 June 2016	4,600 A Shares	4,600 A Shares	0	/	133.57
Mao Jianyi	Vice President	Male	47	19 November 2013	5 June 2016	0	0	0	/	117.93
Shen bo	Chief Financial Officer	Male	42	5 June 2013	5 June 2016	71,700 A Shares	71,700 A Shares	0	/	136.70
Han Min	The secretary of the board of directors and the joint company secretary	Female	38	5 June 2013	5 June 2016	58,000 A Shares	58,000 A Shares	0	/	108.19
Zhang Zhenbei	Ceased to be the Chief Supervisor of the Company	Male	61	5 June 2013	16 December 2014	0	0	0	/	0.00
Guo Junyu	Ceased to be the Vice President of the Company	Male	41	5 June 2013	28 April 2014	3,500 A Shares	3,500 A Shares	0	/	82.85
Total	/	/	/	/	/	321,827 A Shares	381,827 A Shares	60,000 A Shares	/	1,071.60

Note 1: The Company had no share incentive plan during the Reporting Period.

Note 2: Save as disclosed above, as at 31 December 2014, according to the information available to the Company and to the knowledge of the directors, none of the directors, supervisors and senior management of the Company had any interest or short position in the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Note 3: During the Reporting Period, none of the Company's directors and supervisors had any material interest, either directly or indirectly, in any contracts of significance in relation to the Company's business entered into by the Company or any of its subsidiaries.

Name	Work Experience in the past five years
Lou Dingbo	Mr. Lou Dingbo, born in February 1962, obtained a bachelor's degree from Department of Mechanical Engineering of Northeastern University (formerly Northeastern Engineering Institute), and an EMBA degree from China Europe International Business School. He is an engineer and senior economist. Mr. Lou is the chairman and an executive director of the Company and holds directorship in certain subsidiaries of the Company (described below). Mr. Lou Dingbo has extensive experience in enterprise operation management, mergers & acquisitions and reorganization, financial hedging and marketing. Since July 2012, Mr. Lou has been an executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. He has been president and chairman of Shanghai Pharmaceutical (Group) Co., Ltd. since October 2012 and July 2012, respectively. He has been a member of China Association of Scientists since January 2015. Since November 2013, Mr. Lou has been the vice president of Shanghai Biopharmaceutical Industry Association; since June 2013, he has been the vice president for China Pharmaceutical Industry Association, China Pharmaceutical Industry Research and Development Association, Shanghai Pharmaceutical Profession Association, respectively, as well as a member of the board of directors of East China University of Science and Technology, a member of the first executive committee of China Association for Public Companies and a member of the first supervisory committee of The Listed Companies Association of Shanghai; since October 2012, he has served as the vice president for Shanghai Federation of Economic Organizations and Shanghai Federation of Industrial Economics. He served as legal representative, executive director and general manager of Baosteel Stainless Steel Co., Ltd., deputy general manager of Baoshan Iron & Steel Co., Ltd. ("Baosteel"), and general manager of the stainless steel business unit. He also served as assistant to general manager of Baosteel, legal representative and executive director of Shanghai Baosteel International Economic and Trading Co., Ltd.. Mr. Lou Dingbo has also worked as president of the Stainless Steel Council of China Special Steel Enterprises Association, executive director of the International Stainless Steel Forum (ISSF), and chairman of the Economics and Statistics Committee of the International Stainless Steel Forum (ISSF).

Name	Work Experience in the past five years
Cho Man	Mr. Cho Man, born in May 1961, has a bachelor's degree in pharmacy from Sichuan University (formerly West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho is an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company (described below). He served as vice chairman and chief executive officer of The Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, general manager and chairman of Sanjiu Economic Trading Co., Ltd., general manager and chairman of Nine Stars Printing and Packaging Co., Ltd., head of sales department and vice director of Shenzhen South Pharmaceutical Factory, and pharmacist, head of transfusion medicine department and head of the drug injection department of Nanfang Hospital, First Military Medical University, Guangzhou.
Hu Fengxiang	Mr. Hu Fengxiang, born in July 1956, obtained an associate degree in accounting of industrial enterprises from Shanghai Television University. He is an accountant. Mr. Hu is an executive director of the Company and does not hold any directorship in any subsidiaries of the Company. He has been the vice president of Shanghai Pharmaceutical (Group) Co., Ltd. since July 2010. Mr. Hu previously served as the chief financial officer and deputy chief financial officer of Shanghai Pharmaceutical (Group) Co., Ltd., chairman of Shanghai Asia Pioneer Pharmaceutical Co., Ltd., deputy director of the financial review and audit committee of Shanghai Pharmaceutical (Group) Co., Ltd., director and deputy director of the audit office of Shanghai Pharmaceutical (Group) Corporation, and general manager, deputy general manager, deputy chief accountant and head of department of finance of Shanghai Sunve Pharmaceutical Co., Ltd..
Zhou Jie	Mr. Zhou Jie, born in December 1967, master in engineering from Shanghai Jiao Tong University. He is a non-executive director of the Company, and holds directorship in certain subsidiaries of the Company (described below). Mr. Zhou has been a non-executive director of Semiconductor Manufacturing International Corporation (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00981 and the New York Stock Exchange under the ticker symbol "SMI") since January 2009; the president and executive director of Shanghai Industrial Investment (Holdings) Co., Ltd. since April 2012 and May 2008, respectively; the vice chairman, CEO and an executive director of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00363) since April 2012 and November 2007, respectively. His previous positions included the chairman of the board of directors of Shanghai Pharmaceutical (Group) Co., Ltd., the chairman of the Board, executive director and chairman of Supervisory board of the Company, the vice executive president of Shanghai Industrial Investment (Holdings) Co., Ltd., the vice executive CEO of Shanghai Industrial Holdings Limited, and the chairman and general manager of Shanghai SIIC Asset Management Co., Ltd..

Name	Work Experience in the past five years
Jiang Ming	Mr. Jiang Ming, born in September 1957, obtained a bachelor's degree from the History Department of Fudan University and is an associate research fellow. He joined the Company in March 2010 as a non-executive director and does not hold any directorship in any subsidiary of the Company. Mr. Jiang has been the vice president of Shanghai Guosheng Group Co., Ltd. since May 2008. His previous positions included clerk at the director level of the Organisation Department of the CPC Shanghai Municipal Committee, general manager of China Rural Development Trust and Investment Corporation, general manager of securities business department of China Xinda Trust and Investment Company, and deputy general manager and general manager of the Headquarters of China Galaxy Securities Co., Ltd..
Chen Naiwei	Mr. Chen Naiwei, born in August 1957, obtained degrees of bachelor of economic law from East China University of Political Science and Law and doctorate of civil and commerce law from Macau University of Science and Technology. He is a professor of law and PRC practicing lawyer. He joined the Company in March 2010 as an independent non-executive director and does not hold any directorship in any subsidiaries of the Company. Mr. Chen has been the vice president of China Law Association on Science and Technology since October 2010; independent non-executive director of ZTE Corporation (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00763 and on the Shenzhen Stock Exchange with stock code 000063) since July 2009; independent non-executive director of Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 300129) since August 2010; independent non-executive director of Shanghai Kinlita Chemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 300225) since July 2013; an independent non-executive director of Shanghai Jiaoyun Group Co., Ltd (a company listed on Shanghai Stock Exchange with stock code 600676) since November 2014; arbitrator of the China International Economic and Trade Arbitration Commission since October 2005; the vice president of the Technology Law and Intellectual Property Law Research Center of Shanghai Law Society since March 2005; professor of law at Fudan University since August 2004; arbitrator of the Court of Arbitration for Sport of the International Olympics Committee since December 2002; arbitrator of Shanghai Arbitration Commission since October 1999; and senior partner of Allbright Law Offices since September 1999. His previous positions included the head of the Faculty of Law and the director of the Center for the Study of Intellectual Property at Shanghai Jiao Tong University.

Name	Work Experience in the past five years
Wan Kam To	Mr. Wan Kam To, born in January 1953, graduated from the Accounting Department of Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma. He is a certified accountant in Hong Kong, and a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Hong Kong Institute of Directors. He is an independent non-executive director of the Company and does not hold any directorship in any subsidiary of the Company. Mr. Wan Kam To has extensive experience in auditing, finance, advisory and management for over 30 years. He has been an independent non-executive director of Target Insurance (Holdings) Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 6161) since January 2015; an independent non-executive director of Harbin Bank Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 06138) since March 2014, an independent non-executive director of Kerry Logistics Network Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00636) since November 2013, an independent non-executive director of S. Culture International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01255) since May 2013, an independent non-executive director of KFM Kingdom Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 03816) since September 2012, an independent non-executive director of Dalian Port (PDA) Company Limited (a company listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange with stock code 02880 and 601880 respectively) since June 2011, an independent non-executive director of GreaterChina Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08193) since June 2011, an independent non-executive director of Huaneng Renewables Corporation Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00958) since August 2010, an independent non-executive director of Fairwood Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00052) since September 2009, an independent non-executive director of China Resources Land Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 01109) since March 2009. He once served as an independent director of Mindray Medical International Limited (a company listed on the New York Stock Exchange under the ticker symbol MR), an independent director of RDA Microelectronics, Inc. (a company listed on NASDAQ under the ticker symbol RDA), an independent non-executive director of GreaterChina Professional Services Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08193) and a partner of PricewaterhouseCoopers in Hong Kong (from May 1992 to June 2008), etc.

Name	Work Experience in the past five years
Tse Cho Che, Edward	Mr. Tse Cho Che, Edward, born in June 1956, holds a bachelor's degree and a master's degree in civil engineering from the Massachusetts Institute of Technology, the United States, and a master of business administration as well as a Ph.D. in civil engineering from the University of California, Berkeley, the United States. Mr. Tse is an independent non-executive director of the Company and does not hold any directorship in any subsidiary of the Company. He has been engaged in management consultancy and corporate senior management for nearly 30 years, with extensive experience and expertise in definition and implementation of corporate transformation, establishment of organizations, business strategy and overseas expansion. He holds the position of Chairman in Gao Feng Advisory Company from April 2014 up until now. Since 2009, he has served as a director of Shanghai Automotive Industry Corporation (Group). He was the chairman of the board in Greater China region of Booz & Company, an independent director of Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600019), executive vice president of corporate planning and development division and business president of Greater China region of HKT Limited, a part-time member of the Central Policy Unit of the Hong Kong Special Administrative Region, and president of Greater China region of Boston Consulting Group.
Li Zhenfu	Mr. Li Zhenfu, born in July 1963, has a bachelor degree in science from Beihang University and a master degree in science from Illinois Institute of Technology in the United States of America. He joined the Company as an independent non-executive director of the Company in May 2012, and does not hold any directorship in any subsidiary of the Company. Mr. Li Zhenfu is the founder and CEO of GL Capital Group and has been the chief executive officer of GL Capital Group since 2010. Mr. Li Zhenfu is a member of the China Entrepreneur Club, a member of the Committee of 100 of United States of America, a member of the International Board of Overseas Directors of Illinois Institute of Technology, the honorary Vice Chairman of China Charity Federation, and a member of China Advisory Board of The Nature Conservancy. Between 2004 and 2010, Mr. Li Zhenfu was the president of Novartis China. Prior to such appointments, Mr. Li Zhenfu had worked in the Pritzker Organisation for 11 years, where he held in a number of positions with investment, advisory and general management responsibilities. In the last five years at the Pritzker Organisation, he was president of Getz Commercial at Getz Bros. & Co., Inc..

