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上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd. *

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

(Stock Code: 02607)

2011 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Shanghai Pharmaceuticals Holding Co., Ltd. (the “**Company**”) is pleased to announce the results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2011. These annual results are prepared in accordance with the Hong Kong Financial Reporting Standards and audited by PricewaterhouseCoopers. The Audit Committee of the Board has reviewed these annual results.

The full content of the Company's annual report of 2011 is attached to this announcement. The formal annual report will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.pharm-sh.com.cn) at an appropriate time.

By Order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.
Han Min
Joint Company Secretary

Shanghai, the PRC, 30 March 2012

As of the date of this announcement, the executive directors of the Company are Mr. LU Mingfang, Mr. ZHANG Jialin and Mr. XU Guoxiong; the non-executive directors of the Company are Mr. LU Shen and Mr. JIANG Ming; and the independent non-executive directors of the Company are Mr. ZENG Yixin, Mr. BAI Huiliang, Mr. CHEN Naiwei and Ms. Tommei TONG.

** For identification purpose only*





Contents

2	Important Notice
4	Basic Corporate Information
7	Summary of Accounting Data and Business Data under the Chinese Accounting Standards for Business Enterprises
10	Changes in Share Capital and Information about Shareholders
19	Directors, Supervisors and Senior Management
29	Corporate Governance Report
40	General Meetings
41	Report of the Directors
65	Supervisory Committee's Report
68	Significant Events Financial Report (Attached)
84	Financial Summary
85	Reference Document Catalog

Important Notice

- (I) The Board and Supervisory Committee of the Group and the directors, supervisors and senior management warranted that this report does not contain any false information, misleading statement or material omission and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents herein contained.
- (II) Mr. Chen Naiwei, an independent director of the Group, was absent from the Board meeting for certain reasons and appointed Mr. Bai Huiliang, an independent director, as his proxy to vote on his behalf.
- (III) PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("PricewaterhouseCoopers") issued standard unqualified auditor's reports for the financial reports that were prepared by the Group based on the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards respectively.
- (IV) Mr Lu Mingfang, the Chairman, Mr Xu Guoxiong, the President and Mr Shen Bo, the Chief Financial Officer of the Group warranted the truthfulness and completeness of the financial reports in the annual report.
- (V) Is there any appropriation of funds by the controlling shareholders and their connected parties that is unrelated to operation? No
- (VI) Is there any instance of providing external guarantee that is in breach of the established decision making procedure? No
- (VII) Definitions

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

"A Shares"	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"Articles of Association" or "Articles"	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
"Code on Corporate Governance"	the code on Corporate Governance Practices in Appendix 14 of the Hong Kong Listing Rules
"Group", "Company", "Shanghai Pharmaceuticals"	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司)
"H Shares"	overseas foreign shares with a nominal value of RMB1.00 each of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"H Shares Prospectus"	the H Shares Prospectus published by the Company on 6 May 2011
"HK\$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region

Important Notice

"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)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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
"Over-Allotment Option"	Goldman Sachs (Asia) L.L.C. on behalf of the International Purchasers has partially exercised the Over-allotment Option, as referred to in the H Shares Prospectus, in respect of 32,053,200 H Shares on 11 June 2011; at the same time, 3,205,320 A Shares held by the shareholders of state-owned Shares fulfilling the obligation of transferring have been converted into H Shares on a one-for-one basis and transferred to NSSF
"PRC" or "China"	the People's Republic of China; except where the context otherwise requires, references in this report to the PRC or China do not include Hong Kong, Macau or Taiwan
"Reporting Period"	the 12-month period from 1 January 2011 to 31 December 2011
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Securities and Futures Ordinance"	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong (as amended)
"Shares"	shares of Shanghai Pharmaceuticals of nominal value of RMB1.00 each, comprising both A Shares and H Shares
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
"Shanghai Shangshi"	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
"Shanghai Pharmaceutical (Group)"	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
"Shanghai Shengrui"	Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)
"Shanghai Guosheng"	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司)
"Shenergy Group"	Shenergy (Group) Co., Ltd. (申能(集團)有限公司)

Basic Corporate Information

(I) CORPORATE INFORMATION

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

(II) DIRECTORS

Executive directors:	Mr. Lu Mingfang (Chairman), Mr. Zhang Jialin, Mr. Xu Guoxiong
Non-executive directors:	Mr. Lu Shen, Mr. Jiang Ming
Independent non-executive directors:	Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei, Ms. Tommei Tong

(III) SUPERVISORS

Mr. Zhou Jie (chief supervisor), Mr. Wu Junhao, Ms. Chen Xin (employee representative supervisor)

(IV) JOINT COMPANY SECRETARY

Ms. Han Min, Ms. Mok Mingwai

(V) AUDIT COMMITTEE OF THE BOARD

Ms. Tommei Tong, Mr. Bai Huiliang, Mr. Chen Naiwei

(VI) REMUNERATION AND ASSESSMENT COMMITTEE OF THE BOARD

Mr. Chen Naiwei, Mr. Zeng Yixin, Mr. Bai Huiliang

(VII) STRATEGY COMMITTEE OF THE BOARD

Mr. Lu Mingfang, Mr. Bai Huiliang, Ms. Tommei Tong

(VIII) CONTACT PERSON AND CONTACT DETAILS

	Board Secretary
Name	Han Min
Contact address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai, the PRC
Telephone	021-63730908
Facsimile	021-63289333
E-mail	pharm@pharm-sh.com.cn

Basic Corporate Information

(IX) BASIC INFORMATION

Registered address	No. 92 Zhangjiang Road, Pudong New District, Shanghai, the PRC
Postal code of registered address	201203
Office address	Shanghai Pharmaceutical Building, No. 200 Taicang Road, Shanghai, the PRC
Postal code of office address	200020
Principal place of business in Hong Kong	8th Floor, Gloucester Tower, the Landmark, 15 Queen's Road Central, Hong Kong
Internet website of the Company	www.pharm-sh.com.cn
E-mail	pharm@pharm-sh.com.cn
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 36/F, China Insurance Building, No. 166 Lujiazui Dong Road, Pudong New Area, Shanghai, the PRC
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
Compliance advisor	Goldman Sachs (Asia) L.L.C.

(X) INFORMATION DISCLOSURE AND PLACE AVAILABLE FOR INSPECTION

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

(XI) STOCK INFORMATION OF THE COMPANY

Stock Information of the Company				
Type of stock	Stock exchange on which shares are listed	Stock abbreviation	Stock code	Stock abbreviation before any changes
A Shares	Shanghai Stock Exchange	上海醫藥	601607	600849
H Shares	The Stock Exchange of Hong Kong	SH PHARMA	02607	/

(XII) OTHER BASIC INFORMATION OF THE COMPANY

First registration date of the Company	18 January 1994	
First place of registration of the Company	Shanghai Administration of Industry and Commerce	
Recent changes	Date of change in registration of the Company	9 April 2010
	Place of change in registration of the Company	Shanghai Administration of Industry and Commerce
	Legal person business license registration number	310000000026221
	Tax registration number	Hu 31011513358488x
	Organization code	13358488-X
Name of domestic auditor engaged by the Company	PricewaterhouseCoopers Zhong Tian CPAs Limited Company	
Office address of domestic auditor engaged by the Company	11/F, PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai, the PRC	
Name of international auditor engaged by the Company	PricewaterhouseCoopers	
Office address of international auditor engaged by the Company	22nd Floor, Prince's Building, Central, Hong Kong	

Summary of Accounting Data and Business Data under the Chinese Accounting Standards for Business

(I) MAJOR ACCOUNTING DATA

Unit: RMB

Item	Amount
Operating profit	2,873,728,361.29
Total profit	3,035,102,055.06
Net profit attributable to equity holders of the Company	2,042,238,482.84
Net profit after deduction of non-recurring profit and loss attributable to equity holders of the Company	1,424,034,687.07
Net cash flows from operating activities	1,772,438,011.82

(II) DEDUCTING NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNT

Unit: RMB

Non-recurring Profit and Loss Item	Amount in 2011	Amount in 2010	Amount in 2009
Gain or loss on disposal of non-current assets	454,032.49	37,255,613.66	3,558,218.13
Government subsidies recognised in current profit and loss, excluding those closely related to the Company's normal operations and granted on an ongoing basis under the national policies according to certain fixed quota of amount or volume)	96,781,630.41	90,915,969.03	981,023.00
Gain or loss on debt restructuring	3,816,450.74	-911,648.81	39,350.90
Corporate restructuring expenses, including settlement expenses to employees and integration expenses		-5,420,577.00	-24,123,723.00
Net profit or loss for the period starting from the beginning of the period to the date of acquisition of subsidiary arising from business combination under common control	50,867,928.00	266,814,837.21	1,401,708,121.91
Gain and loss from the change in fair value of investment from holding marketable financial assets and marketable financial liabilities and gain from disposal of marketable financial assets, marketable financial liabilities and financial assets available for sale other than that from the valid straddle business relevant to normal business of the Company	118,813,494.58	19,424,843.78	14,270,295.96
Reversal of provisions for impairment of receivables which was individually tested for impairment	32,879,590.75	37,668,495.70	3,720,052.43
Other non-operating income and expenses apart from the above	46,359,797.45	33,382,693.97	2,458,957.84
Other profit and loss items which fall into the definition of non-recurring profit and loss	519,117,011.95		-62,813,752.14
Impact to income tax	-218,008,811.24	-59,306,936.70	16,340,678.80
Impact to minority interest	-32,877,329.36	-60,394,832.12	-280,949,240.95
Total	618,203,795.77	359,428,458.72	1,075,189,982.88

Note: during the Reporting Period, TECHPOOL Bio-Pharma was no longer included into the consolidated financial statements of the Group. An one-off gain on investment of RMB333,740,000 was recorded due to changes in the accounting treatment.*

* Unless otherwise specified, all of the financial data contained in this report are denominated in Renminbi.

**Summary of Accounting Data and Business Data under the
Chinese Accounting Standards for Business Enterprises**

**(III) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF
THE COMPANY FOR THE THREE YEARS UP TO THE END OF
THE REPORTING PERIOD**

Unit: RMB

Major accounting data	2011	2010		Change compared to the corresponding period last year (%)	2009
		After adjustment	Before adjustment		
Total operating income	54,899,872,504.11	38,721,655,199.70	37,411,066,143.70	41.78	31,260,880,691.19
Operating profit	2,873,728,361.29	2,181,679,173.30	2,076,567,304.30	31.72	2,072,083,282.17
Total profit	3,035,102,055.06	2,283,252,222.05	2,172,536,599.05	32.93	2,130,044,701.34
Net profit attributable to equity holders of the Company	2,042,238,482.84	1,456,194,794.72	1,368,252,869.36	40.24	1,296,789,536.20
Net profit after deduction of non-recurring profit and loss attributable to equity holders of the Company	1,424,034,687.07	1,096,766,336.00	1,096,766,336.00	29.84	221,599,553.32
Net cash flows from operating activities	1,772,438,011.82	2,210,790,425.47	1,686,087,803.47	-19.83	1,910,792,750.16

	End of 2011	End of 2010		Change compared to the end of last year (%)	End of 2009
		After adjustment	Before adjustment		
Total assets	47,667,822,923.30	30,163,471,580.16	28,169,020,175.36	58.03	21,874,563,387.59
Total liabilities	21,686,357,160.46	17,335,243,145.90	16,284,756,691.10	25.10	11,439,421,997.46
Equity interest attributable to equity holders of the Company	23,078,472,247.95	10,009,718,814.04	9,134,559,252.97	130.56	8,282,006,605.39
Share capital	2,688,910,538.00	1,992,643,338.00	1,992,643,338.00	34.94	569,172,884.00

Note: In May 2011, the Group increased the share capital of the Company by issuing 696,000,000 H shares, raising net proceeds of HKD15.49 billion, causing significant impact to various financial indicators of the Company.

Summary of Accounting Data and Business Data under the Chinese Accounting Standards for Business Enterprises

Unit: RMB

Major financial indicators	2011	2010		Change compared to the corresponding period last year (%)	2009
		After adjustment	Before adjustment		
Basic earnings per share (RMB per share)	0.8437	0.7308	0.6867	15.45	0.6508
Diluted earnings per share (RMB per share)	0.8437	0.7308	0.6867	15.45	0.6508
Basic earnings per share after deduction of non-recurring profit and loss (RMB per share)	0.5883	0.6068	0.6068	-3.05	0.3893
Weighted average return on net assets (%)	11.82	15.32	15.75	Decrease of 3.50 percentage points	16.90
Weighted average return on net assets after deduction of non-recurring profit and loss (%)	8.04	13.72	13.72	Decrease of 5.68 percentage points	12.60
Net cash flows from operating activities per share (RMB per share)	0.66	1.11	0.85	-40.54	0.96

	End of 2011	End of 2010		Change compared to the end of last year (%)	End of 2009
		(after adjustment)	(prior to adjustment)		
Net assets per share attributable to equity holders of the Company (RMB per share)	8.58	5.02	4.58	70.92	4.16
Gearing ratio (%)	45.49	57.47	57.81	Decrease of 11.98 percentage points	52.30%

Note: In this annual financial report, retrospective adjustments were made on the data from the 2010 financial statements as the Group acquired 96.9% equity interest in Shanghai New Asiatic Pharmaceutical Co., Ltd. and 100% equity interest in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. in 2011, which were common control combination. The data of 2009 are the opening balance and the balance from the previous year as extracted from the 2010 audited financial statements, and no retrospective adjustments were made.

(IV) NOTES ON THE DIFFERENCES BETWEEN CHINESE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("CAS") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

There is no difference of net profit or net asset between the financial statements prepared in accordance with CAS and HKFRS. Unless otherwise specified, the financial data and analyses contained in this annual report are extracted from the audited financial statements of the Company prepared in accordance with CAS.

Changes in Share Capital and Information about Shareholders

(I) SHARE CAPITAL AND PUBLIC FLOAT

As at 31 December 2011, the total share capital of the Group comprised 2,688,910,538 shares, in which 1,836,420,979 shares are shares without selling restrictions (1,070,527,059 A shares and 765,893,920 H shares). The Group has sufficient public float to comply with the minimum public float requirements set by the Securities Law of The People's Republic of China and the Hong Kong Listing Rules.

(II) CHANGES IN SHARE CAPITAL

1. Table of changes in share capital

Unit: share

		Before current change		Current increase or decrease (+, -)				After current change	
		Number of shares	Percentage (%)	Issue of new shares	Share distribution	Capital reserve fund into share capital	Others	Subtotal	Number of shares
									Percentage (%)
I.	Trade restricted shares	1,165,714,839	58.50				-313,225,280	-313,225,280	852,489,559
	1. State held shares								
	2. Shares held by state-owned legal persons	1,165,633,239	58.496				-313,225,280	-313,225,280	852,407,959
	3. Other domestically-held shares	81,600	0.004						81,600
	Including: shares held by domestic non state-owned legal persons	81,600	0.004						81,600
	Shares held by domestic natural persons								
	4. Foreign-held shares								
	Including: shares held by foreign legal persons								
	Shares held by foreign natural person								
II.	Shares without selling restrictions	826,928,499	41.50	696,267,200			313,225,280	1,009,492,480	1,836,420,979
	1. RMB common shares	826,928,499	41.50				243,598,560	243,598,560	1,070,527,059
	2. Domestically listed foreign shares								
	3. Overseas listed foreign shares			696,267,200			69,626,720	765,893,920	765,893,920
	4. Others								
III.	Total number of shares	1,992,643,338	100	696,267,200			0	696,267,200	2,688,910,538

Note: The Group issued 664,214,000 H Shares on 20 May 2011 and partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued) on 11 June 2011, thereby totally issuing 696,267,200 H Shares. At the same time, the state-owned shareholders with the obligation to reduce their shareholding reduced their shareholdings by a total of 69,626,720 A shares, which were converted into H shares on a one-for-one basis and were transferred to NSSF. At the end of the Reporting Period, the total share capital of the Group's H shares was 765,893,920 H shares.