Name	Work Experience in the past five years
HE Chuan	Mr. HE Chuan, born in January 1961, has a master's degree in business administration from the City University of Hong Kong and is a political engineer. He is the chief supervisor of the Company, and does not hold any directorship in any subsidiaries of the Company. He has been the secretary of the Discipline Inspection Committee since August 2013. From December 2008 up until now, he serves as the chief supervisor and a member of the Party Committee of Shanghai Pharmaceutical (Group) Co., Ltd.. He previously served as the chief supervisor of Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司), the chairman of Shanghai Indu-Land Real Estate Management Co., Ltd. (上海英達萊置業有限公司), the deputy secretary of the Party Committee of Shanghai Pharmaceutical (Group) Co., Ltd., the deputy secretary of the Party Committee and the secretary of the Discipline Inspection Committee of Shanghai Iron and Steel Research Institute (上海鋼鐵研究所), the head of organization department and cadre department of the Party Committee of Shanghai Industry (上海市工業黨委) and the deputy secretary of the corporate administration office of Shanghai No. 2 Iron & steel Factory (上海第二鋼鐵廠), etc.
Xin Keng	Mr. Xin Keng, born in December 1967, has a bachelor's degree in engineering and a master's degree in engineering from Shanghai Jiao Tong University. He is an engineer. He is currently the supervisor of the Company and does not hold any directorship in any subsidiaries of the Company. He has served as principal of the finance management department of Shenergy (Group) Co., Ltd. since August 2009. His previous positions included principal of securities department of Shenergy Company Limited, investment principal of state-owned assets department of Wenhui Xinmin United Press Group, deputy general manager of Wenxin Investment Co., Ltd. (文新投資有限公司), and deputy manager of financing division of investment banking department of Haitong Securities Co., Ltd. (海通證券股份有限公司).
Chen Xin	Ms. Chen Xin, born in May 1963, holds an undergraduate degree in economic management from the Open College of Party School of the Central Committee of the Communist Party of China (CCCPC) and a graduate degree (part-time) in politics from the Party School of the CCCPC, and is a senior political engineer. She joined the Company as an employee supervisor of the Company in March 2010 and holds no concurrent office of director in any of the Company's subsidiaries. Ms. Chen has been the chairman of Shanghai Pharmaceutical Trade Union, a member of the standing committee of Shanghai Federation of Trade Unions, and a member of the standing committee of China Energy Chemistry Trade Union since August 2001. Her previous positions included director of the department of organisation of Shanghai Pharmaceutical (Group) Co., Ltd. and vice chairman of Shanghai Pharmaceutical Trade Union, etc.

Name	Work Experience in the past five years
Liu Yanjun	Mr. Liu Yanjun, born in February 1965, holds a bachelor's degree in Naval Medicine, a master degree in surgery and a PhD in surgery from Second Military Medical University. He is currently a vice president of the Company and general manager of Shanghai Jiaolian Medicine Research and Development Co., Ltd.. He holds a concurrent office of director in the Company's subsidiaries (described below). Mr. Liu was previously deputy general manager of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08231), research director and research associate in cancer research office of molecular biology institute of Second Military Medical University, visiting scholar at San Diego Sidney Kimmel Cancer Center in California, United States, and attending physician and lecturer in Eastern Hepatobiliary Surgery Hospital subordinated to Second Military Medical University.
Ren Jian	Mr. Ren Jian, born in March 1965, obtained a bachelor's degree in Inorganic Materials from East China Institute of Chemical Technology, and an EMBA of China Europe International Business School and is an engineer. He is currently a vice president of the Company and holds a concurrent office of director in the Company's subsidiaries (described below). Mr. Ren was the head of the human resources department, the head of the organisation cadre department, the head of the leader management department and vice president of Shanghai Pharmaceutical (Group) Co., Ltd..
Shu Chang	Mr. Shu Chang, born in September 1958, obtained a bachelor's degree in arts majoring in French from Beijing International Studies University and master of economics from the Graduate School of New York University, United States. He is a vice president of the Company and holds no concurrent office of director in any of the Company's subsidiaries. He was the assistant to the chairman of CibaGeigy Corp., a Swiss pharmaceuticals company; investment banking manager of Morgan Stanley, United States; vice president of Asia-Pacific region, Landsat, an international satellite company, United States; chairman of Shenzhen Zhengguo (Jun'an) Investment Company, Ltd. (深圳正國(君安)投資有限公司); vice president of China Minsheng Credit Guarantee Investment Company (中國民生投資信用擔保有限公司); managing director of Huachen Wuzhou Electronic Commerce Co., Ltd (華晨五洲電子商務有限公司); director, executive of the strategy committee under the board of directors, chief financial officer and chief asset management officer of SAIC Motor Corporation, Ltd.; director, chief investment and development officer and deputy general manager of the finance division of JinJiang International Holdings Co., Ltd., vice president of Beijing Automobile Investment Co., Ltd.; assistant executive president of Shanghai Industrial Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00363), and vice president of Shanghai Industrial Urban Development Group Limited (a company listed on The Stock Exchange of Hong Kong Limited with stock code 00563).

Name	Work Experience in the past five years
Mao Jianyi	Mr. Mao Jianyi, born in May 1968, was a college graduate at medical faculty of Shanghai Second Medical University, and obtained a MBA degree from Shanghai PCEC East Asia College and a Ph.D. in economics from Shanghai University of Finance and Economics (International Open University of Washington in the United States (美國華盛頓國際公開大學). Mr. Mao is a physician. He is currently vice president of the Company and holds a concurrent office of director in subsidiaries of the Company (described below). He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd. and Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and director of Shenzhen Kondarl (Group) Co. Ltd. (a company listed on the Shenzhen Exchange with stock code 000048), etc.
Shen Bo	Mr. Shen Bo, born in March 1973, obtained a bachelor's degree majoring in accounting from Shanghai Institute of Construction Materials Industry and master of professional accountancy from Chinese University of Hong Kong. He has passed the PRC Certified Public Accountants examination. He is the chief financial officer of the Company and concurrently holds office of director in a subsidiary of the Company (described below). He has been a non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited with stock code 08231) since June 2012. His previous positions included the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd, etc.
Han Min	Ms. Han Min, born in January 1977, obtained a bachelor's degree in economics from Shanghai University and master majoring in finance and investment from the Business School of the University of Nottingham of the United Kingdom. She has passed the PRC Certified Public Accountants examination. She is the secretary of the board of directors and the joint company secretary of the Company. She holds no concurrent office of director in any of the Company's subsidiaries. Her previous positions included the deputy general manager of the investment banking department of China International Capital Corporation Limited, head of business development of The Hong Kong and Shanghai Banking Corporation Limited, Shanghai Branch and the manager of the risk control department of the China Construction Bank, Shanghai Branch, etc.

Statements on other matters

The board of directors of Shanghai Pharmaceuticals currently consists of nine members, including three executive directors, two non-executive directors and four independent non-executive directors, all elected by the shareholders. The term of each session of the board of directors is generally three years, which is renewable upon re-election. The board of supervisors of Shanghai Pharmaceuticals consists of three members. Except for the employee representative supervisor who was elected by employees, other supervisors were elected by the shareholders of the Company. The term of each session of the board of supervisors is generally three years, which is renewable upon re-election. The senior management of Shanghai Pharmaceuticals consists of six members, all appointed by the board of directors for a term equal to that of the session of board of directors and the board of supervisors, which is renewable upon reappointment by the board of directors.

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

(II) Equity incentives issued to Directors, Supervisors and Senior Management during the Reporting Period

☐Applicable ✓Not applicable

II. POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, EXISTING AND RESIGNED DURING THE REPORTING PERIOD

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

✓Applicable ☐Not applicable

Name	Name of shareholder entity	Position held at the shareholder entity	Starting date of term of office	Expiry date of term of office
Lou Dingbo	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman and executive director President	20 July 2012 12 October 2012	– –
Hu Fengxiang	Shanghai Pharmaceutical (Group) Co., Ltd.	Executive director Vice President	21 June 2013 28 July 2010	– –
Jiang Ming	Shanghai Shengrui Investment Co., Ltd.	Executive director	20 January 2010	–
He Chuan	Shanghai Pharmaceutical (Group) Co., Ltd.	Chief Supervisor	28 December 2008	–
Xin Keng	Shenergy (Group) Co., Ltd.	Principal of the finance management department	25 August 2009	–

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

✓Applicable ☐Not Applicable

Name	Name of subsidiary	Position held at the subsidiary	Starting date of term of office	Expiry date of term of office
Lou Dingbo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	October 2012	–
Lou Dingbo	Shanghai Pharmaceuticals Distribution Co., Ltd.	Chairman	June 2013	–
Lou Dingbo	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Lou Dingbo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	December 2014	–
Lou Dingbo	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	December 2014	–
Lou Dingbo	Shanghai Pharmaceuticals Grand Health Cloud Commerce Company Limited	Chairman	March 2015	–
Cho Man	Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Cho Man	Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	June 2013	–
Cho Man	Changzhou Pharmaceutical Co., Ltd.	Chairman	June 2013	–
Cho Man	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	June 2013	–
Cho Man	Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	Chairman	June 2013	–
Cho Man	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	June 2013	–
Cho Man	Shanghai Pharmaceuticals Grand Health Cloud Commerce Company Limited	Vice Chairman	March 2015	–
Zhou Jie	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	July 2012	December 2014
Zhou Jie	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	June 2012	December 2014
Liu Yanjun	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	February 2014	–
Liu Yanjun	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director	November 2014	–
Ren Jian	Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Chairman	December 2010	May 2014
Ren Jian	Liaoning Herbapex Pharmaceutical (Group) Co., Ltd.	Chairman	February 2011	–
Ren Jian	Shanghai Pharmaceutical Group (Dali) Red Yew Co., Ltd.	Chairman	February 2015	–
Mao Jianyi	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	October 2013	–
Mao Jianyi	Changzhou Kony Pharmaceutical Co., Ltd.	Chairman	March 2012	February 2014
Mao Jianyi	Shanghai Zhongxi Pharmaceutical (Group) Co., Ltd.	Chairman	April 2011	June 2014
Mao Jianyi	Shanghai Pharmaceutical Group Pharma Sales Co., Ltd.	Executive director	June 2014	–
Mao Jianyi	Shanghai Sunve Co., Ltd.	Chairman	December 2009	–
Mao Jianyi	Shanghai Jinhe Bio-technology Co., Ltd.	Chairman	January 2012	February 2014
Mao Jianyi	Shanghai Zhongxi Pharmaceuticals Co., Ltd.	Director	April 2011	–