Changes in Share Capital and Information about Shareholders

2. Changes in trade restricted shares

Name	Number of trade restricted shares at the beginning of the year	Number of shares with restriction released in the year	Increase in trade restricted shares in the year	Number of trade restricted shares at the end of the year	Reason for trade restriction	Expiry date for trade restriction
Shanghai Pharmaceutical (Group) Co., Ltd.	738,295,209	45,288,958	0	693,006,251	Committed not to transfer the shares in Shanghai Pharmaceutical held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring until 10 February 2013 (excluding the 56,917,288 originally non-trade restricted shares under 36-month voluntary lock-up)	10 February 2013
Shanghai Shangshi (Group) Co., Ltd.	169,028,205	9,626,497	0	159,401,708	Committed not to transfer the shares in Shanghai Pharmaceutical held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring until 10 February 2013	10 February 2013
Shanghai Shengrui Investment Co., Ltd.	172,206,550	172,206,550	0	0	Committed to a 12-month lock-up since the completion date of the major asset restructuring	/
Shenergy (Group) Co., Ltd.	86,103,275	86,103,275	0	0	Committed to a 12-month lock-up since the completion date of the major asset restructuring	/
海南中網投資管理有限公司 (Hainan Zhong Wang Investment and Management Company Limited)	81,600	0	0	81,600	The advanced consideration repayable to Shanghai Pharmaceutical (Group) in the share segregation reform remained outstanding	To be decided
Total	1,165,714,839	313,225,280	0	852,489,559	/	/

- Notes: 1. During the issue of H shares by the Group, Shanghai Pharmaceutical (Group), Shanghai Shangshi, Shanghai Shengrui and Shenergy Group, being State-owned shareholders with the obligation to reduce their shareholding, reduced their shareholding by 45,288,958 shares, 9,626,497 shares, 9,807,510 shares and 4,903,755 A shares (trade restricted shares) respectively, which were converted into H Shares on a one-for-one basis and transferred to NSSF.
2. The 162,399,040 shares and 81,199,520 A shares (trade restricted shares) held by Shanghai Shengrui and Shenergy Group respectively were available for listing and trading since 3 November 2011 upon the expiry of the trade restriction period.

Changes in Share Capital and Information about Shareholders

(III) ISSUE AND LISTING OF SECURITIES

1. Issue of securities over the last three years

Unit: share

Type of share and its derivative securities	Date of issue	Issue price	Volume of issue	Listing date	Number of shares approved for listing and trading	Date of termination for the transaction
Shares						
Non-public offer of ordinary A shares denominated in RMB	10 February 2010	RMB11.83	455,289,547	10 February 2013	455,289,547	/
Non-public offer of ordinary A shares denominated in RMB	10 February 2010	RMB11.83	169,028,205	10 February 2013	169,028,205	/
Public offer of H shares	20 May 2011	HK\$23	664,214,000	20 May 2011	664,214,000	/
Public offer of H shares	11 June 2011	HK\$23	32,053,200	11 June 2011	32,053,200	/

Notes: 1. The Group carried out two non-public public offers during the major asset restructuring on 10 February 2010:

- (1) An issue of 455,289,500 A shares of RMB11.83 each to Shanghai Pharmaceutical (Group) Co., Ltd. as the consideration for acquisition of the pharmaceutical assets valued at an aggregate of RMB5,386,075,300;
- (2) An issue of 169,028,200 A shares of RMB 11.83 each to Shanghai Shangshi (Group) Co., Ltd.. The proceeds of RMB1,999,603,700 was the consideration for acquisition of the pharmaceutical assets of Shanghai Industrial Investment (Holdings) Co., Ltd..

2. The Group issued 664,214,000 H shares on 20 May 2011 and partially exercised the Over-Allotment Option of the H shares (a total of 32,053,200 H shares were issued).

2. Change in the total number and structure of the shares of the Company

During the Reporting Period, the Group issued 664,214,000 H Shares on 20 May 2011 and partially exercised the Over-Allotment Option (pursuant to which additional 32,053,200 H Shares were issued) on 11 June 2011, thereby totally issuing 696,267,200 H Shares. At the same time, the state-owned shareholders with the obligation to reduce their shareholding reduced their shareholdings by a total of 69,626,720 A shares, which were converted into H shares on a one-for-one basis and were transferred to NSSF. At the end of the Reporting Period, the total share capital of the Group's H shares was 765,893,920 H shares.

3. Existing internal staff shares

As at the end of the Reporting Period, the Company has no internal staff shares.

Changes in Share Capital and Information about Shareholders

(IV) SHAREHOLDERS AND DE FACTO CONTROLLER

1. Number of shareholders and their shareholdings

Unit: share

Aggregate number of shareholders as at the end of 2011	116,122 (A shares); 3,624 (H shares)	Aggregate number of shareholders as at the end of the month preceding the release date of this annual report	117,435 (A shares); 3,567 (H shares)
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Shareholding of top ten shareholders							
Name	Nature	Shareholding percentage (%)	Total number of shares held	Increase/decrease in the Reporting Period	Number of trade restricted shares held	Number of pledged or frozen shares	Share class
HKSCC NOMINEES LIMITED	Foreign shareholder	28.42	764,231,020	764,231,020	0	Unknown	H shares
Shanghai Pharmaceutical (Group)	State-owned legal person shareholder	27.89	749,923,539	-45,288,958	693,006,251	13,648,772	A shares
Shanghai Shangshi	State-owned legal person shareholder	6.81	183,099,760	14,071,555	159,401,708	N.A.	A shares
Shanghai Shengrui	State-owned legal person shareholder	6.04	162,399,040	-9,807,510	0	N.A.	A shares
Shenergy Group	State-owned legal person shareholder	3.02	81,199,520	-4,903,755	0	N.A.	A shares
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	Others	1.15	30,848,087	15,094,681	0	Unknown	A shares
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund		1.00	26,999,568		0	Unknown	A shares
New China Life Company Limited – Bonus – Individual Bonus – 018L – FH002 SH	Others	0.36	9,605,764		0	Unknown	A shares
Agricultural Bank of China – INVESCO Great Wall Resource Monopolies Equity Securities Investment Fund	Others	0.34	9,200,930		0	Unknown	A shares
Taiping Life Insurance Company Limited – Bonus – Team Bonus	Others	0.32	8,717,325		0	Unknown	A shares

Changes in Share Capital and Information about Shareholders

Shareholdings of top ten shareholders holding shares without trade restrictions		
Name of shareholders holding shares without trade restrictions	Number of shares without trade restrictions held	Share class
HKSCC NOMINEES LIMITED	764,231,020	H shares
Shanghai Shengrui	162,399,040	A shares
Shenergy Group	81,199,520	A shares
Shanghai Pharmaceutical (Group)	56,917,288	A shares
China Life Insurance Company Ltd. – Bonus – Individual Bonus – 005L – FH002 SH	30,848,087	A shares
Bank of Communications – Bosera Emerging Growth Equity Securities Investment Fund	26,999,568	A shares
Shanghai Shangshi (Group) Co., Ltd	23,698,052	A shares
New China Life Company Limited Bonus – Individual Bonus – 018L – FH002 SH	9,605,764	A shares
Agricultural Bank of China – INVESCO Great Wall Resource Monopolies Equity Securities Investment Fund	9,200,930	A shares
Taiping Life Insurance Company Limited – Bonus – Team Bonus	8,717,325	A shares
Note on affiliation or concerted actions of the above shareholders	Shanghai Shangshi (Group) Co., Ltd is the controlling shareholder of Shanghai Pharmaceutical (Group) Co., Ltd. The Company is not aware of any affiliation among other shareholders or whether they are persons acting in concert as stipulated under the Administrative Measures on Disclosure of Changes to Shareholding of Listed Companies.	

Shareholdings of top ten shareholders holding shares with trade restrictions and the terms of restriction

Unit: share

Number	Name of shareholders holding shares with trade restrictions	Number of shares with trade restrictions held	The listing and trading of the shares with trade restrictions		Terms of trade restrictions
			Time available for listing and trading	Number of additional shares available for listing and trading	
1	Shanghai Pharmaceutical (Group)	693,006,251	10 February 2013	0	Committed not to transfer the shares in Shanghai Pharmaceutical held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring (excluding the 56,917,288 originally non-trade restricted shares under 36-month voluntary lock-up)
2	Shanghai Shangshi	159,401,708	10 February 2013	0	Committed not to transfer the shares in Shanghai Pharmaceutical held by it during the 36 months since the completion date of the non-public offer related to the major asset restructuring
3	海南中網投資管理有限公司 (Hainan Zhong Wang Investment and Management Company Limited)	81,600	To be decided	0	The advanced consideration repayable to Shanghai Pharmaceutical (Group) in the share segregation reform remained outstanding

Changes in Share Capital and Information about Shareholders

Strategic investors or normal legal persons becoming top ten shareholders as a result of the placement of shares

Name of strategic investor or normal legal person	Beginning date of agreed-upon shareholding	Ending date of agreed-upon shareholding
Maxwell (Mauritius) Pte Ltd	20 May 2011	/
Guoco Management Co. Ltd.	20 May 2011	/
GuoLine Capital Limited	20 May 2011	/
Pfizer Corporation Hong Kong Limited	20 May 2011	/
Bank of China Group Investment Limited	20 May 2011	/

Note: The above shareholders were cornerstone investors that invested during the H share offer of the Group, in which Temasek Holdings (Private) Limited of Singapore invested USD300 million through its wholly-owned subsidiary Maxwell (Mauritius) Pte Ltd; Hong Leong Group of Malaysia invested USD100 million and USD50 million through its subsidiaries Guoco Management Co. Ltd. and GuoLine Capital Limited respectively; Pfizer Inc. of USA invested USD50 million through its wholly-owned subsidiary Pfizer Corporation Hong Kong Limited; Bank of China invested USD50 million through its wholly-owned subsidiary Bank of China Group Investment Limited. The above shareholders are registered under HKSCC NOMINEES LIMITED.

2. Controlling shareholders and de facto controller

Legal person

Unit: HK\$

Name	Shanghai Industrial Investment (Holdings) Co., Ltd.
Responsible person of the unit or legal representative	Teng Yilong
Date of establishment	17 July 1981
Registered capital	10,000,000
Principal business or managing activities	The group actively explores the industry of innovative technology and keeps upgrading the existing conventional industries, and a number of leading industry segments including pharmaceutical products, real estate and infrastructure have emerged. The scope of business also extends to financial investment and the production of consumer goods.

Unit: RMB

Name	Shanghai Shangshi (Group) Co., Ltd.
Responsible person of the unit or legal representative	Teng Yilong
Date of establishment	20 August 1996
Registered capital	1,859,000,000
Principal business or managing activities	Investment in industries, production and sales of pharmaceutical products and equipment, domestic wholesale and retail and the import and export business approved by the Ministry of Foreign Trade and Economic Cooperation

Changes in Share Capital and Information about Shareholders

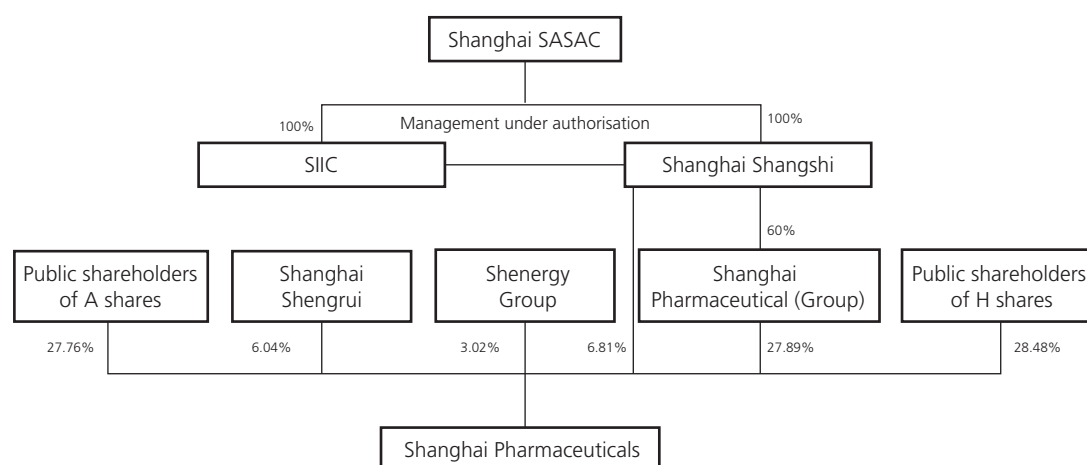
Unit: RMB

Name	Shanghai Pharmaceutical (Group) Co., Ltd.
Responsible person of the unit or legal representative	Lu Mingfang
Date of establishment	4 November 1996
Registered capital	3,158,720,000
Principal business or managing activities	Investment in industries, production and sales of pharmaceutical products and equipment, domestic wholesale and retail and the import and export business approved by the Ministry of Foreign Trade and Economic Cooperation

3. Change in controlling shareholders and de facto controller

There was no change in controlling shareholders and de facto controller during the Reporting Period.

4. The chart of ownership and control relationship between the Company and the de facto controller



5. Other legal person shareholders with 10% or more shareholding

Save as disclosed in the annual report, as at the end of the Reporting Period, there was no other legal person shareholder with 10% or more shareholding.

(V) DISCLOSURE OF INTERESTS AS REQUIRED BY THE SFO

1. Directors' interests are set out in the subsection headed "Changes in shareholdings and remunerations of directors, supervisors and senior management" below.
2. Interests and short positions of substantial shareholders and other persons in the Shares and underlying shares.

Changes in Share Capital and Information about Shareholders

As at 31 December 2011, the following shareholders had interests and 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 Securities and Futures Ordinance or were directly or indirectly interested in 5% or more of the voting rights at the general meetings of the Company:

Name of shareholder	Share class	Nature of shareholding interest	Number of Shares	Percentage of H Shares/domestic Shares held at the end of the Reporting Period to the entire issued H Shares/ domestic Shares (%)	Percentage in total share capital of the Group at the end of the Reporting Period (%)
SIIC	Domestic Shares	Interest of controlled corporation	933,023,299	48.52	34.70
Shanghai Shangshi	Domestic Shares	Beneficial owner/Interest of controlled corporation	933,023,299	48.52	34.70
Shanghai Pharmaceutical (Group)	Domestic Shares	Beneficial owner	749,923,539	39.00	27.89
Shanghai Guosheng	Domestic Shares	Interest of controlled corporation	162,399,040	8.45	6.04
Shanghai Shengrui	Domestic Shares	Beneficial owner	162,399,040	8.45	6.04
Temasek Holdings (Private) Limited	H Shares	Interest of controlled corporation	124,023,800(L)	16.19(L)	4.61
Credit Suisse (Hong Kong) Limited	H Shares	Interest 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	Interest of controlled corporation	99,632,100(L) 99,632,100(S)	13.01(L) 13.01(S)	3.71(L) 3.71(S)
T. Rowe Price Associates, Inc. and its affiliates	H Shares	Investment Manager	76,819,979(L)	10.03(L)	2.86
JPMorgan Chase & Co.	H Shares	Investment Manager/ Custodian/approved lending agent	72,492,116(L) 0(S) 71,453,616(P)	9.47(L) 0.00(S) 9.33(P)	2.70(L) 0.00(S) 2.66(P)
National Council for Social Security Fund	H Shares	Beneficial owner	66,633,400(L)	8.70(L)	2.48
Morgan Stanley	H Shares	Interest of controlled corporation	47,987,060(L) 805,560(S)	6.27(L) 0.11(S)	1.78(L) 0.03(S)

Changes in Share Capital and Information about Shareholders

- Notes: 1. In the table above, (L) represents long position, (S) represents short position, (P) represents shares in lending pool
2. SIIC is a wholly-owned subsidiary of the Shanghai SASAC. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate Shanghai Overseas Companies, its Major Overseas Companies and the State-owned Assets under Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] Document No.6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC held 943,431,199 Shares of the Company in total (including A Shares and H Shares), of which, 10,407,900 H Shares were held by SIIC through its wholly-owned subsidiaries, while 933,023,299 A Shares were indirectly held by SIIC through Shanghai Shangshi.
 3. Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. 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, of the 933,023,299 A Shares of the Company held by Shanghai Shangshi, 183,099,760 Shares were directly held by Shanghai Shangshi, while 749,923,539 Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).
 4. 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 in the Company through Shanghai Shengrui.
 5. Figures disclosed in the table above are based on the information provided in the website of the Hong Kong Stock Exchange (www.hkexnews.hk).
 6. With respect to the H shareholders listed in the table above, the latest number of Shares held by Credit Suisse (Hong Kong) Limited, Credit Suisse AG and National Council for Social Security Fund was updated to 20 May 2011, while the latest number of Shares held by the remaining H shareholders was updated to or after 22 August 2011.
 7. Save as disclosed above, as at 31 December 2011, the Company was not aware that there was any other person (other than the directors or the President 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 has no provisions on mandatory pre-emptive rights. According to the Articles of Association, the Company may increase its registered capital by way of public offering, rights issue to existing shareholders or bonus issue to existing shareholders or by other means permitted by laws and administrative regulations.