Name	Name of subsidiary	Position held at the subsidiary	Starting date of term of office	Expiry date of term of office
Mao Jianyi	Chiatai Qingchunbao Pharmaceuticals Co., Ltd.	Director	June 2013	–
Mao Jianyi	Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd.	Director	July 2013	–
Mao Jianyi	Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	Director	December 2014	–
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chairman	April 2011	–
Shen Bo	Shanghai Pharmaceuticals Distribution Co, Ltd.	Supervisor	April 2010	–
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	–
Shen Bo	Changzhou Pharmaceutical Co., Ltd.	Director	June 2007	–
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	–
Shen Bo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2013	–
Shen Bo	Dong Ying (Jiangsu) Pharmaceuticals Co., Ltd.	Director	July 2013	–
Shen Bo	China International Pharmaceutical (Holding) Corporation Limited	Director	May 2014	–
Shen Bo	Shanghai Pharmaceuticals Grand Health Cloud Commerce Company Limited	Chief Supervisor	March 2015	–
Guo Junyu	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Executive director	January 2013	May 2014
Guo Junyu	China International Pharmaceutical (Holding) Corporation Limited	Executive director	June 2013	May 2014

(III) Service Contracts of Directors and Supervisors

Save for the contracts between the Company and the Company's directors and supervisors in respect of complying with relevant laws and regulations, Articles of Association and provisions under Rule 19A.54 and Rule 19A.55 of the Hong Kong Listing Rules, neither the directors nor the supervisors had entered into any service contract which is not terminable within one year without payment of compensation (other than statutory compensation).

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Procedure for determining the remuneration of directors, supervisors and senior management	The remuneration and assessment committee of the board of directors of the Company considers and recommends to the board of directors the remuneration and other benefits to be paid to the directors of the Company. The remuneration of the directors and supervisors of the Company are resolved at the shareholders' general meeting. The remuneration of all directors of the Company is monitored regularly by the remuneration and assessment committee to ensure an appropriate level of remuneration and compensation. The remuneration of the senior management of the Company is provided in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee.
Determination criteria for the remuneration of directors, supervisors and senior management	The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the administrative measures relating to annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators.
Payment of the remuneration payable to directors, supervisors and senior management	The directors, supervisors and senior management of the Company receive remuneration from the Company in strict compliance with the operating responsibility assessment mechanism. The remuneration disclosed by the Company is in line with that actually paid.
Total remuneration actually received by all directors, supervisors and senior management at the end of the Reporting Period	The remuneration actually received by the directors, supervisors and senior management of the Company in 2014 totalled RMB10.7160 million.

IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change situation	Reasons for changes
Zhang Zhenbei	Chief Supervisor	Resignation	Retirement
Guo Junyu	Vice President	Resignation	Voluntary
He Chuan	Chief Supervisor	Election	Job requirement

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

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

R&D staff: R&D staff members are the drives of the Company's sustainable development. The Company established the 7-level promotion system from laboratory assistant to chief scientist and formed a mechanism for internal assessment and supporting salary incentive scheme. The Company implemented management initiatives such as project manager, project allowances and project assessment on R&D project to accelerate the progress of scientific research and the career development of R&D staff.

Technical quality management staff: The quality of pharmaceutical products is the lifeline for the Company, whilst technical staff, quality control (QC), quality assurance (QA), quality managers and quality directors from all production bases and drug enterprises serve as the quality backbones of the Company. The Company has strengthened the management of key technical quality staff and established a 7-level QAs promotion system comprising positions ranging from quality assurance assistant to senior quality assurance manager, and a 7-level QCs promotion system comprising positions ranging from assistant analyst to senior quality analyst, providing technical quality staff with paths for career advancement. A complementary distribution and incentive system was also established. The Company provides systematic training courses for technical quality staff every year. The Group also cooperates with relevant colleges and universities to launch a project named "Excellent Pharmaceutical Engineers" that cultivates specialists in pharmaceutical engineering and quality management for the technical innovation and quality assurance system of the Company.

Production technicians: Through development of occupational standards, formation of the chief technician system and establishment of a studio for skilled masters, the Company opened up a career development channel for production technicians progressing from junior technical staff, intermediate technical staff, senior technical staff and technicians up to senior technicians and chief technicians. The Company launches mentorship programme and skill competition annually, providing a green path for the growth of production technicians.

VI. EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the parent company	120
Number of in-service employees of the major subsidiaries	39,771
Total number of in-service employees	39,891
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	111
Composition of professions	
Type of profession	**Number of staff in the profession**
Production staff	14,309
Sales staff	15,818
Technical staff	4,200
Finance staff	1,438
Administrative staff	2,587
Others	1,539
Total	39,891
Education level	
Type of education level	**Number of persons**
PhD	55
Master	738
University graduate	6,998
College graduate	11,082
Specialised secondary school (high school) graduate	13,345
Below specialised secondary school graduate	7,673
Total	39,891

(II) Remuneration Policy and Long-term Incentive Scheme

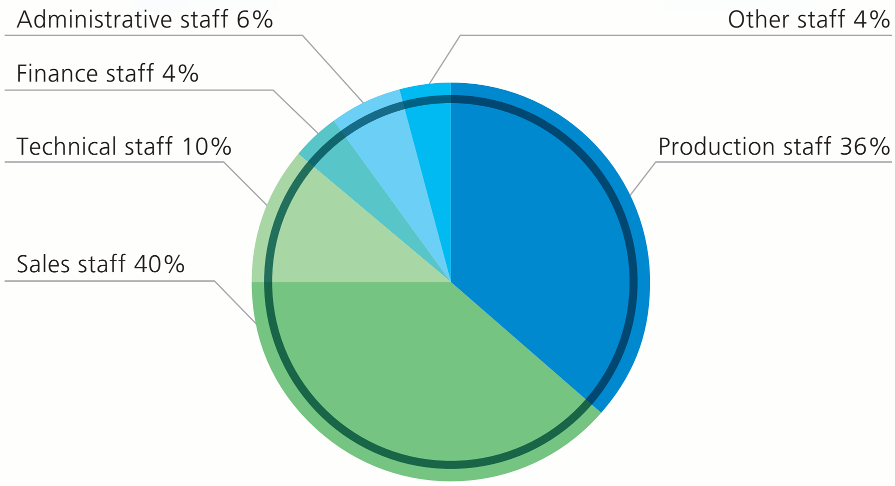
The Company insisted on the remuneration philosophy of "Position, Ability, Performance" and established management measures on appraisal of operating results and remunerations of the senior management of the Company and management measures on appraisal of operating responsibility and remunerations of subsidiaries respectively. Meanwhile, the Company constructed differentiated remuneration systems for management staff, marketing staff, R&D staff, technical quality management staff and production staff with reasonable docking between the various remuneration systems, so as to effectively motivate the employees and stimulate their creativity, continually improve the Company's business results and enhance the achievement of the Company's strategic goal.

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

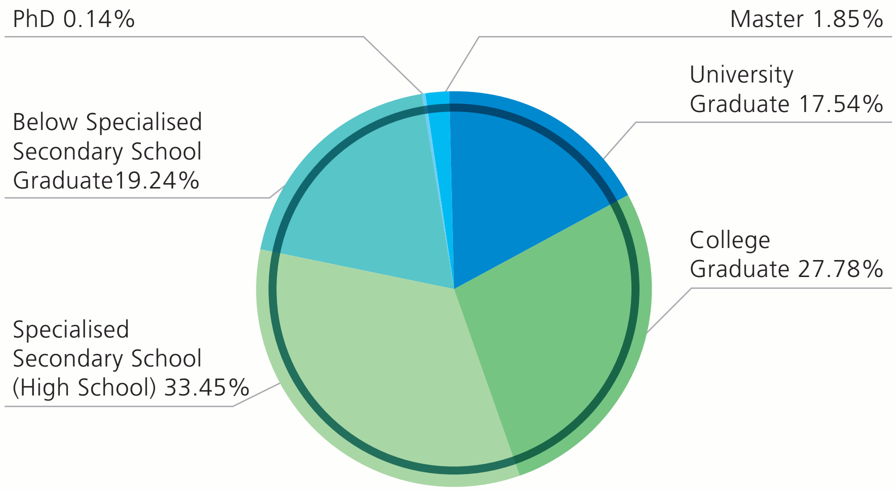
(III) Training Programme

Based on the strategies and annual work priorities, the Company offers professional, effective, personalised training sessions and solutions to all levels of staff according to the development requirements of each position and the career development of individual employees. Pursuant to the requirements of the regulatory departments of the State, the Company provides systematic training on GMP, GSP, operational skills and occupational safety to its employees every year. The Company has organised special training sessions including law and internal control for management staff of all levels pursuant to the compliance requirements for listed companies. In order to enhance comprehensive management level and leadership capability, the Company organised leadership development programmes for mid to senior management and training for middle-aged and young professional cadre. The Company also organised a series of product manager training for "One Product, One Policy" to integrate with its transformation in marketing. To push ahead the Lean Six Sigma project, over 400 employees participated in the Champion and Green Belt training organised by the Company, of which 26 were the first batch awarded the Green Belt qualification. With an aim to strengthening new staff's commitment to corporate culture and sense of belonging to the enterprise, the Company organised an "Orientation Training Scheme for New Graduates–Soaring High" for more than 120 new staff members with undergraduate degrees or above from 16 subsidiaries. The Company held special training related to the Chinese Pharmacopoeia (2015 edition), microbial detection methods and interpretation of Medical Devices Regulation to adapt to the new regulations and policies. Cooperating with training institutions, the Company also organised and launched systematic training for profession streams such as financial management, human resources, internal lecturer, patent management, logistics management, information technology and technician.