(VII) PURCHASE, SALE AND REDEMPTION OF SHARES

During the Reporting Period, none of the Company and its subsidiaries purchased, sold or redeemed any listed Shares of the Company.

Directors, Supervisors and Senior Management

(I) BIOGRAPHICAL DETAILS OF DIRECTORS

During the Reporting Period, the Board consists of nine directors, comprising three executive directors, two non-executive directors and four independent non-executive directors. The directors were all elected by the shareholders of the Company for a term of three years (from 31 March 2010 to 31 March 2013), which is renewable upon re-election.

Mr. Lu Mingfang, born in March 1957, a master in economics from Fudan University and a master in professional accountancy from the Chinese University of Hong Kong, senior economist. He joined the Group in December 2008 and is the Chairman and executive director of the Group and director of the Group's subsidiaries during the Reporting Period (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). Mr. Lu has been a director of Shanghai Shangshi since January 2010, vice chairman of China Pharmaceutical Industry Association since March 2009, vice chairman of China Pharmaceutical Enterprises Association since January 2009, chairman and executive director of Shanghai Pharmaceutical (Group) since December 2008, executive director of SIIC since September 2005, and executive director of Shanghai Industrial Holdings (a company listed on the Hong Kong Stock Exchange with stock code 0363) since January 2002. His previous positions included director and general manager of Shanghai Industrial United Holdings Co., Ltd., vice president of SIIC, chief executive officer of Shanghai Industrial Holdings, chairman of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and chairman of Shanghai Pharmaceutical Co., Ltd..

Mr. Zhang Jialin, born in May 1955, a master majoring in management engineering from China Textile University, senior economist. He joined the Group in October 2008. He is vice chairman and executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Zhang has been the vice chairman and president of Shanghai Pharmaceutical (Group) since June 2010 and July 2010, respectively. His previous positions included deputy director and director of the supply department of Shanghai Pharmaceutical Administration Bureau, vice manager and manager of Shanghai Pharmaceutical Materials Supply and Marketing Co., head of the department of organization, president assistant and vice president of Shanghai Pharmaceutical (Group) Corporation, and executive vice president of Shanghai Pharmaceutical (Group).

Mr. Lu Shen, born in August 1956, a bachelor in radio electronics from Shanghai University of Science and Technology and a master in business administration from Shanghai Jiao Tong University, senior economist. He joined the Group in March 2010. He is a non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Lu has been the chairman of Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748) since July 2008 and the vice president of SIIC since September 2005. His previous positions included chairman of the City Hotel Shanghai, director and deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., director and general manager of Shanghai Industrial United Holdings Co., Ltd., and president and vice chairman of Shanghai Industrial Development Co., Ltd..

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

Directors, Supervisors and Senior Management

Mr. Zeng Yixin, born in October 1962, a bachelor in medicines from the Department of Medicine of Hunan Hengyang Medical College and a master and doctorate from the Sun Yat-Sen Medical University (currently known as Sun Yat-Sen University), a professor, Ph.D. supervisor and academician in the Chinese Academy of Sciences. He joined the Group in March 2010. He is an independent non-executive director of the Group during the Reporting Period and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Zeng has been the president of Peking Union Medical College since January 2012; the director of the national key laboratory in oncology in south China since March 2006; an academician in, a standing committee member of, deputy director and the head of medical group of the Department of Life Science and Medicine of the Chinese Academy of Sciences since November 2005, June 2006 and June 2008, respectively; and the director of the Cancer Center of, the president of the affiliated cancer hospital of, and head of the cancer institute of Sun Yat-Sen University since September 1997. His previous positions included attending physician and research assistant of Guangdong People's Hospital, associate of Howard Hughes Medicine Institute of the School of Medicine of the University of Pennsylvania, and vice president of the affiliated cancer hospital of Sun Yat-Sen University.

Mr. Bai Huiliang, born in October 1943, an undergraduate in organic chemistry from Beijing University of Technology, senior engineer. He joined the Group in March 2010. He is an independent non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Bai has been the president of the China Nonprescription Medicines Association since August 2009; an independent non-executive director of Gansu Duiyue Biological Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 002219) since December 2006, of Sihuan Pharmaceutical Holdings Group Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 0460) since October 2010 and of Shandong Xinhua Pharmaceutical Company Limited (a company listed on the Shenzhen Stock Exchange with stock code 000756) since December 2011; the vice president of the China Pharmaceutical Industry Association since November 2005; and the vice president of the China Pharmaceutical Enterprises Association since March 2005. His previous positions included director of department of safety supervision of SFDA, visiting researcher at the China Center for Pharmacoeconomics and Outcomes Research of Peking University, and executive vice president of the China Nonprescription Medicines Association.

Mr. Chen Naiwei, born in August 1957, a bachelor in economic law from East China University of Political Science and Law and a doctorate in civil and commerce law from Macau University of Science and Technology, a professor of law and a PRC practicing lawyer. He joined the Group in March 2010. He is an independent non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Chen has been the vice president of China Law Association on Science and Technology since October 2010; an independent non-executive director of ZTE Corporation (a company listed on the Hong Kong Stock Exchange with stock code 0763 and on the Shenzhen Stock Exchange with the stock code 000063) since July 2009 and August 2010; an independent non-executive director of Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange with the stock code 300129) since December 2012; a director of All China Lawyers Association since October 2008; the vice president of the Shanghai Bar Association since April 2008; an 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; a professor of law at Fudan University since August 2004; an arbitrator of the Court of Arbitration for Sport of the International Olympics Committee since December 2002; an arbitrator of Shanghai Arbitration Commission since October 1999; and a senior partner of Albright 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 the Shanghai Jiao Tong University.

Directors, Supervisors and Senior Management

Ms. Tommei Tong, born in January 1965, a bachelor from the University of Hong Kong, senior member of the Chartered Association of Certified Accountants and of Hong Kong Institute of Certified Public Accountants. She joined the Group in March 2010. She is an independent non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. Ms. Tong has been an independent non-executive director of MGM China Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 2282) since June 2011. Her previous positions include the chief financial officer of Ping An Insurance (Group) Company of China, Ltd. (a company listed on the Shanghai Stock Exchange with stock code 601318 and on the Hong Kong Stock Exchange with stock code 2318), chief executive officer and executive director of Tom Group Limited (which is listed on the Hong Kong Stock Exchange with stock code 2383 and is an associated company of Hutchison Whampoa Limited).

Mr. Jiang Ming, born in September 1957, a bachelor in history from Fudan University, economist. He joined the Group in March 2010. He is a non-executive director of the Group and holds no concurrent office of director in any of the Group's subsidiaries. He has been the vice president of Shanghai Guosheng since May 2008. His previous positions included member of the organization department of the Shanghai Municipal Committee of the Communist Party of China, the general manager of the securities business department of China Rural Development and Trust Investment Corporation, the general manager of the securities business department of China Xinda Trust and Investment Corporation, the deputy general manager and general manager of the Shanghai headquarters of China Galaxy Securities Co., Ltd..

The Group has received the annual confirmation letter issued by each of the four independent non-executive directors comprising Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei and Ms. Tommei Tong 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) BIOGRAPHICAL DETAILS OF THE SUPERVISORS

During the Reporting Period, the board of supervisors of the Company consists of three members. Except for the employee representative supervisor who was elected by employees, the other supervisors were elected by the shareholders of the Company for a term of three years (from 31 March 2010 to 31 March 2013), which is renewable upon re-election.

Mr. Zhou Jie, born in December 1967, a master in engineering from Shanghai Jiao Tong University. He was appointed as our chief supervisor in March 2010 and is the director of the Group's subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). Mr. Zhou has been the non-executive director of Semiconductor Manufacturing International Corporation (a company listed on the Hong Kong Stock Exchange with stock code 0981 and the NYSE under the ticker symbol "SMI") since January 2009; has been the executive director and executive vice president of SIIC since May 2008 and November 2007, respectively; and has been reappointed as the executive director and deputy chief executive officer of Shanghai Industrial Holdings (a company listed on the Hong Kong Stock Exchange with stock code 0363) since November 2007. His previous positions included chairman and general manager of Shanghai SIIC Asset Management Co., Ltd..

Directors, Supervisors and Senior Management

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

Mr. Wu Junhao, born in June 1965, a master in management from East China Normal University, economist. He was appointed as our supervisor in March 2010 and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Wu has been the manager of the finance management department of Shenergy Group since April 2011, and a supervisor of China Everbright Bank Co., Ltd. since November 2009. His previous positions included the deputy principal of Shanghai Shenergy Assets Management Co., Ltd., and deputy principal, principal and senior principal of assets management department and vice manager (in charge) of the financial management department of Shenergy (Group) Co., Ltd..

(III) BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

Our senior management consists of six members, appointed by the Board for a term of three years (from 31 March 2010 to 31 March 2013), which is renewable upon reappointment by the Board.

Mr. Xu Guoxiong is our president. Please refer to the subsection headed "Biographical Details of Directors".

Mr. Jiang Yuanying, born in January 1963, a master in pharmacology from the Department of Navy Medicine of the Second Military Medical University ("SMMU"), a professor of pharmacology and Ph.D. supervisor, is our vice president and holds no concurrent office of director in any of the Group's subsidiaries. Mr. Jiang has been the vice chairman of the Shanghai Pharmaceutical Association since December 2001. His previous positions included vice president and president of the school of pharmacy of the SMMU.

Mr. Ren Jian, born in March 1965, a bachelor in inorganic materials from the East China Institute of Chemical Technology and an executive master of business administration from the China Europe International Business School, engineer, is our vice president and is the director of the Group's subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). His previous positions included director of human resources department of, director of organization department of, director of leader management department of, and a vice president of Shanghai Pharmaceutical (Group) Co., Ltd..

Directors, Supervisors and Senior Management

Mr. Li Yongzhong, born in February 1970, an undergraduate in international finance from Shanghai Institute of Foreign Trade and an executive master of business administration from the China Europe International Business School, pharmacist, is our vice president and director of the Group's subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). His previous positions included deputy manager of the New Drug Branch of, deputy general manager and general manager of pharmaceutical distribution business department of, and general manager assistant and deputy general manager of Shanghai Pharmaceutical Joint Stock Company.

Mr. Shen Bo, born in March 1973, a bachelor majoring in accounting from the Shanghai Institute of Construction Materials Industry and a master in professional accountancy from the Chinese University of Hong Kong, has passed the PRC Certified Public Accountants exam, is our chief financial officer and director of the Group's subsidiaries (see "Employment of directors, supervisors and senior management in the subsidiaries of the Group" below). His previous positions included deputy manager of the finance department of Shanghai Jinling Co., Ltd., chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd..

Ms. Han Min, born in January 1977, a bachelor in economics from the Shanghai University and a master majoring in finance and investment from the Business School of the University of Nottingham, having passed the PRC Certified Public Accountants exam, is our secretary to the Board and joint company secretary and holds no concurrent office of director in any of the Group's subsidiaries. Her previous positions included deputy general manager of investment banking department of China International Capital Corporation Limited, manager of the risk control department of the China Construction Bank Shanghai Branch.

(IV) EMPLOYMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHAREHOLDER COMPANIES

Name	Shareholder company name	Position	Starting date of service	Expiry date of service	Receiving remuneration and compensation or not
Lu Mingfang	Shanghai Pharmaceutical (Group)	Chairman	28 December 2008	—	No
Zhang Jialin	Shanghai Pharmaceutical (Group)	President	28 July 2010	—	Yes

Directors, Supervisors and Senior Management

Employment of directors, supervisors and senior management in the subsidiaries of the Group

Name	Organization name	Position	Starting date of service	Expiry date of service	Receiving remuneration and compensation or not
Lu Mingfang	Shanghai Pharmaceuticals Distribution Co., Ltd.	Chairman	December 2008	–	No
Lu Mingfang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	January 2010	–	No
Lu Mingfang	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	January 2010	–	No
Lu Mingfang	Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	April 2011	–	No
Xu Guoxiong	Shanghai No.1 Biochemical Pharmaceutical Co., Ltd.	Chairman	October 2007	–	No
Xu Guoxiong	Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	December 2008	–	No
Xu Guoxiong	Changzhou Pharmaceutical Co., Ltd.	Chairman	November 2009	–	No
Zhou Jie	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2002	–	No
Ren Jian	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	June 2010	–	No
Ren Jian	Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Chairman	December 2010	–	No
Ren Jian	Liaoning Herbapec Pharmaceutical (Group) Co., Ltd.	Chairman	February 2011	–	No
Li Yongzhong	Ningbo Pharmaceutical Co., Ltd.	Director	September 2004	November 2011	No
Li Yongzhong	上海上醫新特藥商店有限公司 (Shanghai Shang Yi New and Special Drugs Pharmacy Co., Ltd.)	Chairman	April 2006	–	No
Li Yongzhong	Qingdao Fahrenheit Growful Pharmaceutical Co., Ltd.	Director	June 2007	December 2011	No
Li Yongzhong	Shanghai Suzuken Huzhong Pharmaceutical Co., Ltd.	Director	March 2008	February 2012	No
Li Yongzhong	Shanghai Pharmaceuticals Distribution Co., Ltd.	Director	April 2010	–	No
Li Yongzhong	Guangzhou Z.S.Y. Pharmaceutical Co., Ltd.	Chairman	September 2010	–	No
Li Yongzhong	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	September 2010	–	No
Li Yongzhong	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	February 2011	–	No
Li Yongzhong	Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	–	No
Shen Bo	Changzhou Pharmaceutical Co., Ltd.	Director	March 2010	–	No
Shen Bo	Shanghai Pharmaceuticals Distribution Co., Ltd.	Supervisor	April 2010	–	No
Shen Bo	Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	–	No
Shen Bo	Shanghai Medical Instrument Co., Ltd.	Chairman	April 2011	–	No

Note: Overseas companies set up for special purposes are not included above.

Directors, Supervisors and Senior Management

(V) INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in shareholdings and remunerations of directors, supervisors and senior management

Unit: share

Name	Position	Gender	Age	Starting date of service	Expiry date of service	Shares held at the beginning of the year (A share)	Shares held at the end of the year (A share)	Reasons for changes	Total remuneration paid by company during the Reporting Period (RMB0,000) (before tax)	Receiving remuneration and compensation from shareholder companies or other connected company or not
Lu Mingfang	Chairman	male	55	31 March 2010	31 March 2013	37,674	37,674		0	Yes
Zhang Jialin	Vice Chairman	male	56	31 March 2010	31 March 2013	0	0		0	Yes
Lu Shen	Director	male	56	31 March 2010	31 March 2013	6,440	6,440		0	Yes
Xu Guoxiong	Director, President	male	56	31 March 2010	31 March 2013	0	38,900	note 1	306.22	No
Zeng Yixin	Independent Director	male	50	31 March 2010	31 March 2013	0	0		11.5	No
Bai Huiliang	Independent Director	male	69	31 March 2010	31 March 2013	0	0		11.5	No
Chen Naiwei	Independent Director	male	55	31 March 2010	31 March 2013	0	0		11.5	No
Tommei Tong	Independent Director	Female	47	31 March 2010	31 March 2013	0	0		11.5	No
Jiang Ming	Director	male	55	31 March 2010	31 March 2013	0	0		0	No
Zhou Jie	Chief Supervisor	male	45	31 March 2010	31 March 2013	0	0		0	Yes
Chen Xin	Employee supervisor	Female	49	31 March 2010	31 March 2013	0	0		0	Yes
Wu Junhao	Supervisor	male	47	31 March 2010	31 March 2013	0	0		0	No
Jiang Yuanying	Vice president	male	49	7 June 2010	31 March 2013	0	8,000	note 1	73.54	No
Ren Jian	Vice president	male	47	31 March 2010	31 March 2013	0	20,000	note 1	171.55	No
Ge Jianqiu	Vice president	male	42	31 March 2010	30 November 2011	0	21,000	note 1	180.95	No
Li Yongzhong	Vice president	male	41	31 March 2010	31 March 2013	0	20,500	note 1	171.55	No
Shen Bo	Chief financial officer	male	39	31 March 2010	31 March 2013	0	21,400	note 1	176.65	No
Han Min	Board Secretary	Female	35	8 September 2010	31 March 2013	0	12,000	note 1	100.30	No
Total	/	/	/	/	/	44,114	185,914	/	1,226.76	/

Note: 1. According to the undertaking on arrangement of annual performance bonus of senior management of the Group which is disclosed in the H share prospectus, senior management of the Group purchased A shares of the Group by using 50% of their annual performance bonus for 2010 received in 2011 through open market trades.

2. The Group has no share incentive plan during the Reporting Period.

Directors, Supervisors and Senior Management

2. Save as disclosed in this report, none of the directors, supervisors and the senior management of the Company has any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which should be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which are taken to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise should be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

(VI) CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change situation	Reasons for changes
Ge Jianqiu	Vice president	Left office	Voluntary resignation

During the Reporting Period, Mr. Ge Jianqiu, former vice president of the Company, resigned for personal reasons and ceased to perform the relevant duties in the Group and the related enterprises since 1 December 2011.

(VII) SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

None of the directors or the supervisors had entered into a service contract which is not terminable within one year without payment of compensation (other than statutory compensation).

(VIII) REMUNERATIONS OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Procedure for determining the remunerations of directors, supervisors and senior management	The remuneration committee considers and recommends to the Board the remunerations and other benefits to be paid to the directors by the Group. The remunerations of the directors and supervisors are resolved at the general meeting. The remunerations of all directors are monitored regularly by the remuneration committee to ensure an appropriate level of remuneration and compensation. The remunerations of the senior management is provided in accordance with the remuneration system for the senior management of the Group, which is implemented by the remuneration and assessment committee.
Determination criteria for the remunerations of directors, supervisors and senior management	The Group has a well-established assessment mechanism to carry out assessment. Assessment is conducted according to the relevant administrative measures on annual assessment on the responsibility in operation, with reference to indicator systems including core indicators, operating indicators and control indicators.
Actual payment of remunerations to directors, supervisors and senior management	The actual payment of remunerations to directors, supervisors and senior management amounted to RMB12,267,600 in 2011. The Company determines the remunerations of the directors and supervisors with reference to their qualifications, experiences and contributions.

Directors, Supervisors and Senior Management

(IX) FIVE HIGHEST PAID INDIVIDUALS

The remunerations for the five highest paid individuals during the relevant period are as follows:

	For the year ended 31 December 2011 RMB'000
Wages and salaries	3,103
Bonus	11,191
Pension contribution by the employer	320
	14,614

Remuneration bands

	For the year ended 31 December 2011 No. of persons
Remuneration bands (HKD)	
HKD500,001 – HKD 1,000,000	–
HKD1,000,001 – HKD1,500,000	–
HKD2,500,001 – HKD3,000,000	1
HKD3,000,001 – HKD3,500,000	1
HKD3,500,001 – HKD4,000,000	1
HKD4,000,001 – HKD4,500,000	2

During 2011, the Group has not paid any award for joining the Group or as compensation for the loss of office to any directors or the above five highest paid individuals. None of the directors had waived or agreed to waive the above remunerations.

(X) EMPLOYEES OF THE COMPANY

Total number of current employees	37,249
The number of retired employees whose expenses are borne by the Company	101
Composition of professions	
Type of profession	Number of staff in the profession
Management staff	3,617
Research and development staff	3,491
Production management staff	13,626
Sales and marketing staff	14,688
Other	1,827
Education level	
Type of education level	Number of persons
PhD	54
Master	535
University graduate	4,839
College graduate	9,348
Specialized secondary school graduate (high school)	13,599
Below specialized secondary school graduate	8,874

(XI) REMUNERATION POLICY AND LONG-TERM INCENTIVE SCHEME OF THE GROUP

The Group has established the performance appraisal system and the incentive and control system based on performance, duties and responsibilities and capability. The Management Measures on Remunerations of the Senior Management, the Management Measures on Appraisal of Operating Responsibility of Subsidiaries and the Management Measures on Appraisal and Remunerations of Management, Research and Development, Marketing and Production Staff were established. These measures helped to motivate the working incentive and creativity of all employees, continually improved the Company's results and procured the achievement of the Company's strategic goal.

The remuneration and compensation package of the employees includes salary and bonus, as well as pension, medical and housing contribution fund, labour insurance and other benefits. The Group participated in various employee welfare schemes organized by the provincial and municipal governments in accordance with the relevant regulations in China, such as pension, medical and housing contribution fund, maternity and unemployment insurance.

Corporate Governance Report

(I) CORPORATE GOVERNANCE STRUCTURE

To meet the regulatory requirements from domestic and overseas capital markets, the Group made amendments to the Articles of Association, the rules of procedure of general meetings, the Board of Directors and the board of supervisors, the rules of procedure for office meetings of the president, the implementation rules of the audit committee of the Board of Directors, the management system on information disclosure and the management system on connected transactions, and formulated and approved a series of corporate governance documents including the management system on guarantees, the management system on investor relations and the work rules of the secretary to the Board on a timely basis during the Reporting Period.

Except for the issue concerning the notice of general meeting mentioned below, as at 31 December 2011, the Group has abided by the principles and all of the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Hong Kong Listing Rule. In addition, during the Reporting Period, the Group has also complied with laws and regulations such as the Company Law of the PRC, the Securities Law of the PRC and the Standards on Corporate Governance of Listed Companies.

1. Securities transactions by directors and supervisors

The Group has adopted all provisions in the Model Code for Securities Transactions of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules to regulate the securities transactions by directors and supervisors. Having made specific enquiries to directors and supervisors, the Group confirmed that all directors and supervisors complied with the requirements of the Model Code for Securities Transactions of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules on securities transactions by directors and supervisors during the Reporting Period.

2. Composition of the Board

During the Reporting Period, the Board comprised nine directors, namely executive directors Mr. Lu Mingfang, Mr. Zhang Jialin and Mr. Xu Guoxiong; non-executive directors Mr. Lu Shen and Mr. Jiang Ming; and independent non-executive directors Mr. Zeng Yixin, Mr. Bai Huiliang, Mr. Chen Naiwei and Ms. Tommei Tong. The biographical details of the directors are set out in the section headed "Directors, Supervisors and Senior Management" herein.

As far as the Company is aware, none of members of the Board, the Chairman and the President had any connection with each other in respect of finance, business or family or any relationship of material nature.

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

3. Primary duties of the Board

The Group has complied with the Code on Corporate Governance define respective roles of the Chairman and the President. Mr. Lu Mingfang is the Chairman and Mr. Xu Guoxiong is the President of the Group. Meanwhile, with a view to differentiating the duties of the Board and the management, the Board is responsible for guiding and effectively monitoring the management, whilst the management is responsible for implementing the established strategies and policies. Pursuant to the Articles of Association, the specific duties of the Board of the Group include:

- to convene general meetings and report to the meetings;
- to implement the resolutions passed at the general meetings;
- to decide on the operational plan and investment scheme of the Company;
- to prepare the Company's annual financial budget and final accounts;
- to prepare the Company's profit distribution plan and loss recovery plan;
- to prepare proposals for increases or reductions of the Company's registered capital and for the issuance and listing of corporate bonds or other securities;
- to prepare plans for material acquisition, share repurchase, merger, division, dissolution or change in corporate form;
- save as otherwise specified in the laws, administrative regulations, department rules, requirements of securities regulatory authorities of the jurisdiction where the Company's shares are listed or the Articles of Association, to decide on disposal of assets of the Company and its controlled subsidiaries other than those subject to approval by general meetings, to decide on disposal of assets between the Company and its controlled subsidiaries or between the controlled subsidiaries, and to decide on merger or division of the controlled subsidiaries;
- to decide on the establishment of the Company's internal management structure;
- to appoint or dismiss the Company's President and the secretary to the Board; and according to nominations by the President, to appoint or dismiss senior officers including vice presidents and chief financial officer of the Company and to decide on their remuneration, rewards and penalties;
- to establish the Company's basic management systems;
- to prepare proposals for amendments to the Articles of Association;
- to manage the information disclosure of the Company;
- to propose to the general meeting for appointment or replacement of the audit firms of the Company;

Corporate Governance Report

- to receive work report submitted by the President and to review his work performance;
- to exercise other duties and powers specified in the laws, administrative regulations, department rules or the Articles of Association and conferred by the shareholders at general meetings.

In order to meet the requirements of the revised Code on Corporate Governance in Appendix 14 to the Hong Kong Listing Rules which came into effect on 1 April 2012, the Company proposed to add “The Performance of Corporate Governance Function” in “The Powers Exercised by the Board” in the Articles of Association and to add the following to the Rules of Procedure of the Board of Directors: “The Board should carry out corporate governance function, including but not limited to considering the Company’s corporate governance policies and their implementation; reviewing and supervising the training and career development of directors and senior management; reviewing and supervising the Company’s compliance policies and their implementation; formulating, reviewing and supervising the code of conduct applicable to the employees and directors of the Company and its compliance; reviewing the Company’s compliance on the relevant laws, regulations and rules related to corporate governance and disclosing the same in the corporate governance report”. The above amendments have been considered and passed by the Board and will be proposed for approval at the general meeting.

4. Board meetings

Pursuant to the rules of procedure of the Board of Directors, regular meetings of the Board shall be held at least four times 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 held a total of 9 meetings, at which proposals were considered in relation to the Company’s business results, global offering and listing, formation of and amendments to corporate policies, guarantee plan for 2011, credit facilities for 2011, establishment of subsidiaries and capital increase, etc.. Attendance details of directors at the board meetings are set out in the paragraph headed “Duty Performance of Directors”.

5. Remuneration and assessment committee

During the Reporting Period, the remuneration and assessment committee under the Board consists of three directors, namely Mr. Chen Naiwei, who acts as its convener/chairman, Mr. Zeng Yixin and Mr. Bai Huiliang. It is a special body established under the Board, mainly responsible for formulating the performance assessment standards on directors, the President and other senior management members of the Company and implementing such assessment, and formulating and reviewing the remuneration policies and proposal for directors, the President and other senior management members.

During the Reporting Period, the remuneration and assessment committee held a total of three meetings, at which the performance assessment report on senior management for 2010 and the proposal for assessment on management responsibilities for 2011 were considered. Set out below is the attendance of the members during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Chen Naiwei	3/3	100%
Mr. Zeng Yixin	3/3	100%
Mr. Bai Huiliang	3/3	100%

6. Audit committee

During the Reporting Period, the audit committee under the Board consists of three directors, namely Ms. Tommei Tong, who acts as its convener/chairwoman, Mr. Bai Huiliang and Mr. Chen Naiwei. It is a special body established under the Board, mainly responsible for communication, supervision and review of the internal and external audit of the Company.

During the Reporting Period, the audit committee held a total of six meetings, at which matters were considered in relation to the Company's business results, inspection report and self-assessment report on internal control for 2010, summary of internal audit findings for 2011 and internal audit plan for 2012, audit schedule on financial report for 2011, etc.. Set out below is the attendance of the members during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Ms. Tommei Tong	6/6	100%
Mr. Bai Huiliang	6/6	100%
Mr. Chen Naiwei	6/6	100%

7. Strategy committee

During the Reporting Period, the strategy committee under the Board consists of three directors, namely Mr. Lu Mingfang, who acts as its convener/chairman, Mr. Bai Huiliang and Ms. Tommei Tong. It is a special body established under the Board focusing on strategy study as entrusted by the Board, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

During the Reporting Period, the strategy committee held one meeting, at which the proposal for the formulation and design of the Company's overall strategy was considered. Set out below is the attendance of the members during the Reporting Period:

Name of member	Actual/required attendance (times)	Attendance rate
Mr. Lu Mingfang	1/1	100%
Mr. Bai Huiliang	1/1	100%
Ms. Tommei Tong	1/1	100%

8. Remuneration to auditors

With reference to the Group's existing business operations, the audit fees payable by the Group (the parent) for 2011 were fixed at RMB2,600,000 while the audit fees for internal control were set at RMB600,000 upon negotiations and confirmation by the Group and the domestic auditor, PricewaterhouseCoopers Zhong Tian CPAs Limited Company, and the international auditors, PricewaterhouseCoopers, subject to approval by the general meeting of the Company.

9. Confirmations by directors and the auditors

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

The directors are responsible for overseeing the preparation of financial statements for each accounting period to give a true and fair view of the financial position, results and cash flows of the Group. During the Reporting Period, the Group disclosed its annual report for 2010, interim report for 2011 and the first and third quarterly reports for 2011 in accordance with relevant laws and regulations and the applicable listing rules.

In preparing the financial report for the year ended 31 December 2011, the directors have adopted and consistently applied appropriate accounting policies, and have made judgments 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 significant doubt upon the Company's ability to continue as a going concern.

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

10. Deviation from the Code on Corporate Governance

The rules of procedures of the Group's general meeting fulfil the requirements of the Articles of Association. The H Shares of the Group were listed on the Hong Kong Stock Exchange on 20 May 2011. The Group had been dealing with a large number of urgent matters associated with the Global Offering and listing of H Shares before and after the listing date. Besides, the Group should hold its 2010 Annual General Meeting before 30 June 2011 according to the relevant laws and regulations of the PRC. Therefore, the Group did not fully comply with Section E.1.3 of the Code on Corporate Governance requires a company to give at least 20-business day notice of an annual general meeting. Instead, the Group gave notice to the shareholders of the Company on 9 June 2011 regarding the annual general meeting and the H share class meeting which immediately followed the conclusion of the annual general meeting. The Group is aware of the situation, and will procure the compliance with the notice period stipulated in the code provisions of the Code on Corporate Governance in specific circumstances in the future.

(II) DUTY PERFORMANCE OF DIRECTORS

1. Attendance of directors at the board meetings

Name of director	Independent	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 twice in succession
Lu Mingfang	No	9	9	5	0	0	100%	None
Zhang Jialin	No	9	9	5	0	0	100%	None
Lu Shen	No	9	9	5	0	0	100%	None
Xu Guoxiong	No	9	9	5	0	0	100%	None
Zeng Yixin	Yes	9	9	5	0	0	100%	None
Bai Huiliang	Yes	9	9	5	0	0	100%	None
Chen Naiwei	Yes	9	9	5	0	0	100%	None
Tommei Tong	Yes	9	9	5	0	0	100%	None
Jiang Ming	No	9	9	5	0	0	100%	None

Number of board meetings held in the year	9
Including: On-site meetings	4
Meetings held by way of communication	5
Meetings held by way of on-site and communication	0

2. Dissenting opinions on the Company's relevant matters submitted by independent directors

During the Reporting Period, no dissenting opinions were made by the Group's independent directors on any proposal of the Board or other proposals of the Group in the year.

3. Establishment and improvement of work rules of independent directors, particulars and duty performance of independent directors

The Group has established the rules of procedure of the Board of Directors, the work rules of independent directors and other rules in accordance with the regulations including the Guidance on Establishment of Independent Director System in Listed Companies issued by CSRC. The work rules of independent directors sets forth, among others, the requirements on independent directors including general provisions, eligibility, appointment and replacement, term of reference, independent opinions and work conditions, and the requirements on their understanding of the Group's affairs, communications with the auditors for annual reports and the monitoring and inspection in preparation and disclosure of annual reports.