(IV) Statistical Chart on Composition of Professions



(V) Statistical Chart on Education Level



(VI) Labour Outsourcing

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

(VII) Pension Scheme

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

VII. FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals (including one former director) during the relevant periods ended 31 December 2014 were as follows:

Unit: RMB'000

Wages and salaries	5,084.7
Bonus	8,934.3
Contribution by the employer to the pension scheme	342.4
Total	14,361.4

For the year ended 31 December 2014, the remuneration bands were as follows:

Remuneration bands (HKD)	**Number of persons**
HKD2,000,001–HKD2,500,000	2
HKD2,500,001–HKD3,000,000	1
HKD3,000,001–HKD3,500,000	0
HKD3,500,001–HKD4,000,000	0
HKD4,000,001–HKD4,500,000	1
HKD4,500,001–HKD5,000,000	0
HKD5,000,001–HKD5,500,000	0
HKD5,500,001–HKD6,000,000	0
HKD6,000,001–HKD6,500,000	1

In 2014, Shanghai Pharmaceuticals did not pay any award to any directors or the above five highest paid individuals for joining the Group or as compensation for the loss of office. None of the directors waived or agreed to waive his/her remunerations as above.

I. CORPORATE GOVERNANCE AND INSIDER REGISTRATION AND MANAGEMENT

The Company has established and kept improving the corporate governance structure of the Company strictly in accordance with the relevant laws, regulations and rules such as the Company Law of the PRC, the Securities Law of the PRC, the Standards on Corporate Governance of Listed Companies, the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and the Hong Kong Listing Rules as well as the Articles of Association of the Company. During the Reporting Period, the Company has formulated Diversification Policy for Board Members in accordance with the code provision A.5.6 of the Corporate Governance Code of Appendix 14 of the Hong Kong Listing Rules. The Company has also revised a series of internal rules and regulations to ensure compliance operation and standardized decision-making by the Company in terms of system building, such as Detailed Implementation Rules Regarding Post-evaluation of Equity Investment Project, Management Measures Regarding Company System and Management Measures Regarding Brand Implementation.

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

II. GENERAL MEETINGS

Session	Date of convening	Name of proposal	Result of resolutions	Websites designated for information disclosure of resolutions	Date of information disclosure of resolutions
2013 Annual General Meeting of Shanghai Pharmaceuticals	8 May 2014	1. Report of the Board of Directors 2013 of Shanghai Pharmaceuticals Holding Co., Ltd. 2. Report of the Board of Supervisors 2013 of Shanghai Pharmaceuticals Holding Co., Ltd. 3. Final Accounts Report 2013 of Shanghai Pharmaceuticals Holding Co., Ltd. 4. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Financial Budget for 2014 5. Profit Distribution Plan for 2013 of Shanghai Pharmaceuticals Holding Co., Ltd. 6. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Payment of Auditor's Fees for 2013 7. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Engagement of Auditors 8. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding External Guarantees for 2014 9. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Use of Proceeds from H Share Offering 10. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Entry into Financial Service Framework Agreement and Connected Transactions 11. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Changes by Shanghai Pharmaceutical (Group) Co., Ltd. in Commitment to Land and Real Property 12. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding Changes by Shanghai Pharmaceutical (Group) Co., Ltd. in Commitment to Shares Held by Employees and Employee Share Ownership Committees 13. Proposal of Shanghai Pharmaceuticals Holding Co., Ltd. regarding the Grant of a General Mandate by the Shareholders' General Meeting to Allot, Issue and Deal with Shares	All the proposals were considered and passed	Company's announcement Lin No. 2014-013	9 May 2014
The First Extraordinary General Meeting of 2014 of Shanghai Pharmaceuticals	16 December 2014	1. Proposal regarding the election of Mr. HE Chuan as a supervisor of Shanghai Pharmaceuticals Holding Co., Ltd.	The proposal was considered and passed	Company's announcement Lin No. 2014-032	17 December 2014

III. DUTY PERFORMANCE OF DIRECTORS

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

Name of director	Independent director or not	Attendance at the board meetings							Attendance at the general meetings
		Required attendance for the year (times)	Attendance in person	Attendance by way of communication	Attendance by proxy	Absence	Attendance rate	Any failure in attending in person for two consecutive meetings	Attendance for the general meetings (times)
Lou Dingbo	No	6	6	4	0	0	100%	No	2
Cho Man	No	6	6	4	0	0	100%	No	2
Hu Fengxiang	No	6	6	4	0	0	100%	No	2
Zhou Jie	No	6	6	4	0	0	100%	No	2
Jiang Ming	No	6	6	4	0	0	100%	No	2
Chen Naiwei	Yes	6	6	4	0	0	100%	No	2
Wan Kam To	Yes	6	6	4	0	0	100%	No	2
Tse Cho Che, Edward	Yes	6	6	4	0	0	100%	No	1
Li Zhenfu	Yes	6	6	4	0	0	100%	No	0

Number of board meetings held in the year	6
Including: Number of on-site meetings	2
Number of meetings held by way of communication	4
Number of meetings held on-site with attendance by way of communication available	/

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

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

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

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

V. RISKS DISCOVERED BY THE BOARD OF SUPERVISORS

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

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

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

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

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

VIII. CORPORATE GOVERNANCE REPORT

Shanghai Pharmaceuticals, as a company dual-listed in the A-share and H-share market, shall comply with the laws and regulations of both the PRC and Hong Kong. As an A-share listed company, the Company did not breach any relevant PRC laws and regulations. Pursuant to code provision A.1.8 of the Corporate Governance Code, a listed company should arrange appropriate insurance cover in respect of the legal action which may be taken against its directors. By 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 Diversification Policy for Board Members.

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

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

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

(II) Board of Directors

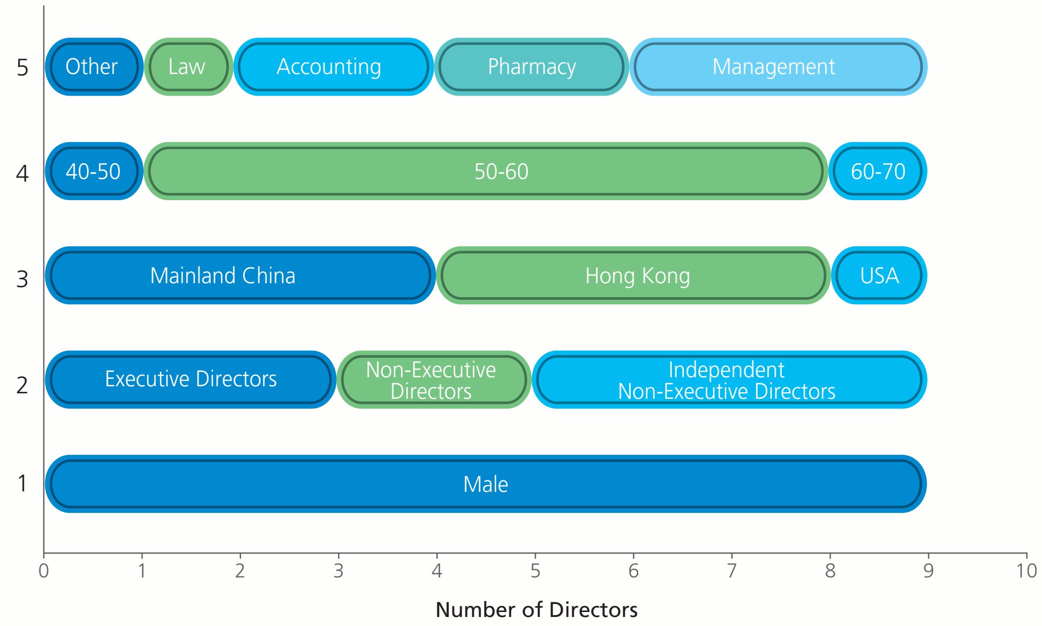
1. Composition of the board of directors

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

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

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

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



2. Primary duties of the board of directors

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

- to convene the general meetings and to report on its work to the general meetings;
- to implement the resolutions passed at the general meetings;
- to determine the Company's business plan and investment proposals;
- to formulate the Company's annual financial budget and final accounts;
- to formulate the Company's profit distribution proposal and loss recovery proposal;
- to formulate the Company's proposals for the increase or reduction of the Company's registered capital and for the issuance of debentures or other securities and for the listing;
- to draw up proposals for material acquisition, repurchase of the Company's shares and the plans for the merger, division, dissolution and change of corporate form of the Company;
- to make decisions on any asset disposals of the Company and its controlled subsidiaries (other than those subject to the consideration of the general meeting), any asset disposals between the Company and its controlled subsidiaries and between its controlled subsidiaries, and any merger and division of its controlled subsidiaries, unless otherwise stipulated in laws, administrative regulations, departmental rules, regulations of the securities authorities of the place where the Company is listed or the Articles of Association;
- to determine the establishment of the Company's internal management organizations;
- to appoint or remove the president and the secretary to the board of directors of the Company; to appoint or remove any other member of senior management including the vice president and the chief financial officer of the Company based on the nominations of the president and to decide on their remuneration, as well as reward and punishment issues;

- to set up the Company's basic management system;
- to formulate the proposals for any amendments to the Articles of Association;
- to manage the information disclosure of the Company;
- to propose to the general meeting for the appointment or removal of the Company's accounting firms;
- to receive the work report of the president and to inspect his/her work;
- to perform the corporate governance functions; and
- to exercise such other functions and powers as authorized by the laws, administrative regulations, departmental rules, the Articles of Association or the shareholders' general meetings.

3. Board meetings

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

During the Reporting Period, the board of directors held a total of six meetings, at which proposals were considered in relation to the Company's business results, appointment of securities affairs representative, guarantee plan for 2014, credit facilities for 2014, mergers and acquisitions as well as the performance of the corporate governance function, etc. Attendance details of the directors during the Reporting Period are set out in the paragraph headed "Attendance of directors at the board meetings and shareholders' general meetings" above.

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

(III) Committees under the Board

1. Remuneration and assessment committee

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

During the Reporting Period, the remuneration and assessment committee held two meetings, at which the performance review report on senior management for 2013 and the proposal for assessment on management responsibilities of the senior management for 2014 were discussed. Set out below is the attendance record of the members of the remuneration and assessment committee during the Reporting Period:

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

2. Audit committee

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

During the Reporting Period, the audit committee held a total of five meetings, at which matters were considered in relation to the Company's business results, the self-appraisal report on internal control of the Company for 2013, summary of audit division for 2014 and internal audit plan for 2015, audit schedule on financial report for 2014, etc. Set out below is the attendance record of the members of the audit committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Wan Kam To (independent non-executive director)	5/5	100%
Mr. Chen Naiwei (independent non-executive director)	5/5	100%
Mr. Tse Cho Che, Edward (independent non-executive director)	5/5	100%

Pursuant to the requirements under the announcement ([2008] No. 48) of CSRC and the work rules of independent directors, the audit committee held two meetings with the certified public accountants and the accounting firm for annual audit respectively before their on-site audit and after the issuance of preliminary opinions, to confirm the audit schedule and arrangements, and to review the Shanghai Pharmaceuticals' financial statements for 2014. On such basis, the audit committee is of the opinion that the Shanghai Pharmaceuticals' financial reports for 2014 are prepared in accordance with the Accounting Standards for Business Enterprises of the PRC, and give a true and fair view in all material aspects of Shanghai Pharmaceuticals' business results for 2014 and its financial position as at 31 December 2014, and is resolved to submit the same to the board of directors for consideration and approval.