During the Reporting Period, the independent directors earnestly attended the board meetings to keep informed of the Group's operations and management, and expressed independent opinions on significant events of the Group including connected transactions in ordinary course of business, external guarantees and appointment of senior management members in strict compliance with the laws and regulations including the Company Law, the Standards on Corporate Governance of Listed Companies, the Securities Law and relevant listing rules, thereby acting in good faith and with due diligence to safeguard the legitimate interests of all shareholders.

(III) INDEPENDENCE AND INTEGRITY OF THE COMPANY FROM CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATION AND FINANCE

	Whether Independent and integrated	Notes
Independence and Integrity in respect of Business	Yes	The Group is independent in terms of business: it has complete organization and operates independently, and is not connected with any of the controlling shareholder and its associates.
Independence and Integrity in respect of Personnel	Yes	The Group is independent in terms of personnel: it has independent administrative and human resources bodies under the complete and systematic regulations and rules on employment, human resources and salary management; save as disclosed otherwise in this report, the directors and senior management members of the Group are employees exclusively served in the Group without any concurrent position in the controlling shareholder and its associates.
Independence and Integrity in respect of Assets	Yes	The Group is independent in terms of assets: it has integrated and complete production, supply and sale systems as well as supporting facilities; and it possesses independent tangible and intangible assets including building ownership, land use right, industrial property and non-patented expertise.
Independence and Integrity in respect of Organization	Yes	The Group is independent in terms of organization: it is free from any jointly-controlled operation or co-occupied office with any of the controlling shareholder and its associates; and none of the Group's functional department maintains a superior or subordinate relationship with any internal body of the controlling shareholder and its associates.
Independence and Integrity in respect of Finance	Yes	The Group is independent in terms of finance: it has independent finance and accounting department and audit function, and has established independent accounting, financial management and internal audit systems; it makes financial decisions independently, maintains independent accounts with banks, and legally operates as an independent tax payer.

(IV) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM

Overall plan for internal control system construction	In view of the Basic Standards on Internal Control of Enterprises jointly issued by five ministries including the Ministry of Finance of the PRC, the Group's management attached great importance to internal control system construction, joining the efforts of the functional departments to improve and upgrade internal control at two levels namely the headquarters and the core subsidiaries. An internal control project work team under the leadership of the Chairman was established, led by the audit department and supported by relevant functions to jointly facilitate the smooth implementation of the project. In addition, an expert panel was organized to provide professional support to internal control system construction. Members of the panel comprised professionals from research and development, market, quality, investment and development, human resources and other dedicated functions as well as the subsidiaries.
Plan for establishment and improvement of internal control system and its implementation	The Group's internal control system construction in 2011 covered 15 key processes in 30 enterprises (including the headquarters), mainly including: - streamlined, supplemented and improved the internal control system and approving authorization of the headquarters, and finalized the approving authorization list of the headquarters. - established an internal control framework of the headquarters, and developed the Internal Control Manual covering 12 processes (96 sub-processes) of its own operations and of its subordinate operations. - established a unified internal control framework for the subsidiaries, developed internal control horizontal comparison form, and developed an internal control manual for each subsidiary covering 15 processes, 123 risk points, 543 basic control requirements, 304 optimized or best control requirements, 217 approval procedures and 299 duty breakdown requirements. - developed self-assessment form and testing plan to guide internal auditors to effectively carry out self-assessment on internal control, which gave an intuitional view of the internal control level of each enterprise. - invited internal control experts to provide 12 full-process training sessions and workshops for internal control officers across the Group.

Corporate Governance Report

Establishment of supervisory functions on internal control	The board of supervisors of the Group is responsible for supervising directors, managers and other senior management members in performing duties and the Group's operations under the laws, and reports to the general meeting. The audit committee is a special committee of the Board mainly responsible for communication, supervision and review of the internal and external audit of the Group, so as to ensure the Board to exercise effective supervision on the management. The Group has a dedicated audit department under a well-established organizational structure, fully responsible for monitoring and assessment on the effectiveness of internal control. The Group has established the Internal Audit System which specifies the duties and authorizations of its internal audit departments and internal auditors, as well as the scope, procedures and standards of internal audit. The Group and its subsidiaries have established respective audit departments or equivalent dedicated or concurrent posts, responsible for organizing and implementing daily internal audit, promptly identifying defects and inadequacy of internal control, proposing rectifications and monitoring the implementation, and duly reporting to the Board, the audit committee and the management of the Company.
Internal supervision and self-assessment on internal control	The inspection on internal control of the Group is divided into two periods: the preliminary inspection period from July to September 2011, with an aim at early identification of weakness and preparation of rectification proposals; and the year-end rectification and inspection period from December 2011 to February 2012. The scope of assessment covers 12 core units (including the headquarters) of the Group and its subsidiaries, where 15 processes are assessed and scored for the purpose of internal control by various means including on-site interview, walk-through test and sample test.

The Board's arrangement on internal control activities	The Group has initiated the "Internal Control System Establishment Project" in March 2011. The taskforce of the project was given the task of perfecting the internal control system based on the "Basic Standards on Internal Control of Enterprises" and 18 supplementary application guidelines with reference to the actual situation of the Group's business characteristics and internal control basis. The work focused on the cleaning up and improvement of the authorization and specialization system on a risk-oriented basis. After nine months of steady progress, the Group has formulated the preliminary Internal Control Manual which comprises the list of major risks, array of control, flow chart, authorized approval form and the chart on the breakdown of duties and responsibilities. The Group carried out in-depth evaluation on 15 business processes of core tier-2 subsidiaries and important tier-3 subsidiaries in accordance with the Internal Control Manual. The evaluation was divided into 2 stages: the preliminary review stage from July to September 2011, during which verification on control implementation was conducted through self-inspection by all entities; and the stage from December 2011 to February 2012 for the year-end control inspection and the inspection on rectification to weakness identified in preliminary review, during which the verification on the implementation of control points and the inspection on rectification to weakness identified in preliminary review were conducted through inter-checking among entities. During the evaluation, no material weakness was identified in the internal control system of the Company; no design or implementation flaw in internal control that would constitute current or potential material adverse impact on the Company's control targets was identified; no material untrue, inaccurate or incomplete information was identified in the Company's financial statements and the notes thereto; no material loss of assets due to inefficiency in internal control was identified; and no fraud by the senior management of the Company was identified. The internal control system of the Company is basically complete and effectively implemented.
Establishment and operation of internal control system over financial reporting	In 2011, the Group drafted the Accounting Handbook of Shanghai Pharmaceuticals in accordance with the requirements on internal control over financial reporting in the Basic Standards on Internal Control of Enterprises and relevant accounting standards. The handbook covers basic accounting norms, accounting policies, establishment and maintenance procedures of ledgers, accounting treatment and daily practices (including accounting methods, special transactions and treatment requirements, period-end closing procedures, etc.), standards on disclosure of financial statements (including workflows, accountability, information requirements, etc.), and the reconciliations between the Accounting Standards for Business Enterprise and the HKFRS. Furthermore, in the course of internal control tests and assessments on the Group, the internal audit department classified the internal control over finance and accounting as a high risk area which was included into the focus list for testing, and proactively cooperated with auditors on the audit of internal control over financial reporting.

Defect and rectification of internal control	Addressing the issues identified in internal control assessments, the subject subsidiaries prepared the management responses which specified the measures, deadline and persons in charge for rectification. In response to the issues identified in internal control inspection, the audit department carried out inspection on rectifications in collaboration with external experts before the end of 2011. According to the findings of the inspection, more than 70% internal control issues have been rectified in accordance with rectification plans, the control requirements and operational procedures were clearly defined, and the established standards were followed in practices. The outstanding issues were either due to hardware conditions (such as commissioning of new systems, adjustment to system functions, etc.), or could not be solved in a short time under the inherent requirement of internal control, or were in progress of ongoing rectifications during the inspection period as a certain period of time is needed although the rectifications had commenced as scheduled.
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(V) RELEVANT REPORTS ON INTERNAL CONTROL DISCLOSED BY THE COMPANY

1. Disclosure of the self-assessment report on internal control: Yes
2. Disclosure of the audit report on internal control over financial reporting issued by auditors: Yes
3. Disclosure of corporate social responsibility report: Yes

The aforesaid reports are made available on the website www.sse.com.cn and www.hkexnews.hk.

(VI) ESTABLISHMENT OF THE ACCOUNTABILITY SYSTEM ON MATERIAL ERROR IN INFORMATION DISCLOSURE OF ANNUAL REPORTS OF THE COMPANY

The Group has established a sound management system on information disclosure, including the Accountability System on Material Error in Information Disclosure of Annual Reports. The Group's Management System on Information Disclosure expressly specifies: in case of any person in charge of information disclosure in any member of the Group who fails in performing the obligations of information disclosure and examination in violation of relevant laws and regulations and the system, the Group shall impose on the person administrative sanctions (including but not limited to rectification, public criticism, reposting, suspension, demotion, removal, etc.) and financial penalties for indemnification against losses, and shall have the right to investigate legal liability accordingly. In such a case the Group shall file the result of actions with the regulatory authorities within 5 business days. During the Reporting Period, the Group had no correction of material accounting errors, supplement to material information omission or any adjustment to preliminary results announcement.

General Meetings

(I) INFORMATION OF ANNUAL GENERAL MEETING

Session of meeting	Date of meeting	Newspaper for disclosure of resolutions	Date of disclosure of resolutions
2010 Annual General Meeting	30 June 2011	China Securities Journal, Shanghai Securities News, Securities Times	1 July 2011
2011 First H Share Class Meeting	30 June 2011	China Securities Journal, Shanghai Securities News, Securities Times	1 July 2011

Note: The above resolutions are also published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and the Hong Kong Stock Exchange (<http://www.hkexnews.hk>).

Report of the Directors

醫藥產品
組合

非醫產品

(I) MANAGEMENT DISCUSSION AND ANALYSIS

1. Business review for the Reporting Period

Year 2011, the opening year for the 12th Five-year Plan, was fraught of opportunities and challenges for the pharmaceutical industry. The industry was under a diversity of pressures, such as increasingly intensified competition in the pharmaceutical market, the ever-changing competitive landscape, hiking raw material costs and labour costs, higher financing costs due to the tightening of monetary policy, the implementation of the new GMP standards, the 27th and 28th rounds of pharmaceutical price reduction by the NDRC, the tenders of essential drugs nationwide and the new round of price reduction subsequently, the full implementation of medical insurance "double control" on medical units, and the promulgation of antibacterial drug classification management policies. However, new opportunities for future development of pharmaceutical enterprises kept arising from the dynamics such as the promotion of new healthcare reform, high priority and strong supports to the pharmaceutical industry from the governments, China's population aging, increasing demand for healthcare consumption and coverage of health insurance, higher medical insurance payment levels and so on. In this regard, quality enterprises with advantages in brand, scale and innovation capability were positioned to profit from the opportunities to survive the pharmaceutical industry restructuring and industrial upgrading.

In 2011, the debuting year for its A+H listing, Shanghai Pharmaceuticals strategically embarked on the "two transformations" which in particular, refer to the transformation from a traditional state-owned enterprise to a market-oriented company and the transformation of target market from Shanghai to the whole country. Responding to the uncertain external economy and pharmaceutical industry environment in the Reporting Period, the Group took initiatives for reform and refinement in light of the "three main themes", namely "operation", which involves continuous industrial development, "financing", which involves the successful issuance of H Shares and "transformation", which involves perking up integrated value. Leveraging on its professional, dedicated, centralised and integrated work ethics, the Group adjusted its industrial structure proactively while transforming its mode of economic growth to boost value through integration. At the same time, it established dual platforms for capital and development at home and abroad through accomplishing the overseas listing, which financed its development and consolidated its position in the industry. During the Reporting Period, the Group basically completed the transformation to a nationwide company through new geological and business expansions, and maintained steady growth in business results.

乎合國家
標準

revenue amounted

549.000
RMB

During the Reporting Period, the Group made certain adjustments to the scope of consolidation of the financial reports, as the antibiotic business and Zhongxin Pharmacy (currently known as "Shanghai Pharma Keyuan") were included into the Group's scope of consolidation upon completion of the acquisitions, and Techpool Bio-Pharma ceased to be consolidated by the Group. During the Reporting Period, the Group's revenue

amounted to RMB54.900 billion, representing a year-on-year increase of 41.78%; net profit attributable to equity holders of the Company amounted to RMB2.042 billion, representing a year-on-year increase of 40.24%. Excluding the one-time investment income from the deconsolidation of Techpool Bio-Pharma and the net exchange gain and loss in proceeds, its net profit attributable to equity holders of the Company was RMB1.808 billion, representing an increase of 24.18% as compared with last year. The operating profit margin after deducting sales and administration costs was 4.43%, down by 0.47 percentage point from 4.90% for last year mainly as a result of expansion of distribution operations. Earnings per share amounted to RMB0.8437 and earnings per share deducting non-recurring profits and losses

were RMB0.5883. During the Reporting Period, the Group further enhanced management on operating cash flows and its net cash flows from operating activities amounted to RMB1.772 billion. As at 31 December 2011, the owners' equity of the Group was RMB25.981 billion, the owners' equity deducting minority interest was RMB23.078 billion and the total assets were RMB47.668 billion.



■ Major Honours

During the Reporting Period, the Group clinched numerous honours and awards with its reputation rising significantly among peers and on capital market:

- It was newly included into the SSE Corporate Governance Index;
- It was included into the top 10 of the Internal Control Index for Chinese Listed Companies, ranking No. 9;
- Its H shares were included into the Morgan Stanley China Index (MSCI);
- On 5 September 2011, it was officially included into the Hong Kong Hang Seng Index and Hang Seng China AH Index;
- It was included into the Top 10 Corporate Citizens of China CCTV Financial 50 Index;
- It was honoured the “Typical M&A Case” among the corporate governance special awards for 2011 at the Tenth Corporate Governance Forum of China hosted by the Shanghai Stock Exchange;
- It scooped the top spot in the sector of “Integrated Competitive Strengths of Pharmaceutical Enterprises listed on the Main Board in Shanghai and Shenzhen (circulation industry) 2010” on the list of Integrated Competitive Strengths of China’s Pharmaceutical Listed Enterprises;
- It ranked No. 2 among the “Top 10 China’s Pharmaceutical Conglomerates in terms of Integrated Strengths 2011” published at the Summit of Chemical Pharmaceutical Brands 2011;
- It was included in “The 3rd Session of Top 20 Most Competitive China’s Pharmaceutical Listed Enterprises” published by the China Pharmaceutical Enterprises Association;
- It was included in the top 100 of the Top 500 Chinese Enterprises in 2011 published by Fortune (Chinese edition) for the first time;
- It was included into the Top 25 of Most Innovative Enterprises in 2011 and the Most Admired Chinese Companies in 2011 published by Fortune (Chinese edition);
- It won the “Return on Investment Award” in the second session of the “Battle in Shanghai”, a contest on listed companies sponsored by Securities Star;
- It was named as the “Top 100 China’s Listed Companies on the Main Board” in the Evaluation of China’s Listed Companies for 2010 organized by Securities Times;
- It was included into the Top 500 Chinese Enterprises in 2011 (ranking No. 213) and the Top 500 Chinese Manufacturers (ranking No. 106);
- It was included into the Top 100 Enterprises of Shanghai in 2011 (ranking No. 23) and the Top 50 Manufacturers of Shanghai (ranking No. 12);
- It took the top spot in the CVAwards League Table of Chinese Pharmaceutical Industry Strategic Investors for 2011.

■ R&D and pharmaceutical business

The Group produces approximately 829 varieties of pharmaceutical products including 58 major varieties (accounting for approximately 50% of its pharmaceutical business) through the production bases in 8 provinces and municipalities, covering chemical and biological drugs, modern Chinese medicines and other healthcare products. The five major therapeutic areas are cardiovascular system, alimentary tract and metabolism, central nervous system, anti-infectives for systemic use, anti-neoplastic and immunomodulating agents.