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

Pursuant to the Rule 14A.55 of the Hong Kong Listing Rules, the audit committee has reviewed the continuing connected transactions of the Company. The actual amount of the connected transactions entered into by the Company and its subsidiaries in the ordinary course of business in 2014 did not exceed the amount approved by the board of directors.

3. Strategy committee

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

During the Reporting Period, the strategy committee held two meetings, at which the review of the implementation of the development strategic planning of the Company and the development of E-commerce were considered. Set out below is the attendance of the members of strategic committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Lou Dingbo (chairman and executive director)	2/2	100%
Mr. Tse Cho Che, Edward (independent non-executive director)	2/2	100%
Mr. Li Zhenfu (independent non-executive director)	2/2	100%

4. Nomination committee

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

During the Reporting Period, the nomination committee held one meeting, at which matters were considered in relation to the Diversification Policy for Board Members, the structure of the Board, etc. Set out below is the attendance record of the members of nomination committee during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Tse Cho Che, Edward (Independent Non-Executive Director)	1/1	100%
Mr. Lou Dingbo (Chairman and Executive Director)	1/1	100%
Mr. Chen Naiwei (Independent Non-Executive Director)	1/1	100%

(IV) Board of supervisors

The board of supervisors of the Company consists of three supervisors, including Mr. He Chuan, chairman of the board of supervisors, Mr. Xin Keng, the supervisor, and Ms. Chen Xin, the employee supervisor. Please refer to the section headed "Directors, Supervisors, Senior Management and Employees" herein for the supervisors' biographical details. In accordance with the Articles of Association of the Company, the board of supervisors should report to the general meeting and exercise the following functions and powers in compliance with laws:

- to review the financial information such as the financial reports, business reports and plans for distribution of profits prepared by the Board and to be submitted to the general meetings and to make the comments in writing after review;

- to review the Company's financial position;

- to supervise the behaviours of the directors, president and any other member of the senior management in performing their duties, and to advise on the dismissal of directors, president or any other member of the senior management who are in breach of laws, administrative regulations, the Articles of Association or resolutions of the general meetings;

- to demand the directors, president and any other member of the senior management to rectify their error if they have acted in a way detrimental to the Company's interest;

- to propose to convene an extraordinary general meeting, and where the Board fails to perform the duties in relation to convening or presiding over a general meeting as required by the Company Law of the PRC, to convene and preside over the general meeting;

- to propose motions at a general meeting;

- to initiate litigations against directors, the president and any other member of the senior management in accordance with the provisions of the Company Law of the PRC;

- to investigate into any abnormalities in operation of the Company; and if necessary, to employ professional institutions such as accounting firms and law firms to assist in its work, and the expenses shall be borne by the Company;

- to act on behalf of the Company in negotiations with or in bringing actions against directors;

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

During the Reporting Period, the board of supervisors held a total of five meetings, at which the Company's performance, financial accounts, budgets, 2013 profit distribution plan, engagement and remuneration of auditors and other matters were supervised and reviewed. Set out below is the attendance of the board of supervisors during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. He Chuan (Note 1)	1/1	100%
Mr. Xin Keng	5/5	100%
Ms. Chen Xin	5/5	100%
Mr. Zhang Zhenbei (Note 2)	4/4	100%

Notes:

1. At the first extraordinary general meeting of 2014 and the 8th meeting of the fifth session of the board of supervisors, Mr. He Chuan was elected as both a supervisor and the chief supervisor of the Company, with effect from 16 December 2014.

2. Mr. Zhang Zhenbei has reached the age of retirement and ceased to act as both a supervisor and the chief supervisor of the Company since 16 December 2014.

(V) Remuneration of Auditors

With reference to the Company's actual situation of business development, the audit fee payable to PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers by Shanghai Pharmaceuticals for 2014 was set at RMB20,000,000 (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1,450,000 (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian LLP, and the overseas auditor, PricewaterhouseCoopers. In 2014, a non-audit service fee of approximately RMB6.67 million (taxation expense and disbursement inclusive) was paid by the Company to the affiliates or network members of the Company's auditors.

(VI) Emoluments of Senior Management

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

(VII) Accountability and Audit

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

The directors are responsible for overseeing the preparation of financial report for each accounting period to give a true and fair view of the financial position, business results and cash flows of the Group. During the Reporting Period, the Company disclosed its annual report for 2013, interim report for 2014 and the first and third quarterly reports for 2014 in accordance with relevant laws and regulations and the listing rules of the places where the Company is listed.

In preparing the financial report for the year ended 31 December 2014, the directors have adopted and consistently applied appropriate accounting policies, and have made judgements and estimates that are prudent and reasonable. As far as the directors are aware, there was no event, condition or material uncertainty that may cast doubt upon the Group's ability to continue its operation as a going concern.

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

(VIII)About Shareholders

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

(IX) Investor Relations

The Company places great emphasis on investor relations. During the Reporting Period, the Company enhanced investor relations management and made refine plans on basis of the three-year investor relations plan. Following the publication of its annual report, interim report, first-quarter report, third-quarter report, the Company convened four analyst conferences and global investor teleconferences. The management of the Company organised three roadshows for global institutional investors after the annual report, annual general meeting, and third-quarter report. In June 2014, the Company invited dozens of analysts and investors to visit Xiamen Traditional Chinese Medicine Co., Ltd. Throughout the whole year, the Company was invited by a number of brokers to over 20 investment strategy seminars, and met hundreds of industrial analysts and institutional investors from domestic and abroad. In addition, the Company improves its communication with investors through the "SSE e-interaction" online platform, telephone and e-mail. A variety of communication methods have allowed the Company and investors to enhance mutual understanding and trust. Professional analysts at domestic and abroad published dozens of indepth analysis reports and corporate reviews on the Company during the year, which have maintained a good market image of the Company, and increased the market value steadily as well.

(X) Company Secretary

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Ms. Han Min and Ms. Mok Ming Wai are the joint company secretaries of the Company and received relevant training in 2014, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. Ms. Mok Ming Wai (a director of KCS Hong Kong Limited) is one of the joint company secretaries of the Company, while Ms. Han Min, the board secretary of the Company, serves as her internal main contact person of the Company. In order to comply with Rule 3.29 of the Hong Kong Listing Rules, Ms. Han Min and Ms. Mok Ming Wai both received relevant professional training of no less than 15 hours for the year ended 31 December 2014.

(XI) Training for Directors

During the Reporting Period, all directors participated in continuing education programmes to develop and update their knowledge and skills. Among the directors, Mr. Lou Dingbo, Mr. Cho Man, Mr. Hu Fengxiang, Mr. Zhou Jie, Mr. Jiang Ming, Mr. Chen Naiwei, Mr. Wan Kam To, Mr. Tse Cho Che, Edward and Mr. Li Zhenfu all participated in the training provided by Freshfields Bruckhaus Deringer engaged by the Company in respect of the amendments of the rules of continuing connected transaction and proposed amendments to the Corporate Governance Code. Mr. Lou Dingbo, Mr. Cho Man, Mr. Hu Fengxiang, participated in the third session of directors and supervisors' training class of 2014 listed companies provided by CSRC. In addition, Mr. Zhou Jie participated in the training courses provided by other external party on preventing inappropriate insider trading, and self-studied materials on the economy, business, directors' duties, etc; Mr. Wan Kam To participated in the training courses provided by other external parties such as directors' training, analysis of the new Companies Ordinance, listing rules and corporate governance training, and training on directors of listed companies, etc.. The Company has kept a training log to assist the directors to record the training programmes in which they have participated.

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

(XII) Articles of Association

There was no amendments to the Articles of Association in 2014.

Internal Control

I. INTERNAL CONTROL STATEMENT AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

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

Whether to disclose Self-evaluation Report on Internal Control: Yes

II. MATTERS RELATING TO THE AUDIT REPORT ON INTERNAL CONTROL

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

Whether to disclose Audit Report on Internal Control: Yes

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

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

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

Financial Report

Attached

Catalogue of Documents Available for Inspection

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

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

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

Lou Dingbo
Chairman

Shanghai Pharmaceuticals Holding Co., Ltd.
26 March 2015

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 119 to 248, 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.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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.

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
		15,682,238	13,796,548
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
		48,647,597	42,514,974
Assets classified as held for sale	8	**10,724**	–
		48,658,321	42,514,974
Total assets		**64,340,559**	56,311,522
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
		27,822,133	25,953,813
Non-controlling interests		**3,277,019**	3,047,167
Total equity		**31,099,152**	29,000,980

Consolidated Balance Sheet

	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
		1,238,861	1,611,647
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
		32,002,546	25,698,895
Total liabilities		**33,241,407**	27,310,542
Total equity and liabilities		**64,340,559**	56,311,522
Net current assets		**16,655,775**	16,816,079
Total assets less current liabilities		**32,338,013**	30,612,627

The notes on pages 129 to 248 are an integral part of these consolidated financial statements.

The financial statements on pages 119 to 248 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

LOU Dingbo
Director

CHO Man
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
		17,233,187	14,236,357
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**	–
		7,060,435	9,082,548
Total assets		**24,293,622**	23,318,905
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		**20,667,695**	20,340,532

Company Balance Sheet

	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
		65,517	73,229
Current liabilities			
Trade and other payables and other current liabilities	*24*	**3,200,410**	2,505,144
Borrowings	*25*	**360,000**	400,000
		3,560,410	2,905,144
Total liabilities		**3,625,927**	2,978,373
Total equity and liabilities		**24,293,622**	23,318,905
Net current assets		**3,500,025**	6,177,404
Total assets less current liabilities		**20,733,212**	20,413,761

The notes on pages 129 to 248 are an integral part of these consolidated financial statements.

The financial statements on pages 119 to 248 were approved by the Board of Directors on 26 March 2015 and were signed on its behalf.

LOU Dingbo
Director

CHO Man
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	**(81,223,392)**	(68,185,822)
Gross profit		**11,175,502**	10,036,995
Distribution and selling expenses	32	**(4,826,367)**	(4,407,225)
General and administrative expenses	32	**(3,285,838)**	(2,880,636)
Operating profit		**3,063,297**	2,749,134
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	**310,798**	313,072
Profit before income tax		**3,799,734**	3,225,640
Income tax expense	35	**(807,717)**	(628,368)
Profit for the year		**2,992,017**	2,597,272
Profit attributable to:			
Owners of the Company		**2,591,131**	2,213,579
Non-controlling interests		**400,886**	383,693
		2,992,017	2,597,272
Earnings per share attributable to owners of the Company during the year (expressed in RMB per share)			
– Basic and diluted	37	**0.96**	0.82

The notes on pages 129 to 248 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Dividends	38	**779,784**	699,117

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Profit for the year		**2,992,017**	2,597,272
Other comprehensive income :			
Items that may be reclassified to profit or loss			
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		**21,264**	(4,227)
Total comprehensive income for the year		**3,013,281**	2,593,045
Attributable to:			
– Owners of the Company		**2,612,655**	2,213,029
– Non-controlling interests		**400,626**	380,016
Total comprehensive income for the year		**3,013,281**	2,593,045

The notes on pages 129 to 248 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

	Note	Attributable to owners of the Company						
		Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2013		2,688,910	14,396,727	835,395	6,718,267	24,639,299	3,061,575	27,700,874
Comprehensive income								
Profit for the year		–	–	–	2,213,579	2,213,579	383,693	2,597,272
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

Consolidated Statement of Changes In Equity

		Attributable to owners of the Company						
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2014		2,688,910	14,122,285	917,561	8,225,057	25,953,813	3,047,167	29,000,980
Comprehensive income								
Profit for the year		–	–	–	2,591,131	2,591,131	400,886	2,992,017
Other comprehensive income								
Available-for-sale financial assets								
– Gross	14	–	–	31,050	–	31,050	1,158	32,208
– Tax	26	–	–	(7,762)	–	(7,762)	(290)	(8,052)
Currency translation differences, net	22	–	–	(1,764)	–	(1,764)	(1,128)	(2,892)
Total other comprehensive income		–	–	21,524	–	21,524	(260)	21,264
Total comprehensive income		–	–	21,524	2,591,131	2,612,655	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)	–	–	(133,555)	(103,057)	(236,612)
Dividends		–	–	–	(699,117)	(699,117)	(203,335)	(902,452)
Appropriation to statutory reserves	22, 23	–	–	103,148	(103,148)	–	–	–
Disposal of subsidiaries		–	–	–	–	–	(17,370)	(17,370)
Others		–	(27,065)	–	(4,598)	(31,663)	(5,842)	(37,505)
Total transaction with owners		–	(40,620)	103,148	(806,863)	(744,335)	(170,774)	(915,109)
Balance at 31 December 2014		2,688,910	14,081,665	1,042,233	10,009,325	27,822,133	3,277,019	31,099,152

The notes on pages 129 to 248 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2014 RMB'000	2013 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		**578,342**	314,674
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		**8,371**	12,143
Net cash used in investing activities		**(1,639,691)**	(644,082)

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
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		**40,000**	22,000
Net cash used in financing activities		**(396,362)**	(311,507)
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		**2,764**	(14,619)
Cash and cash equivalents at end of year		**11,190,420**	12,645,367

The notes on pages 129 to 248 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 HKFRS12 and HKAS 27 'Consolidation for investment entities', mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make.

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)*

- 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.

- 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Changes in accounting policies and disclosures (continued)

(b) *New standards and interpretations not yet adopted (continued)*

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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) *Consolidation (continued)*

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) *Consolidation (continued)*

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

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

(iv) Disposal of subsidiaries

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

(b) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

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

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

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

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.

(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'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Foreign currency translation (continued)

(b) *Transactions and balances (continued)*

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, plant and equipment (continued)

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

– Buildings	5-50 years
– 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.

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.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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;

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible assets (continued)

(e) *Research and development (continued)*

(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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial assets (continued)

(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 reliable measured. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

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

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

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

3 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Impairment of financial assets (continued)

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Current and deferred income tax (continued)

(a) *Current income tax*

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

(b) *Deferred income tax*

(i) Inside basis differences

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

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

(ii) Outside basis differences

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

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

(c) *Offsetting*

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

3 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.26 Revenue recognition (continued)

(a) *Sales of goods – wholesale*

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

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

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

(c) *Rental income*

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

(d) *Interest income*

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

(e) *Sales of services*

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

(f) *Dividend income*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 Leases (as a leasee)

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

3.28 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.

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.

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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(a) *Foreign exchange risk*

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

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

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

As at 31 December 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.

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Credit risk*

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

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**
	30,605,928	**14,878**	**88,791**	**15,521**	**30,725,118**
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
	24,676,656	27,297	101,915	15,694	24,821,562

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 FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital management

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

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

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

The gearing ratios are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*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%

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Fair value estimation

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

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**
	20,311	**85,314**	**–**	**105,625**
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
	19,533	54,397	–	73,930

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.

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.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

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

(b) Useful lives of business network

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

(c) Estimated impairment of goodwill

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

(d) Net realisable value of inventories

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

(e) Impairment of receivables

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

(f) Income taxes

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

6 SEGMENT INFORMATION

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

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

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

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

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

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

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.

6 SEGMENT INFORMATION (continued)

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

For the year ended 31 December 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	11,103,434	82,000,234	3,376,455	469,052	(4,550,281)	92,398,894
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						2,992,017

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	10,708,614	68,010,284	2,992,109	412,312	(3,900,502)	78,222,817
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						2,597,272

6 SEGMENT INFORMATION (continued)

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						(21,422,294)
Total assets						64,340,559
Segment liabilities	4,672,254	31,115,542	646,418	3,804,656	728,325	40,967,195
Elimination						(7,725,788)
Total liabilities						33,241,407

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	64,340,559	33,241,407

6 SEGMENT INFORMATION (continued)

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						(19,981,506)
Total assets						56,311,522
Segment liabilities	5,826,595	23,677,865	610,139	2,880,670	491,444	33,486,713
Elimination						(6,176,171)
Total liabilities						27,310,542

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	56,311,522	27,310,542

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	2013
	RMB'000	*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	**1,095,630**	944,990

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

	Year ended 31 December	
	2014	2013
	RMB'000	*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
	29,473	29,293

(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	2013
	RMB'000	*RMB'000*
Land use rights, secured	**84,843**	84,340

(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).

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	2013
	RMB'000	*RMB'000*
Opening net book amount	**23,858**	24,498
Additions	**4,781**	–
Amortisation charge	**(703)**	(640)
Closing net book amount	**27,936**	23,858

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	2013
	RMB'000	*RMB'000*
Cost	**430,160**	420,447
Accumulated depreciation	**(155,045)**	(143,443)
Net book amount	**275,115**	277,004
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	**275,115**	277,004

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.

8 INVESTMENT PROPERTIES (continued)

The Group (continued)

(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:

	Year ended 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
	275,115	277,004

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	2013
	RMB'000	*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	105,661	29,980	36,763	133,025	678,412	1,036,582
Internal transfer	223,712	140,615	1,312	4,716	20,122	(390,477)	–
Transfer from investment properties *(Note 8)*	1,187	–	–	–	–	–	1,187
Transfer to investment properties *(Note 8)*	(571)	–	–	–	–	–	(571)
Transfer to intangible assets *(Note 10)*	–	–	–	–	–	(5,793)	(5,793)
Disposals *(Note 39(ii))*	(12,854)	(14,799)	(4,050)	(6,865)	(5,175)	–	(43,743)
Depreciation charge	(139,979)	(129,164)	(32,667)	(47,850)	(133,118)	–	(482,778)
Disposal of subsidiaries	(2,107)	–	(334)	(574)	(2,760)	(727)	(6,502)
Provision for impairment	(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**

9 PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

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

	Year ended 31 December	
	2014	2013
	RMB'000	*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
	536,866	482,778

(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	2013
	RMB'000	*RMB'000*
Property, plant and equipment, pledged	**172,766**	204,796

(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	2013
	RMB'000	*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
	2,663,099	2,465,389

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**

10 INTANGIBLE ASSETS

The Group

	Goodwill	Business network	Trademarks and patent rights	Know-how	Computer software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	3,172,826	382,584	69,210	23,344	22,012	4,890	3,674,866
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 *(Note 9)*	–	–	–	–	5,793	–	5,793
Additions	–	–	9,042	–	9,047	35,444	53,533
Disposal of subsidiaries	–	–	–	–	(273)	–	(273)
Amortisation charge *(Note 32)*	–	(50,940)	(8,061)	(8,500)	(6,298)	(4,046)	(77,845)
Closing net book amount	3,643,294	364,169	70,191	115,453	30,281	36,753	4,260,141
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	3,643,294	364,169	70,191	115,453	30,281	36,753	4,260,141
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 *(Note 9)*	**–**	**–**	**–**	**–**	**26,648**	**–**	**26,648**
Additions	**–**	**–**	**5,623**	**498**	**10,514**	**20,267**	**36,902**
Disposal	**–**	**–**	**–**	**–**	**(248)**	**(501)**	**(749)**
Amortisation charge *(Note 32)*	**–**	**(59,579)**	**(9,183)**	**(16,377)**	**(11,370)**	**(8,599)**	**(105,108)**
Closing net book amount	**4,473,419**	**493,599**	**66,631**	**115,074**	**57,909**	**53,680**	**5,260,312**
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	**4,473,419**	**493,599**	**66,631**	**115,074**	**57,909**	**53,680**	**5,260,312**

10 INTANGIBLE ASSETS (continued)

The Group (continued)

(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
	105,108	77,845

(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
	4,565,393	3,735,268

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.

10 INTANGIBLE ASSETS (continued)

The Company

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Cost	**19,068**	11,561
Accumulated amortisation	**(8,717)**	(4,380)
Net book amount	**10,351**	7,181
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	**10,351**	7,181

11 INVESTMENTS IN SUBSIDIARIES

The Company

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

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.