During the Reporting Period, the sales revenue from the Group’s pharmaceutical business was RMB9.088 billion, representing a growth of 8.47% year-on-year, of which the sales revenue from chemical and biological drugs was RMB4.079 billion, up by 2.55% year-on-year, the sales revenue from modern Chinese medicines was RMB2.826 billion, up by 7.35% year-

on-year, and the sales revenue from other industrial products (active pharmaceutical ingredients, traditional Chinese medicine, healthcare products and medical devices) was RMB2.183 billion, up by 23.48% year-on-year. During the Reporting Period, the gross margin of the Group's pharmaceutical business was 44.9%, down by 1.8 percentage points year-on-year. The Company exercised stricter control over operating costs,

and thus effectively offset the impact on profit margin brought by rising raw material costs and falling drug prices. The sales and administration cost ratio decreased by 1.7 percentage points as compared with the same period last year. Operating profit margin after deducting sales and administration costs was 13.0%, essentially unchanged as compared with the same period last year. The Group's research and development costs were RMB404.11 million, representing approximately 4.45% of the sales revenue from its pharmaceutical business.

Among the 10 national science and technology major projects for creation of major new drugs in 11th Five-year Plan undertaken by the Group, the first and second batch projects have completed technological

acceptance, and the Group received over RMB55 million from the national industry-university-research institute alliance special fund for creation of new drugs and the Shanghai municipal scientific research special fund for pharmaceutical industry. During the Reporting Period, the Group newly obtained 2 clinical approvals for mammary aggregation elimination capsule (乳癖消軟膠囊) and other drugs, as well as 5 production approvals for Kugan capsule (苦甘膠囊), Thymosin α 1 for injection (注射用胸腺法新) and other drugs; 12 varieties were commercialised and rolled out



including cilnidipine tablets (西尼地平片), diclofenac sodium gel (雙氯芬酸鈉凝膠), nateglinide tablets for diabetes mellitus (糖尿病那格列奈片) and venlafaxine hydrochloride capsules (鹽酸文拉法辛膠囊), and 217 projects were in progress of research.

In February 2011, the Group and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (08231.HK) entered into a strategic cooperation agreement on research and development of new drugs in relation to the investment of RMB180 million to jointly promote R&D and industrialisation of four drugs with proprietary intellectual property rights. In particular, the project "recombinant TNF acceptor fusion protein with high affinity" completed pre-clinical animal evaluation and was officially registered for application for clinical approval at the end of August 2011. Among the other three projects, Deuteporfin and Liposomal Vincristine (LVCR) have entered into Phase I clinical stage and recombinant human lymphotoxin- α derivative (LT) has entered into Phase II clinical stage. The Group also initiated an independent research and development platform for antibody drugs led by the Central Research Institute and focusing on subsequent industrialisation capacity for antibody development.

During the Reporting Period, the Group continued to implement key products focused strategy to actively adjust its product mix. The Group screened out 58 key products for prioritized development with reference to internal indicators (such as sales, gross margin, marketing ability, successful tendering, pricing, etc.) and external indicators (such as market size, future growth potential, market share, ranking, etc.) of each product. The sales revenue from such products grew by 10.25% year-on-year and accounted for approximately 50% of the sales revenue from the Group's pharmaceutical business.

Meanwhile, the product mix restructuring posed a challenge to the growth of the Group's pharmaceutical business as a whole. For certain non-major generic drugs and essential drugs subject to noticeable adverse impacts of tendering price reduction and restriction on antibacterial drugs, the Group proactively explored non-tendering markets while securing the existing mainstream market channel, aiming at multi-channel drug marketing to ensure organic growth of the pharmaceutical business as a whole.

During the Reporting Period, the Group had a total of 17 products contributing sales revenue of RMB100 million or above (tax exclusive), which were classified by therapeutic areas as follows:

- cardiovascular system: 6 products, including Shenmai injection (exceeding RMB400 million) and tanshinone IIA (exceeding RMB200 million);
- alimentary tract and metabolism: 2 products, including live combined bifidobacterium (exceeding RMB200 million);
- anti-infectives for systemic use: 2 products, including Ceftriaxone Sodium for injection and Cefotaxime Sodium for injection (each exceeding RMB200 million);
- other therapeutic areas: 7 products, including Shen Xiang healthcare series products (Chinese medicine) (exceeding RMB300 million), and Qingliang series products (exceeding RMB200 million).

Among those set out above, the products with a significant growth year-on-year included: Rosuvastatin (active pharmaceutical ingredients for cardiovascular system drugs) with a growth over 50%; Cefotaxime Sodium for injection with a growth over 30%; and live combined bifidobacterium and tanshinone IIA each with a growth over 20%. In addition, the Group had 18 products with sales revenue ranging from RMB50 million (inclusive) to RMB100 million, and 103 products with sales revenue ranging from RMB10 million (inclusive) to RMB50 million.

During the Reporting Period, the Group completed the acquisition of 96.9% equity interests in Shanghai New Asiatic Pharmaceutical Co., Ltd. and the acquisition of 100% equity interests in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. from Shanghai Pharmaceutical (Group).

Report of the Directors

The Group has established the Quality Manual governing the group-wide quality management, to embody Group's advanced concepts, values and responsibility for quality management. The manual, with reference to the characteristics of the existing industrial chain and retail distribution system and in full compliance with the GMP and GSP, GMP for medical device and other domestic regulations and standards, introduced mature standards at home and abroad to elaborate the quality management system requirements, in order to maintain the continuity, integrity, suitability and forward-looking of the Group's quality management system. With a commitment to the social responsibility of "caring for life and health, enhancing quality of life and dedicating ourselves to the cause of life and health", the Group adhered to the quality policy of "human-oriented in creating health; quality-foremost in pursuit of excellence" to ensure product quality and safety. During the Reporting Period, all 1,072 batches for 50 varieties from the Group's 20 business units passed the national pharmaceutical quality samplings.

During the Reporting Period, the Group successfully completed the environmental verification in preparing for the listing of its H shares, and earnestly normalized and systemized the environmental requirements for a listed company from the organization, policy and procedure aspects. The Group carried out energy management focusing on corporate power balance, achieving energy conservation through off-peak consumption in summer while catering for its electricity demand in summer. Moreover, the Group organised various training sessions to promote the implementation of the new GMP.

■ Pharmaceutical distribution business

The Group provides pharmaceutical manufacturers and resellers (including hospitals, distributors and retail pharmacies) with distribution, storage, logistics and other value-added pharmaceutical supply chain solutions and relevant services. During the Reporting Period, the sales revenue from the Group's pharmaceutical distribution business was RMB46.530 billion, up by 57.08% year-on-year; the gross margin was 6.89%, down up 0.32 percentage point year-on-year; operating profit margin after deducting sales and administration costs was 2.90%, up by 0.54 percentage point year-on-year; the direct sales to hospitals accounted for 61.43%; and the sales of imported and joint venture manufactured pharmaceuticals accounted for 52.10%.

During the Reporting Period, the Group invested a total of approximately RMB5.227 billion in strategic acquisitions and internal integration focusing on east, north and south China, building up a basic distribution network nationwide. The merger and acquisition resulted in a revenue of RMB10.5 billion and net profit of RMB180 million. The Group provided customers with strong terminal network and value-added services through more than 30 logistics centres:

- (1) East China: Sales revenue accounted for 75.0% of the sales revenue from the pharmaceutical distribution business. The Group further consolidated its leading advantages in the region through acquiring controlling interests in Wuxi Shanhe Group Pharmaceutical Logistics Co., Ltd., Zhejiang Xinxin Pharmaceutical Co., Ltd. and Hangzhou Quandelang Pharmacy Co., Ltd..
- (2) North China: Sales accounted for 16.4% of the sales revenue from the pharmaceutical distribution business. Upon completion of acquisition of 100% equity interest in Zhongxin Pharmacy Co., Ltd., the Group renamed it as "Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd." ("Shanghai Pharma Keyuan"). In 2011, the sales revenue of Shanghai Pharma Keyuan was RMB8.547 billion, up by 39.84% year-on-year, and its net profit attributable to the parent was RMB186 million, up by 32.39% year-on-year (Shanghai

were diversified and expanded to the full-scope lines, resulting in surging results in the supplies distribution business.

- (3) DTP (high value medicines direct transportation port): The Group rolled out multi-point distribution of retail prescription drugs and over-the-counter drugs mainly comprising higher-value drugs at user's own expenses, to directly serve end consumers (including patients, their friends and relatives, medical staff and the public).
- (4) SPD (Supply Processing & Distribution, a hospital logistics management technology): By collaborating with in-hospital supply chain, the Group provided supports to IT solutions for hospital operation management and supply chain management.

■ Pharmaceutical retail business

During the Reporting Period, the sales revenue from the Group's pharmaceutical retail business was RMB2.277 billion, up by 31.95% year-on-year; gross profit margin was 22.44%, down by 1.06 percentage points year-on-year; and operating profit margin after deducting sales and administration costs was 1.08%, down by 0.36 percentage point year-on-year.

As at the end of the Reporting Period, the Group had about 1,700 chain retail pharmacies under its brand family, including 1,253 directly operated pharmacies. During the Reporting Period, faced by the challenging market conditions, the Group adjusted and enriched the catalogue of major commodities according to market demand, seasonality and commodity inventory, thus achieving the goal of uplifting earnings and profitability.

■ Internal integration:

During the Reporting Period, the Group's sales and administration cost ratio was 9.88%, declined by 2.30 percentage points year-on-year. In order to rationalise ownership relations, streamline management chain, reduce management cost and perk up efficiency in decision making, the Group placed emphasis on the streamlining of management structure, and disposed of 39 companies engaged in non-core business.

Pharma Keyuan was included into the scope of consolidation of the Group from the second quarter of 2011). Shanghai Pharma Northern Investment Co., Ltd., a company invested by the Group in the amount of USD80 million, was approved to be established, which will integrate the northern internal business resources including Shanghai Pharma Keyuan and Beijing Aixin Weiye to consolidate business development in north China.

- (3) Southern China: Sales revenue accounted for 5.3% of the sales revenue from the pharmaceutical distribution business. The Group further expanded the pharmaceutical distribution network in southern China centering on Guangzhou by acquiring controlling interests in Guangdong Zhongnan Pharmaceuticals Co., Ltd., Foshan Daxiang Pharmaceutical Co., Ltd., Zhuhai Kangtuo Pharmaceutical Co., Ltd. and Shantou Wande Pharmaceutical Co., Ltd..

The Group actively promoted innovations in business model by leveraging on differentiated strategic positioning to gain strategic advantage, aiming to improve profitability and terminal control of its distribution business:

- (1) Vaccines: By exploring the collaborative promotion model with vaccine manufacturers, the Group became the only one commercial enterprise entering into all-around cooperation with all joint venture manufactured and imported vaccine providers in the PRC. Through expansion of the direct network coverage to centres for disease control ("CDC"), the number of the Group's direct CDC customers increased by 50 to a total of 150. As such, the Group established the leading position for its vaccine product distribution business among the commercial enterprises in the PRC.
- (2) High-end supplies: Based on the established network, the Group extended this business arm from product distribution and service provision to the upstream of the supply chain. Meanwhile, the product lines originally focusing on cardiac, orthopaedic and neurological areas

Report of the Directors

During the Reporting Period, the Group continued to boost the construction of four uniform management platforms (i.e. the joint platform for government public affairs, the centralised procurement platform, the centralised marketing platform, and the centralised distribution platform). In particular, a collaboration network for major public affairs focusing on tendering was established by capitalising on the strengths of the Group and its core members in local public affairs. The centralised procurement of 13 block medicinal herbs amounted to over RMB60 million in aggregation. Through improving collaboration

between the manufacturing and commercial segments, approximately RMB1.64 billion of pharmaceutical products manufactured by the Group were distributed through its own distribution channels. Furthermore, the Group carried forward the construction of the centralised fund management platform, effectively liquidated the internal idle funds and optimised the loan to deposit ratio, thus cutting down its operating costs. Currently, all wholly-owned subsidiaries have been pooled into the platform, which will be gradually promoted to other controlled subsidiaries.

2. Principal business and results

(1) Principal business by industry or by product

Unit: RMB

By Industry	Operating income	Operating costs	Operating profit margin	Change in operating income year-on-year	Change in operating costs year-on-year	Change in operating profit margin year-on-year
Manufacturing	9,088,233,510.87	4,920,151,130.18	45.86%	0.92%	8.67%	-3.86 percentage points
Distribution	46,529,811,776.40	43,261,847,619.54	7.02%	57.08%	57.57%	-0.29 percentage points
Retail	2,276,813,336.85	1,755,725,238.59	22.89%	31.95%	33.74%	-1.03 percentage points
Other	20,609,753.89	14,110,078.92	31.54%	-70.08%	-13.65%	-44.74 percentage points
Elimination	-3,361,081,613.33	-3,224,075,559.67				

(2) Principal business by region

Unit: RMB

Region	Operating income	Change in operating income year-on-year
Domestic	53,728,693,252.41	42.38%
Overseas	825,693,512.27	3.74%

(3) Suppliers and customers

- 1) The purchase from the largest supplier accounted for 2.26% of the total purchase;
- 2) The aggregate purchase from the five largest suppliers accounted for 6.33% the total purchase of the Group for the year;

- 3) The sales to the largest customer accounted for 0.71% of the total sales;
- 4) The aggregate sales to the five largest customers accounted for 3.48% the total sales of the Group;
- 5) Information of any interests in the suppliers or customers disclosed in 1-4 above held by any directors or their respective associates or shareholders: none.

Report of the Directors

(4) *Reasons for material change in profit constituents, structure or profitability of principal business during the Reporting Period as compared to the previous Reporting Period*

During the Reporting Period, the one-time investment income from excluding

Techpool Bio-Pharma from the scope of consolidation of the Group was RMB334 million, representing 16.34% of the net profit attributable to equity holders of the Company for the year. During the Reporting Period, the Group had no material change in the structure or profitability of principal business as compared to the previous reporting period.

(5) *Explanation of material year-on-year changes of key financial data in the Reporting Period*

Unit: RMB

Items of consolidated balance sheet	31 December 2011	31 December 2010	Change (%)	Reason for change
Money funds	14,850,053,673.66	6,511,434,447.73	128.06%	Increase in proceeds from overseas share offering of the Company in the Reporting Period
Bills receivable	971,206,337.81	579,119,785.01	67.70%	Additional bills receivable consolidated through acquisition of subsidiaries in the Reporting Period
Trade receivables	10,606,364,608.21	6,999,048,491.64	51.54%	Additional bills receivable consolidated through acquisition of subsidiaries in the Reporting Period
Prepayments	481,781,725.51	1,586,847,945.06	-69.64%	Transfer out of equity prepayments made in the previous year in the Reporting Period
Interests receivable	30,646,890.65	2,492,820.28	1,129.41%	Increase in undue interests receivable withheld in the Reporting Period
Dividends receivable	15,990,542.89	6,913,103.42	131.31%	Increase in dividends receivable from consortiums in the Reporting Period
Other receivables	595,158,005.45	1,040,304,499.96	-42.79%	Overdue payment recovered from relation companies in the Reporting Period
Inventories	8,297,482,726.00	5,233,321,673.56	58.55%	Additional inventories consolidated through acquisition of subsidiaries in the Reporting Period
Other current assets	144,481,908.13	71,927,069.80	100.87%	Increase in input VAT pending set-off in the Reporting Period
Available-for-sale financial assets	18,470,202.06	116,368,024.72	-84.13%	Sale of available-for-sale financial assets in the Reporting Period
Long-term equity investment	2,618,839,435.97	1,703,071,414.21	53.77%	A subsidiary was converted to a consortium in the Reporting Period
Intangible assets	1,276,234,104.08	896,574,718.84	42.35%	Increase in the fair value of intangible assets of subsidiaries acquired in the Reporting Period
Goodwill	2,988,894,594.17	422,781,218.07	606.96%	Increase in the goodwill of subsidiaries acquired in the Reporting Period
Other non-current assets	76,924,942.82	45,215,471.33	70.13%	Increase in prepaid construction costs in the Reporting Period
Accounts payable	10,563,558,378.10	7,005,820,467.78	50.78%	Additional accounts payable consolidated through acquisition of subsidiaries in the Reporting Period
Interests payable	18,004,355.70	9,690,795.33	85.79%	Increase in undue interests payable withheld in the Reporting Period
Dividends payable	72,935,928.93	130,943,042.00	-44.30%	Dividends were paid to shareholders in the Reporting Period
Special payables	160,382,718.27	76,987,163.43	108.32%	Increase in government grants received in the Reporting Period
Estimated liabilities	71,342,961.55	31,681,497.09	125.19%	Compensation payable to employees were reclassified in the Reporting Period