11 INVESTMENTS IN SUBSIDIARIES (continued)

The Group

(a) Material non-controlling interests

As at 31 December 2014 and 2013, non-controlling interest presented in the consolidated balance sheets were approximately RMB3,277,019,000 and RMB3,047,167, 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 Assets RMB'000	Current Liabilities RMB'000	Total Net current assets RMB'000	Non-current Assets RMB'000	Non-current Liabilities RMB'000	Total Non-current assets RMB'000	Net assets RMB'000	Carrying amount of non-controlling interest 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
	7,378,230	(5,273,845)	2,104,385	1,271,197	(110,833)	1,160,364	3,264,749	1,153,674

Summarised income statement	Revenue RMB'000	Profit before income tax RMB'000	Profit for the year RMB'000	Total comprehensive income RMB'000	Total comprehensive income allocated to Non-Controlling Interests RMB'000	Dividends to non-Controlling Interests RMB'000
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	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
	15,314,926	489,297	393,424	394,896	139,188	83,395

11 INVESTMENTS IN SUBSIDIARIES (continued)

The Group (continued)

(a) Material non-controlling interests (continued)

Summarised cash flows	Net cash generated from operating activities *RMB'000*	Net cash generated from/(used in) investing activities *RMB'000*	Net cash generated from/(used in) financing activities *RMB'000*	Net increase in cash and cash equivalents *RMB'000*	Cash, cash equivalents at beginning of year *RMB'000*	Cash and cash equivalents at end of year *RMB'000*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	**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**
	242,408	**(255,440)**	**42,079**	**29,461**	**1,519,833**	**1,549,294**

Year ended 31 December 2013

Summarised balance sheet	Current Assets *RMB'000*	Current Liabilities *RMB'000*	Total Net current assets *RMB'000*	Non-current Assets *RMB'000*	Non-current Liabilities *RMB'000*	Total Non-current assets *RMB'000*	Net assets *RMB'000*	Carrying amount of non-controlling interest *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
	6,573,422	(4,421,921)	2,151,501	1,043,155	(104,040)	939,115	3,090,616	1,082,725

Notes to the Consolidated Financial Statements

11 INVESTMENTS IN SUBSIDIARIES (continued)

The Group (continued)

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

Summarised income statement	Revenue *RMB'000*	Profit before income tax *RMB'000*	Profit for the year *RMB'000*	Total comprehensive income *RMB'000*	Total comprehensive income allocated to Non-Controlling Interests *RMB'000*	Dividends to Non-Controlling Interests *RMB'000*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	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
	13,699,107	540,766	434,172	434,588	118,897	125,577

Summarised cash flows	Net cash generated from operating activities *RMB'000*	Net cash generated from/ (used in) investing activities *RMB'000*	NNet cash generated from/ (used in) financing activities *RMB'000*	Net increase in cash and cash equivalents *RMB'000*	Cash, cash equivalents at beginning of year *RMB'000*	Cash and cash equivalents at end of year *RMB'000*
Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	134,877	(96,770)	(33,864)	4,220	644,935	649,155
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	188,198	8,214	(123,125)	73,136	407,246	480,382
Ningbo Pharmaceutical Co., Ltd. and its subsidiaries	(106,183)	(68,130)	98,899	(75,414)	288,422	213,008
Guangzhou Z.S.Y Pharmaceutical Co., Ltd.	(95,594)	(2,752)	167,821	69,475	107,813	177,288
	121,298	(159,438)	109,731	71,417	1,448,416	1,519,833

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.

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Share of net assets, unlisted	**376,391**	340,679
Provision for impairment	**(1,649)**	–
	374,742	340,679
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	**374,742**	340,679

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

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

The Group (continued)

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. (上海和黃藥業有限公司)

Summarised balance sheet	**As at 31 December**	
	2014	2013
	RMB'000	*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	2013
	RMB'000	*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

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

The Group (continued)

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	**459,340**	414,614
Interest in associates @ 50%	**229,670**	207,307
Unrealised profit	**(7,298)**	–
Carrying value	**222,372**	207,307

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)
	2,370,871	2,355,821
Market value of listed shares (HKD)	**1,365,927**	1,304,985
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	**2,370,871**	2,355,821

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

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

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

Summarised balance sheet	As at 31 December	
	2014	2013
	RMB'000	*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	2013
	RMB'000	*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

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

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

Reconciliation of summarised financial information	For the year ended 31 December	
	2014	2013
	RMB'000	*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

(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	2013
	RMB'000	*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

13 INVESTMENTS IN ASSOCIATES (continued)

The Group (continued)

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

Summarised statement of comprehensive income	**For the year ended 31 December**	
	2014	2013
	RMB'000	*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	2013
	RMB'000	*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

13 INVESTMENTS IN ASSOCIATES (continued)

The Company

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

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	2013
	RMB'000	*RMB'000*
Listed equity investment, at fair value	**96,565**	73,590
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	**90,868**	76,158
	187,433	149,748

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The Group (continued)

	As at 31 December	
	2014	2013
	RMB'000	*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	**187,433**	149,748

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	2013
	RMB'000	*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
	32,528	25,556
At 1 January	**25,556**	24,896
Net amount recognised in equity	**7,222**	660
Disposals	**(250)**	–
End of the year	**32,528**	25,556

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)
	252,912	118,680

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
	13,088,153	10,996,520

17 INVENTORIES (continued)

The Group (continued)

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)*	**79,335,045**	66,579,227

18 TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

The Group

	As at 31 December	
	2014	2013
	RMB'000	*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

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

The Group (continued)

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

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

	As at 31 December	
	2014	2013
	RMB'000	*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

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

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

(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).

Notes to the Consolidated Financial Statements

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

The Group (continued)

(e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, a credit period up to certain months is granted to the customers. Ageing analysis of gross trade receivables due from third parties (accounts receivable and notes receivable) at 31 December 2014 and 2013 are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*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
	22,178,282	17,162,851

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	2013
	RMB'000	*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
	1,902,175	1,388,590
Less: Expected recovery	**(1,111,087)**	(684,888)
Impairment	**791,088**	703,702

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

The Group (continued)

(e) (continued)

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	2013
	RMB'000	*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	**1,703,777**	1,475,579

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.

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

The Company

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables		
Accounts receivable	**119,438**	119,438
Less: Provision for impairment	**(119,438)**	(119,438)
Accounts receivable – net	**–**	–
Notes receivables	**–**	–
Trade receivables – net	**–**	–
Other receivables	**544,377**	576,970
Less: Provision for impairment	**(444,949)**	(436,983)
Other receivables – net	**99,428**	139,987
Due from subsidiaries and other related parties *(Note)*	**4,454,855**	6,668,821
	4,554,283	6,808,808

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.

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Cash at bank	**11,600,507**	12,970,916
Cash on hand	**7,547**	7,569
	11,608,054	12,978,485
Less: restricted cash (Note a)	**(417,634)**	(333,118)
Cash and cash equivalents	**11,190,420**	12,645,367
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
	11,608,054	12,978,485

(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	2013
	RMB'000	*RMB'000*
Bank deposits pledged for:		
– issue of notes payable	**401,321**	306,419
– others	**16,313**	26,699
	417,634	333,118

(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.

19 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (continued)

The Group (continued)

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

	As at 31 December	
	2014	2013
	% per annum	*% per annum*
Effective interest rate	**0.35%~4.70%**	0.35%~2.60%

The Company

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

20 FINANCIAL INSTRUMENTS BY CATEGORY AND CREDIT QUALITY OF FINANCIAL ASSETS

(a) Financial instruments by category

The Group

	As at 31 December	
	2014	2013
	RMB'000	*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
	34,567,785	30,690,171
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
	30,564,403	24,687,899

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	2013
	RMB'000	*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
	7,082,239	9,108,104
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
	3,519,752	2,880,053

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

(b) Credit quality of financial assets

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

(i) *Trade receivables*

As at 31 December 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.

(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

22 SHARE PREMIUM AND OTHER RESERVES

The Group

	Share premium RMB'000	Statutory reserves (Note a) RMB'000	Available-for-sale financial Assets RMB'000	Revaluation surplus RMB'000	Translation difference RMB'000	Others RMB'000	Total 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**

22 SHARE PREMIUM AND OTHER RESERVES (continued)

The Company

	Share premium *RMB'000*	Statutory reserves *(Note a)* *RMB'000*	Available-for-sale financial Assets *RMB'000*	Others *RMB'000*	Total *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					
– Gross	–	–	660	–	660
– Tax	–	–	(165)	–	(165)
Others	–	–	–	17,579	17,579
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					
– Gross	**–**	**–**	**7,222**	**–**	**7,222**
– Tax	**–**	**–**	**(1,805)**	**–**	**(1,805)**
Others	**(76,737)**	**–**	**–**	**–**	**(76,737)**
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:

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)	–
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)**	**–**
At 31 December 2014	**10,009,325**	**967,674**

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
	23,701,260	19,571,893

(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
	19,975,472	16,492,314

24 TRADE AND OTHER PAYABLES AND OTHER CURRENT LIABILITIES (continued)

The Group (continued)

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

	As at 31 December	
	2014	2013
	RMB'000	*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
	23,701,260	19,571,893

The Company

	As at 31 December	
	2014	2013
	RMB'000	*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
	3,200,410	2,505,144

Note:

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

25 BORROWINGS

The Group

	As at 31 December	
	2014	2013
	RMB'000	*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
	105,408	125,195
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
	7,932,394	5,897,961
Current portion of long-term bank borrowings		
– guaranteed *(Note a)*	**730**	730
– secured *(Note b)*	**15,000**	25,679
– unsecured	**5,000**	–
	7,953,124	5,924,370
Total borrowings	**8,058,532**	6,049,565

(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)).

25 BORROWINGS (continued)

The Group (continued)

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

	As at 31 December	
	2014	2013
	RMB'000	*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
	770,403	1,197,313

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

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

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

	As at 31 December	
	2014	2013
	RMB'000	*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.

25 BORROWINGS (continued)

The Group (continued)

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

	As at 31 December	
	2014	2013
	RMB'000	*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
	8,058,532	6,049,565

(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
	8,058,532	6,049,565

(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.

25 BORROWINGS (continued)

The Company

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current		
Short-term borrowings		
– unsecured	**360,000**	400,000

26 DEFERRED INCOME TAX

The Group

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

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

	As at 31 December	
	2014	2013
	RMB'000	*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
	264,591	199,806
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
	380,163	288,812
Deferred income tax liabilities – net	**(115,572)**	(89,006)

26 DEFERRED INCOME TAX (continued)

The Group (continued)

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

	As at 31 December	
	2014	2013
	RMB'000	*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	**(115,572)**	(89,006)

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	Termination Benefit obligations	Accruals	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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**

Notes to the Consolidated Financial Statements

26 DEFERRED INCOME TAX (continued)

The Group (continued)

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.

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
	682,818	1,158,563

(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	**57,465**	66,983

Notes to the Consolidated Financial Statements

28. TERMINATION BENEFIT OBLIGATIONS

The Group

	As at 31 December	
	2014	2013
	RMB'000	*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	2013
	RMB'000	*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

29. OTHER INCOME

The Group

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

(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	2013
	RMB'000	*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)
	357,785	31,198

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.

31. GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

The Group

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

Notes to the Consolidated Financial Statements

31. GAINS ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES (continued)

The Group (continued)

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	**106,304**

32. EXPENSES BY NATURE

The Group

	Year ended 31 December	
	2014	2013
	RMB'000	*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	**89,335,597**	75,473,683

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	**3,885,662**	3,336,994

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

33. EMPLOYEE BENEFIT EXPENSES (continued)

The Group (continued)

(c) *Directors, 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*
Directors				
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
Supervisors				
Mr. He Chuan *(a)*	–	–	–	–
Mr. Zhang Zhenbei *(b)*	–	–	–	–
Mr. Xin Keng	–	–	–	–
Mrs. Chen Xin	–	–	–	–
	1,816	676	–	2,492

(a) Appointed on 16 December 2014.

(b) Retired on 16 December 2014.

33. EMPLOYEE BENEFIT EXPENSES (continued)

The Group (continued)

(c) *Directors, supervisors and chief executives' emoluments (continued)*

The remuneration of every director, supervisor and the chief executive of the Company for the year ended 31 December 2013 is set out below:

Name of director	Salaries *RMB'000*	Bonuses *RMB'000*	Pensions *RMB'000*	Total *RMB'000*
Directors				
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
Supervisors				
Mr. Zhang Zhenbei	–	–	–	–
Mr. Xin Keng *(a)*	–	–	–	–
Mrs. Chen Xin	–	–	–	–
Mr. Wu Junhao *(b)*	–	–	–	–
	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.

33. EMPLOYEE BENEFIT EXPENSES (continued)

The Group (continued)

(d) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group during the year include one (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	2013
	RMB'000	*RMB'000*
Salaries and fee	**5,085**	4,233
Bonuses	**8,934**	8,851
Employer's contribution to pension scheme and others	**342**	359
	14,361	13,443

The emoluments fell within the following bands:

	Year ended 31 December	
	2014	2013
	Number	*Number*
Emolument bands (in HKD)		
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**	–

(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.

34. FINANCE INCOME AND COSTS

The Group

	Year ended 31 December	
	2014	2013
	RMB'000	*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)

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

(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.

35. TAXATION (continued)

The Group (continued)

(a) Income tax expense (continued)

(ii) Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries for the year ended 31 December 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 Pharmaceuatical 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.

(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	2013
	RMB'000	*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	**807,717**	628,368
Effective tax rate	**21.3%**	19.5%

35. TAXATION (continued)

The Group (continued)

(a) *Income tax expense (continued)*

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

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

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

(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	2013
	RMB'000	*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.

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(i) Cash generated from operations

	Year ended 31 December	
	2014	2013
	RMB'000	*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
	4,168,175	3,616,200
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)
Cash generated from operations	**1,829,417**	1,421,017

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	2013
	RMB'000	*RMB'000*
Net book amount *(Note 9)*	**172,103**	43,743
Gain on disposal *(Note 30)*	**22,561**	1,358
	194,664	45,101
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	**151,999**	35,833

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

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

39 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

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

(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)**	–
	70,036	201,704
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)
Proceeds from disposal	**63,366**	119,653

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	**21,835**	42,290

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.

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
	433,803	135,808

41 COMMITMENTS (continued)

(a) Capital commitments (continued)

(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
	672,533	569,484

(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	2013
	RMB'000	*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
	176,757	149,183

Notes to the Consolidated Financial Statements

41 COMMITMENTS (continued)

(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.

42 SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Significant acquisition of additional interests in the subsidiaries

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)
Excess of consideration paid recognised within equity	(61,940)

(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)
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	(133,555)

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	795,471

43 BUSINESS COMBINATION (continued)

Significant business combinations not under common control (continued)

(i) (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.

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	407,290
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	(1,097,356)
Total identifiable net assets	166,346
Non-controlling interests	(41,586)
Goodwill	282,530
	407,290

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	(17,521)
consideration payable in respect of acquisition of the subsidiary	(170,100)
Cash outflows from the acquisitions	219,669

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.

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.

Notes to the Consolidated Financial Statements

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai 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
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一醫藥有限公司)	Associate
Shanghai lvyuan 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

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

Name of related party	Nature of relationship
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.

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	2013
	RMB'000	*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 lvyuan 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
	938,233	939,291

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
	3,509,259	3,283,262

	Year end 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
	12,988	11,300

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year end 31 December	
	2014	2013
	RMB'000	*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
	48,707	61,472

	Year end 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 end 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**	–

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	Year end 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**	–

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.

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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

(b) Key management compensation

	Year end 31 December	
	2014	2013
	RMB'000	*RMB'000*
Salaries	**4,628**	5,003
Bonuses	**4,620**	6,367
Pensions and others	**558**	566
	9,806	11,936

(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
	435,497	231,375

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	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
	146,860	160,749
Less: Provision for impairment	**(5,997)**	(5,591)
	140,863	155,158

	As at 31 December	
	2014	2013
	RMB'000	*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

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

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	2013
	RMB'000	*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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	**3,302**	10,010
Others	**314**	1,331
	3,616	11,341

	As at 31 December	
	2014	2013
	RMB'000	*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
	274,730	9,545

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)

Amount due to related parties:

	As at 31 December	
	2014	2013
	RMB'000	*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**	–
	492,680	415,634

	As at 31 December	
	2014	2013
	RMB'000	*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
	460,413	383,533

44 SIGNIFICANT RELATED PARTIES TRANSACTIONS (continued)

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

	As at 31 December	
	2014	2013
	RMB'000	*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
	23,255	21,526

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.

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

	As at 31 December	
	2014	2013
	RMB'000	*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
	483,668	405,059

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	2013
	RMB'000	*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
	317	2,496

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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Interest payable		
Shanghai Industrial Group Finance Co., Ltd	**616**	–

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	2013
	RMB'000	*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	2013
	RMB'000	*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

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Outstanding loan guarantees given to the Group by		
Shanghai Pharma Group	**2,890**	3,620

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 *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Pharmaceutical Distribution Co., Ltd. (上海醫藥分銷控股有限公司)	PRC, 26 April 2010	3,393,128	100	–	Distribution of pharmaceutical products in the PRC
Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信誼藥廠有限公司)	PRC, 23 October 1993	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	–	Manufature 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

45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	84,030	–	61	Medicine manufacture and trading in the PRC
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	PRC, 1 January 1999	53,160	–	51.01	Medicine manufacture and trading in the PRC
Liaoning Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧好護士藥業(集團)有限公司)	PRC, 12 December 1999	51,000	–	55	Medicine manufacture and trading in the PRC
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	PRC, 10 September 1998	127,000	99.21	0.79	Medical instruments manufacture and trading in the PRC
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	PRC, 12 May 1982	71,390	100	–	Distribution of pharmaceutical products in the PRC
Shanghai 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
SIIC Medical Science and Technology (Group) Limited (上海實業醫藥科技(集團)有限公司)	Cayman Islands, 17 September 1999	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. (上海鈴謙滬中醫藥有限公司) (*Note*)	PRC, 10 November 1999	84,460	–	50	Distribution of pharmaceutical products in the PRC

Note: The Company's directors and the Group's management are of the view that the Group has the power to govern the financial and operating policies of the subsidiary although its equity interests in it were not greater than 50%, after considering the facts that the majority of the executive directors of these subsidiaries were representatives of the Group.

Notes to the Consolidated Financial Statements

45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高橋醫藥分銷中心有限公司)	PRC, 9 August 2001	20,000	–	65	Distribution of pharmaceutical products in the PRC
Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富醫藥有限公司)	PRC, 27 May 1994	60,000	–	60	Distribution of pharmaceutical products in the PRC
Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	PRC, 21 May 1998	335,070	–	97.58	Pharmaceutical products manufacture and trading in the PRC
Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	PRC, 14 December 2001	108,000	–	77.78	Medicine manufacture in the PRC
Shanghai Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青島上藥國風醫藥有限責任公司)	PRC, 27 September 2003	76,667	–	100	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	PRC, 14 June 1993	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)醫療用品貿易有限公司)	PRC, 4 January 2009	30,000	–	100	Pharmaceutical products trading in the PRC
Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (廣州中山醫醫藥有限公司)	PRC, 8 January 1998	76,880	–	51	Pharmaceutical products trading in the PRC
Taizhou Pharmaceutical Co., Ltd. (台州上藥醫藥有限公司)	PRC, 31 December 2010	65,000	–	60	Pharmaceutical products trading in the PRC

Notes to the Consolidated Financial Statements

45 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES (continued)

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital *RMB'000*	Share percentage held by the Company *Direct %*	Share percentage held by the Company *Indirect %*	Principal activities and place of operations
Beijing Aixin Weiye Medicine Co., Ltd. (北京上藥愛心偉業醫藥有限公司)	PRC, 29 November 2010	100,000	–	52.24	Pharmaceutical products trading in the PRC
Shanghai Shanhe Wuxi Pharmaceutical Co., Ltd. (上藥山禾無錫醫藥股份有限公司)	PRC, 1 July 2011	62,720	–	80	Pharmaceutical products trading in the PRC
Changzhou Kony Pharmaceutical Co., Ltd. (常州康麗製藥有限公司)	PRC, 3 January 2000	14,946	–	80	Pharmaceutical products manufacture and trading in the PRC
SPH Zhongxie Pharmaceutical Co., Ltd. (上海醫藥眾協藥業有限公司)	PRC, 11 January 2011	82,000	–	78.44	Pharmaceutical products trading in the PRC
Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (東英(江蘇)藥業有限公司)	PRC, 1 January 1975	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 1998	50,000	–	100	Distribution of pharmaceutical products in the PRC

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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 RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal actcities and place of operations
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	PRC, 30 April 2001	229,000	–	50	Pharmaceutical products manufacture and trading in the PRC
Shanghai Roche Pharmaceutical Co., Ltd.	PRC, 6 May 1994	USD134,697,142	–	30	Pharmaceutical products manufacture and trading in the PRC
TECHPOOL Bio-Pharma Co., Ltd.	PRC, 25 March 1993	100,000	39.28	1.52	Development, manufacture and distribution of chemical medicine in the PRC

46 SUBSEQUENT EVENTS

Pursuant to board resolution of the Company on 26 February 2015, Shanghai Huayu and Shanghai Jinhe Bio-technology Co., Ltd. (Jinhe, 上海金和生物技術有限公司), in which the Group held 100% and 51% equity interest respectively, will acquire equity interests in Dali Zhonggu Hongdoushan Biological Co., Ltd. (Dali Zhonggu, 大理中谷紅豆杉生物有限公司) 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, 上海醫藥大健康雲商股份有限公司) 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).

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Shanghai Pharmaceuticals Holding Co., Ltd.*