Report of the Directors

Items of consolidated balance sheet	31 December 2011	31 December 2010	Change (%)	Reason for change
Deferred income tax liabilities	266,287,608.24	43,553,673.66	511.40%	Increase in deferred income tax liabilities withheld in the Reporting Period as the fair value was higher than the cost of book value
Other non-current liabilities	280,122,157.89	151,334,633.04	85.10%	Increase in relocation compensation received in the Reporting Period
Share capital	2,688,910,538.00	1,992,643,338.00	34.94%	Share capital increased due to the overseas share offering of the Company in the Reporting Period
Capital reserve	14,490,121,084.23	3,846,390,026.66	276.72%	Share premium increased due to the overseas share offering of the Company in the Reporting Period
Undistributed profits	5,196,260,657.58	3,513,526,157.93	47.89%	Profit of the Company increased in the Reporting Period

Items of consolidated income statement	2011	2010		
Operating income	54,899,872,504.11	38,721,655,199.70	41.78%	Increase in operating income due to business growth and acquisition of subsidiaries in the Reporting Period
Operating costs	46,882,191,570.13	31,600,325,052.29	48.36%	Increase in operating cost due to business growth and acquisition of subsidiaries in the Reporting Period
Business tax and surcharges	161,210,725.56	105,951,285.99	52.16%	Increase in operating cost due to business growth in the Reporting Period
Financial costs, net	472,927,482.07	237,200,935.79	99.38%	Increase in capital cost and exchange loss in the Reporting Period
Investment income	933,914,629.23	430,753,288.82	116.81%	One-time investment income increased due to the conversion of subsidiary to consortium and the disposal of available-for-sale financial assets in the Reporting Period
Non-operating expenses	59,987,910.86	123,497,947.67	-51.43%	Loss from disposal of non-current assets decreased in the Reporting Period
Income tax costs	589,072,373.53	415,887,042.40	41.64%	Profit increased in the Reporting Period

Items of consolidated statement of cash flow	2011	2010		
Net cash flow generated from operating activities	1,772,438,011.82	2,210,790,425.47	-19.83%	Due to macroeconomic conditions, cash inflow decreased in the Reporting Period
Net cash flow from investing activities	-3,790,423,474.66	-2,988,299,754.79		Considerations were paid for acquisition of subsidiaries in the Reporting Period
Net cash flow generated from financing activities	10,643,056,917.87	2,089,336,569.88	409.40%	Increase in proceeds from overseas share offering of the Company in the Reporting Period

(6) Operation of major holding and participating vehicles

Unit: RMB0'000

Name of company	Nature of business	Shareholding (%)	Registered capital	Asset size	Owners' equity attributable to the parent	Operating income	Operating profit
Shanghai Pharmaceuticals Distribution Co., Ltd.	Sale of pharmaceuticals	100%	283,686.80	1,670,989.21	334,858.87	3,459,047.99	94,088.33
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	50,000.00	518,967.28	116,051.42	854,676.71	25,573.60
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100%	82,100.00	190,360.63	102,940.23	233,132.39	8,280.00
Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	22,500.00	83,898.71	57,705.40	71,861.46	21,777.17
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	96.90%	36,997.00	163,869.47	75,392.05	86,857.58	12,855.11
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100%	46,369.00	281,310.67	77,061.74	346,822.30	7,604.01
Chiatat Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	55%	12,850.00	127,087.48	91,024.91	99,003.09	22,337.15
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	62.69%	7,879.03	177,061.58	90,461.76	320,600.01	19,947.31
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	54,580.00	167,021.93	97,392.36	108,553.20	17,056.63
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.48%	9,300.00	80,669.67	48,067.46	61,239.22	7,422.86
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	6,364.18	20,654.61	12,229.69	24,984.16	3,384.07
Xiamen Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	61%	8,403.00	28,397.65	21,653.30	24,070.70	3,675.17
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	51.01%	5,316.00	35,215.29	26,138.60	31,063.90	1,618.73
Sino-American Shanghai Squibb Pharmaceutical Ltd.	Production and sale of pharmaceuticals	30%	USD1,844	148,167.00	64,451.00	251,665.50	25,742.00
Shanghai Roche Pharmaceuticals Ltd.	Production and sale of pharmaceuticals	30%	USD6,235.71	460,365.90	161,282.40	526,356.40	44,811.60

Note: Shanghai Roche Pharmaceuticals Ltd. participates in Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, with a shareholding of 30%.

3. Consolidated financial position

(1) *Capital structure (including repayment of due debts and performance of due obligations, class of capital instruments used, currency and interest rate structure)*

As at 31 December 2011, the Group's debt asset ratio (total liabilities divided by total assets) was 45.49% (31 December 2010: 57.47%), representing a decrease of 11.98 percentage points year-on-year. Interest protection multiples (EBIT divided by interest payment) was 7.57 times (2010: 10.29 times).

(2) *Information of material change year-on-year in asset constituents of the Company*

During the Reporting Period, the proceeds from the Group's H-share offering has not been used up while money funds as a proportion of total assets increased from 21.6% at the beginning of the year to 31.2% at the end of the year. The Group had no material change year-on-year in other asset constituents.

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

(3) *Liquidity and financial resources of the Group*

As at 31 December 2011, the balance of the Group's borrowings was RMB5,727 million, of which the balance of Hong Kong dollar denominated borrowings was RMB27 million and the balance of USD denominated borrowings was RMB286 million.

As at 31 December 2011, the Group had net accounts receivables and bills receivable totalling RMB11,578 million (31 December 2010: RMB7,578 million), representing an increase of 52.78% year-on-year. The increase was mainly attributed

to the additional accounts receivables and bills receivable consolidated through acquisition of subsidiaries.

As at 31 December 2011, the balance of the Group's net accounts payables and bills payable was RMB12,659 million (31 December 2010: RMB8,886 million), representing an increase of 42.46% year-on-year. The increase was mainly attributed to the additional accounts payables consolidated through acquisition of subsidiaries.

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

(4) *Pledge of assets of the Group*

As at 31 December 2011, the Group's land use rights with site area of 552,116.58 sq. m. (at cost of RMB77,098,345.15 and book value of RMB61,978,724.29) and buildings and machinery with book value of RMB189,226,974.85 (at cost of RMB272,147,728.58) were pledged to secure short-term borrowings of RMB337,690,000.00 and long-term borrowings of RMB31,885,973.02.

As at 31 December 2011, pledge bank loans of RMB788,764,907.13 were secured by the pledge created over bills receivable with book value of RMB34,007,406.47 and accounts receivable with book value of RMB810,450,342.51.

(5) *Risk in exchange rate fluctuation and any relevant hedging*

The principal activities of the Group 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). During 2011 and 2010, the Group did not enter into any forward exchange contract or currency swap contract.

(6) *Contingent liabilities*

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

- 2) Contingent liabilities arising from debt guarantees provided for third parties and guarantees provided to related parties and their financial impact

Guarantor	Guaranteed party	Value of guarantee (RMB in thousand)	Commencement date of guarantee	Expiration date of guarantee	Whether the guarantee discharged
Shanghai Pharmaceuticals Distribution Co., Ltd.	Shanghai Luoda Pharmaceutical Co., Ltd.	1,000.00	30 May 2011	8 April 2012	No
Shanghai Pharmaceuticals Distribution Co., Ltd.	Jiangxi Nanhua Medicines Co., Ltd.	20,000.00	14 February 2011	13 February 2012	No
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	20,000.00	22 December 2011	21 December 2012	No
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	55,000.00	29 December 2011	28 December 2012	No
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	20,000.00	14 March 2011	14 March 2012	No
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	60,000.00	16 September 2011	16 September 2012	No
Total		176,000.00			

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

(7) *Material investment held and their performance in the Reporting Period and prospects*

Details are set out in the subparagraph headed "Operation of major holding and participating vehicles" in paragraph Principal business and operation", as included in the subsection headed "Management Discussion and Analysis" in the section headed "Report of Directors".

(8) *Material acquisition or disposal of subsidiaries and consortiums in the Reporting Period*

Details are set out in the subsection above headed "Asset Transactions" in the section headed "Significant Events".

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

Report of the Directors

Details are set out in the paragraph headed "4 Outlook and prospects", as included in the subsection headed "Management Discussion and Analysis" in the section headed "Report of Directors".

(10) *Opinions on the classified information provided in the Report of Directors and accounts*

There were no material changes during the year.

(11) *Headcount, remuneration, remuneration policy, bonus, share option plan and training plan in respect of employees*

Details are set out in the subsections above headed "Employees" and "Remuneration Policy".

(12) *Share capital*

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

(13) *Information about directors, supervisors and senior management*

As at 31 December 2011, the information about the Group's directors, supervisors and senior management is set out in the section above headed "Directors, Supervisors and Senior Management".

(14) *Management service contracts*

Except for the service contracts entered into with the Group's management, the Group has not entered into contract with any person, company or body corporate in order to manage or deal with the whole or any substantial part of the Group's business.

(15) *Interests in material contracts held by directors, supervisors and controlling shareholders*

During the Reporting Period, the directors, supervisors, controlling shareholders and their subsidiaries did not have any personal interests in the material contracts entered into by the Group and its subsidiaries with external parties.

(16) *Directors and supervisors' rights to share subscription*

The Group has not granted the right to subscribe for the shares or bonds of the Group and its subsidiaries to any director, supervisor or their spouse or children below 18 years old.

(17) *Directors and supervisors' interests in competing business*

As at 31 December 2011, none of the Group's directors or supervisors had any competing interests that constitute or may constitute direct or indirect competition with the Group's business.

4. Disclosure of profit forecast or business plan: Yes

As disclosed in Appendix V to the Group's H Shares Prospectus, based on certain assumptions, it is estimated that the Group's consolidated profit attributable to equity holders of the Company (net of tax) in 2011 would be not less than RMB2.1 billion. Due to the deflation of Hong Kong dollars as a result of the fluctuation of the exchange rate between RMB and Hong Kong dollars in 2011 and the fact that the proceeds of the global offering of the Group's H Shares were denominated in Hong Kong dollars and deposited in a special bank account in Hong Kong, the H Share proceeds (after deducting certain portion for uses as disclosed in the H Shares Prospectus and this report) remaining in the bank account in Hong Kong for the duration of 2011 booked certain loss. This booked loss was partially offset by the interest income accrued as a result

of the H Share proceeds being deposited in the bank account in Hong Kong. Taking this into account, the Group's actual net profit attributable to equity holders of the Company for 2011 was RMB2.042 billion, slightly lower than the profit forecast as disclosed in the H Shares Prospectus but representing 97.2% of the profit forecast stated in the H Shares Prospectus. Without taking into account the net loss in relation to the H Share proceeds as a result of the fluctuation of exchange rate, the Group's net profit attributable to equity holders would have achieved 102% of the profit forecast.

5. Outlook and prospects

(1) *Major opportunities and challenges for the Group in 2012*

The pharmaceutical industry, being a strategic emerging sector of the PRC and crucial for people's livelihood, anticipates a steady growth as a whole. The macroeconomic policies of the PRC with a priority to domestic demand-driven growth is positive for sustainable development of the pharmaceutical industry. Under the industrial policies and planning the PRC, the biological pharmaceutical industry has been included into the list of strategic emerging sectors with supports to centralization of the industry, which are beneficial for pharmaceutical conglomerates to play a dominating role in the industrial consolidation. However, the stronger requirements for curbing inflation and securing growth target mounted increasing pressures on funding and costs of enterprises. Given the expanding entire market and the huge pressures from declining pharmaceutical prices and tendering price reduction for essential drugs, there are uncertainties in the market's expectation on the industry growth.

While maintaining a sound growth momentum as a whole, the Group may experience a slower growth of its existing pharmaceutical business in the restructuring progress than the industry average growth. After the listing of its A shares

and H shares, the Group's existing management model still needs to better accommodate corporate development and market demand. Following large-scale mergers and acquisitions, the subsequent management and consolidation are yet to be further promoted, and the value of consolidation is yet to take shape. As such, the Group will continue to advance the transformation by enhancing internal reform and consolidation and boosting strategic mergers and acquisitions, aiming at organic growth in restructuring to achieve rational and balanced growths in revenue, profit and cash flows to create value for shareholders.

(2) *Business plan for the coming year*

In 2012, the Group will strive to procure double-digit growth in revenue and net operating profit attributable to equity holders, and to attain a stable cash flow generated from operating activities.

(3) *Business development plan and risk management measures for the coming year*

In 2012, the Group expects to focus on the following aspects to address the possible challenges: (1) building up the competitiveness of the pharmaceutical business: with a focus on production capacity expansion, the Group will promote layout optimization and GMP renovation, increase industrial investment to speed up industrial mergers and acquisitions, and expand product network coverage and brand building so as to expedite the integration of internal product resources to facilitate growth of major products; (2) keeping competitive edge of distribution business: the Group will step up the integration of existing distribution resources while identifying and seizing new opportunities for distribution mergers and acquisitions to accelerate the development new businesses with higher value addition including DTP, vaccine and high-end supplies, and press forward the implementation of nationwide pharmaceutical logistics layout planning and the information technology construction to regain the strategic position of retail business through integration initiatives; (3) seeking breakthroughs in R&D transformation: while seeking breakthroughs in the

Report of the Directors

first-run emulation, the Group will push ahead the international registration to secure increasing secondary development of service providers, opening completely the technology platform of research institutes under an open R&D model, and accelerate the construction of pilot bases; (4) adjusting and optimizing management model: the Group will further define its new management model, pressing ahead business integration and optimizing management; (5) improving operation management on an ongoing basis: the Group

will strengthen prior examination, in-progress inspection and post-evaluation on utilisation of share issue proceeds and other major investments, strictly control and trim down the sales and administration cost ratio, and ensure zero major accidents in pharmaceutical product quality, safety and environmental protection.

(4) *Preparation and disclosure of profit forecast for the coming year: None*

(II) INVESTMENTS BY THE COMPANY

Unit: RMB0'000

Investment in the Reporting Period	707,059.2
Change in the amount of investment	245,119.53
Investment in the previous period	461,939.67
Increase/decrease percentage (%)	53.06

Particulars of major investees

Investee name	Principal operations	Percentage in the equity interest of the investee company (%)
Shanghai New Asiatic Pharmaceutical Co., Ltd.	Production of pharmaceuticals	96.90
Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100
China Health System Ltd.	Investment Holding	100
Shanghai Pharmaceuticals Distribution Co., Ltd.	Sale of pharmaceuticals	100

1. Asset management mandates and entrusted loans

(1) Asset management mandates

The Company has no asset management mandate during the year.

(2) Entrusted loans

The Company has no entrusted loan during the year.

2. Use of proceeds from H-share offering

Unit: HK\$0'000

Year of fund raising	Method of fund raising	Total amount of proceeds	Proceeds utilised in the year	Accumulative proceeds utilised	Remaining unutilised proceeds	Usage and whereabouts of unutilised proceeds
2011	Initial public offering	1,549,230.22	676,713.95	676,713.95	872,516.27	Deposit in special bank account
Total	/	1,549,230.22	676,713.95	676,713.95	872,516.27	/

3. Projects committed

Unit: HK\$0'000

Committed project names	Change in the project	Intended use of proceeds	Actual use of proceeds	Whether carried out as scheduled	Progress of the project
Expansion and enhancement of distribution network and consolidation of existing distribution network	None	619,692.09	546,230.20	Yes	88%
Strategic acquisitions of pharmaceutical manufacturing businesses both within the PRC and internationally and internal integration of current pharmaceutical business	None	464,769.07	122,835.03	Yes	26%
Investments in the product research and development platform to further strengthen product portfolio and products under development	None	154,923.02	6,456.40	Yes	4%
Working capital requirements and for general corporate purposes	None	154,923.02	1,192.31	Yes	1%

4. Projects financed by non-raised funds

There is no material investment financed by non-raised funds during the Reporting Period.

(III) EXPLANATION OF THE BOARD ON THE RESULT OF ITS DISCUSSION OF THE REASONS AND INFLUENCES OF CHANGE IN ACCOUNTING POLICIES OR ACCOUNTING ESTIMATES OF THE COMPANY

There was no material impact on the Group's financial report from any change in its accounting policies or accounting estimates during the Reporting Period.

(IV) DAILY OPERATIONS OF THE BOARD

1. Board meetings and the resolutions

Session	Date of convening	Newspapers designated for information disclosure of resolutions	Date of information disclosure of resolutions
11th meeting of the fourth Board	28 January 2011	China Securities Journal, Shanghai Securities News, Securities Times	29 January 2011
12th meeting of the fourth Board	7 March 2011	China Securities Journal, Shanghai Securities News, Securities Times	9 March 2011
13th meeting of the fourth Board	16 April 2011	China Securities Journal, Shanghai Securities News, Securities Times	19 April 2011
14th meeting of the fourth Board	25 April 2011	China Securities Journal, Shanghai Securities News, Securities Times	26 April 2011
15th meeting of the fourth Board	15 May 2011	China Securities Journal, Shanghai Securities News, Securities Times	17 May 2011
16th meeting of the fourth Board	7 June 2011	China Securities Journal, Shanghai Securities News, Securities Times	9 June 2011
17th meeting of the fourth Board	12 July 2011	China Securities Journal, Shanghai Securities News, Securities Times	13 July 2011
18th meeting of the fourth Board	12 August 2011	China Securities Journal, Shanghai Securities News, Securities Times	15 August 2011
19th meeting of the fourth Board	27 October 2011	China Securities Journal, Shanghai Securities News, Securities Times	28 October 2011

Note: All of the resolutions set out above have been published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and some of them on that of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>).

2. Board implementation of resolutions of general meetings

The Board earnestly implemented resolutions of the general meetings, and accomplished the matters resolved by the general meetings on a timely basis. The profit distribution plan for 2010 was considered and approved at the 2010 annual general meeting of the Group. According to the resolution of the general meeting, the Group published the ex-dividend announcement on 18 August 2011 and completed the implementation of the profit distribution plan on 30 August 2011, pursuant to which cash dividend of RMB1.40 (before tax) for every 10 shares was distributed to all holders of A shares,

totalling RMB278,970,067.32, on the basis of the total share capital of 1,992,643,338 shares as at 31 December 2010. There was no conversion of capital reserve fund into share capital by the Company in 2010.

3. Report of the audit committee of the Board on establishment and improvement of relevant work systems, particulars and duty performance

In strict compliance with the Company Law, the Securities Law, the Standards on Corporate Governance of Listed Companies, Hong Kong Listing Rules and relevant laws, regulations and

rules, the audit committee earnestly reviewed financial information, regular reports and internal control system, monitored and inspected the internal audit system and the implementation, and coordinated communications between internal and external auditors with due diligence, thus ensuring the effective supervision of the Board on the management and facilitating the rational decision making of the Board.

Pursuant to 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 for auditing the Group's financial statements for 2011. On such basis, the audit committee is of the opinion that the Group's financial report for 2011 is in accordance with the Accounting Standards for Business Enterprises of the PRC, and gives a true and fair view in all material aspects of the Group's business results for 2011 and its financial position as at 31 December 2011. The audit committee has considered and approved the Group's financial statements for 2011 and annual report for 2011, and resolved to submit the same to the Board for consideration. In addition, the audit committee summarised the audit work in 2011, and considered and approved the proposals including internal audit plan of the Group for 2012, self-assessment report on internal control, and the proposed engagement of accounting firms to reappoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the auditors for the Group's financial report for 2012.

4. Report of the remuneration committee of the Board on duty performance

The remuneration and assessment committee strictly complied with the Company Law, the Securities Law, the Standards on Corporate Governance of Listed Companies, Hong Kong

Listing Rules and relevant laws, regulations and rules to exercise the due diligence. During the Reporting Period, the remuneration and assessment committee considered and approved the performance assessment report on senior management for 2010 and the proposal for assessment on management responsibilities for 2011, and thus standardised the results-driven incentive and restriction mechanism which effectively motivated the initiative and creativity of the senior management to ensure the Company to effectively achieve its strategic goals.

5. Report of the strategy committee of the Board on duty performance

In accordance with requirements of the Company Law, the Standards on Corporate Governance of Listed Companies, Hong Kong Listing Rules and relevant laws, regulations and rules, the strategy committee made forward-looking studies, evaluations and recommendations regarding the Group's developmental strategy and related matters with the utmost diligence and conscientiousness.

6. Establishment and improvement of the information disclosure and user management system

The Management System on Information Disclosure of the Group was considered and approved at the 3rd meeting of the fourth session of the Board on 20 April 2010, and was amended at the 19th meeting of the fourth session of the Board on 27 October 2011. Based on the system, the Group strengthened the management on submission and use of external information in preparing, considering and disclosing regular reports and significant events.

7. Board representation on internal control responsibilities

Based on its assessment in accordance with the Basic Standards on Internal Control of Enterprises, the Board confirmed the effectiveness of internal control over financial reporting during the Reporting Period. The domestic auditor, PricewaterhouseCoopers Zhong Tian CPAs Limited

Report of the Directors

Company, appointed by the Company issued the standard unqualified auditor's report on the effectiveness of internal control over financial reporting based on its audit engagement.

8. Establishment and implementation of the insider registration and management system

As far as the Group is aware, there is no insider who takes advantage of insider information in dealing of the Company's shares before the disclosure of material sensitive information which may affect stock price.

9. Environmental protection and safety

Neither the Group or its subsidiaries have been included into the list of heavily polluters by environment authorities. The Group is not a subject of any material environmental issues or any other material social security problems.

(V) FORMULATION AND IMPLEMENTATION OF CASH DIVIDEND POLICIES

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

(VI) PLAN FOR PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL

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

On the aforesaid basis, the Group's reserve fund available for distribution as at 31 December 2011 was RMB5,196,260,657.58 based on the financial statements prepared under the Accounting Standards for Business Enterprises of the PRC. Details of the changes in reserves (including the reserve fund available for distribution) for the year ended 31 December 2011 are set out in the financial statements.

According to the profit distribution plan of the Group for 2011 as resolved at the 20th meeting of the fourth session of the Board of the Group, the Group intended to distribute to all shareholders a cash dividend of RMB1.60 (before tax) for every 10 shares on the basis of the total share capital of 2,688,910,538 shares as at the end of 2011, subject to approval by the Group's annual general meeting for 2011.

Note: Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document 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 tax rate for dividend is lower than 10% (as stated in the relevant tax agreement or arrangement) are entitled to a refund of the excessive amount withheld by the Company, nonetheless it is subject to the approval of the competent tax authority. For shareholders who reside in a jurisdiction where the tax rate for dividend is over 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.

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

(VII) DIVIDENDS OR CONVERSION OF CAPITAL RESERVE FUND INTO SHARE CAPITAL AND BONUS FOR THE LATEST THREE YEARS

Unit: RMB

Year of dividends	Amount of cash dividends (before tax)	Net profit attributable to equity holders of the Company based on the consolidated statement for the year of dividends	Percentage in net profit attributable to equity holders of the Company based on the consolidated statement (%)
2008	25,610,752.81	81,982,816.51	31.24
2009	139,569,209.77	173,332,511.58	80.52
2010	278,970,067.32	1,368,252,869.36	20.39

- Note: 1. Among the dividends for the said three years, the dividends for 2008 were made by the former Shanghai Pharmaceutical Co., Ltd..
2. The "Net profit attributable to equity holders of the Company based on the consolidated statement for the year of dividends" for the three years above are set out based on the data in the official statements of the year of dividends.

(VIII) BORROWINGS

Details of the Group's borrowings are set out in Notes V (27), (37) and (38) to the financial statements prepared in accordance with CASBE, and Note (25) to the financial statements prepared under HKFRS.

(XI) TAX RELIEF AND EXEMPTION

Details are set out in the Note III (2) to the financial statements prepared in accordance with CAS, and Notes (35) to the financial statements prepared under HKFRS.

(IX) PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the Reporting Period are set out in Notes V (16), (17) and (18) to the financial statements prepared. In accordance, with CAS, and Note (7), (8), (9) to the financial statements prepared in accordance under HKFRS.

(XII) CHARITY AND OTHER DONATIONS

Details are set out in the Corporate Social Responsibility Report for 2011 disclosed by the Group.

(XIII) OTHER DISCLOSEABLE INFORMATION

(X) PROPERTIES (AT FAIR VALUE)

The revalued amount of the Group's investment properties as of 31 December 2011 amounted to RMB818,763,000.

Supervisory Committee's Report

(I) WORKS OF SUPERVISORY COMMITTEE

Meetings of Supervisory Committee	Meeting topics of Supervisory Committee
The Sixth Meeting of the Fourth Supervisory Committee	Supervisory Committee Annual Report 2010, Annual Financial Statement Report 2010, Annual Profit Distribution Proposal 2010, Annual Report and Abstract of Annual Report 2010, Proposal of Critical Changes in Accounting Policy, Annual Self-evaluation Report of Internal Control of the Company 2010, Proposal of Audit Fees of Annual Financial Report 2010
The Seventh Meeting of the Fourth Supervisory Committee	First Quarterly Report for the Year 2011
The Eighth Meeting of the Fourth Supervisory Committee	Interim Report 2011 Full-text and the Abstract
The Ninth Meeting of the Fourth Supervisory Committee	Third Quarterly Report of the Year 2011

During the Reporting Period, members of the Fourth Supervisory Committee have sit in 9 board meetings, have attended 1 shareholders' general meeting and have supervised the convening, holding, discussing and voting procedure of the board meetings and the shareholders' general meeting,

(II) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

According to the Company Law and the Articles of Association and other relevant laws and regulations, the Supervisory Committee supervised the procedure, resolutions and implementation of resolutions of shareholders' general meeting by the board. The Supervisory Committee holds that the resolutions of shareholders' general meetings had been implemented, the governance system of the Company had been further improved, and the establishment of the modern enterprises system had been enhanced; the board meetings were well operated with decision made rigorously. Senior management was diligent, responsible, pragmatic and enterprising, who played an important role in improving company's governance, promoting decision effectiveness and maintaining shareholders' interest.

(III) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE COMPANY

During the Reporting Period, the annual financial report 2011 of the Group has thoroughly and authentically reported the financial situation and operation results of the Group. The standard unqualified auditor's reports, and the analysis and evaluation of the relevant matter issued by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers are objective and fair.

(IV) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE ACTUAL USAGE OF THE PROCEEDS FROM THE LATEST FUND RAISING ACTIVITY

During the major asset reorganization, the Company has undertaken one fund raising activity by means of issuing additional shares and all the proceeds have been fully utilized as scheduled.

(V) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE ACQUISITIONS OR DISPOSALS OF ASSETS BY THE COMPANY

During the Reporting Period, the procedures of the acquisitions or disposals of assets by the Company were standardized and prices were reasonable, with no insider dealing and asset loss of the Group being found.

(VI) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON CONNECTED/RELATED PARTY TRANSACTIONS OF THE COMPANY

During the Reporting Period, the related transactions of the Group complied with the principles of fairness, impartiality and openness. They were priced according to market price and operated with standardized procedure, with fully disclosed information and had not harmed the interest of the Company and minority shareholders.

(VII) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE MODIFIED OPINION OF THE ACCOUNTING FIRM

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have issued standard unqualified auditor's reports.

(VIII) INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON DIFFERENCE BETWEEN PROFIT REALIZATION AND FORECAST

The Company's actual profit is beneicially in line with the earning forecast. As disclosed in Appendix V to the Group's H Shares Prospectus, based on certain assumptions, it is estimated that the Group's consolidated profit attributable to equity holders of the Company (net of tax) in 2011 would be not less than RMB2.1 billion. Due to the deflation of Hong Kong dollars as a result of the fluctuation of the exchange rate between RMB and Hong Kong dollars in 2011 and the fact that the proceeds of the global offering of the Group's H Shares were denominated in Hong Kong dollars and deposited in a special bank account in Hong Kong, the H Share proceeds (after deducting certain portion for uses as disclosed in the H Shares Prospectus and this report) remaining in the bank account in Hong Kong for the duration of 2011 booked certain loss. This booked loss was partially offset by the interest income accrued as a result of the H Share proceeds being deposited in the bank account in Hong Kong. Taking this into account, the Group's actual net profit attributable to equity holders of the Company for 2011 was RMB2.042 billion, slightly lower than the profit forecast as disclosed in the H Shares Prospectus but representing 97.2% of the profit forecast stated in the H Shares Prospectus. Without taking into account the net loss in relation to the H Share proceeds as a result of the fluctuation of exchange rate, the Group's net profit attributable to equity holders would have achieved 102% of the profit forecast.

(IX) REVIEW AND OPINION OF THE SUPERVISORY COMMITTEE ON SELF-EVALUATION REPORT OF INTERNAL CONTROL

The Supervisory Committee has reviewed the *Evaluation Report on Internal Control of Shanghai Pharmaceuticals Holding Co., Ltd. for the year 2011* (《上海醫藥集團股份有限公司關於2011年度公司內部控制的自我評估報告》) and had no objection to the report.

According to the Company Law and the Articles of Association and other relevant laws and regulations, the Supervisory Committee supervised the procedure, resolutions and the implementation of resolutions of shareholders' general meeting by the board. The Supervisory Committee holds that the resolutions of shareholders' general meetings had been implemented, the governance system of the Company had been further improved, and the establishment of the modern enterprises system had been enhanced; the board meetings were well operated with decision made rigorously. Senior management was diligent, responsible, pragmatic and enterprising.

Significant Events

(I) MATERIAL LITIGATION AND ARBITRATION

The Group does not have material litigation or arbitration during the Reporting Period.

(II) RELEVANT ISSUES OF INSOLVENCY AND REORGANIZATION AND SITUATIONS OF SUSPENSION OR TERMINATION OF LISTING

The Group has no relevant issues of insolvency and reorganization or suspension or termination of listing during the Reporting Period.

(III) EQUITY HELD BY THE COMPANY IN OTHER LISTED COMPANIES AND EQUITY INVESTMENT IN FINANCIAL INSTITUTIONS

1. Security investment

No.	Securities	Security code	Short name	Initial investment cost (RMB)	Number of shares held (share)	Book value at the end of the period (RMB)	Percentage of the securities investment at the end of the period (%)	Gain or loss during the Reporting Period (RMB)
1	Share	600329	Zhongxin Pharmaceuticals	91,473	182,946	1,710,545	64.34	-951,319
2	Share	601328	Bank of Communications	90,825	104,449	514,725	19.36	-57,656
3	Share	600618	Chlor-Alkali Chemical	186,500	50,820	433,494	16.30	20,836

2. Equity held by the Company in other listed companies

Security code	Short name	Initial investment cost (RMB)	Book value at the end of the period (RMB)	Gain or loss during the Reporting Period (RMB)	Accounting item	Source of shares
600377	Jiangsu Expressway	1,754,000	6,969,354	360,000	Available-for-sale financial assets	Purchase
600329	Zhongxin Pharmaceuticals		855,263	18,295	Available-for-sale financial assets	Debt
000931	Centek	99,300	124,488		Available-for-sale financial assets	Purchase
600675	China Enterprise	390,000	2,224,173	59,629	Available-for-sale financial assets	Purchase
601328	Bank of Communications	5,895,157	7,075,057	1,207,025	Available-for-sale financial assets	Purchase
000048	STKondarl	134,547	1,221,867	118,243,231	Available-for-sale financial assets	Purchase
HK08231	Shanghai Fudan-Zhangjiang Bio-Pharm	58,610,523	51,715,355	10,581,241	Long-term equity investment	Purchase

3. Equity held by the Company in other non-listed financial companies

Name	Initial investment cost (RMB)	Shareholding (shares)	Holding (%)	Booked value at the end of the period (RMB)	Gain/loss during the Reporting Period (RMB)	Change in equity holders interest during the Reporting Period (RMB)	Accounting item	Source of shares
Shenyin & Wanguo Securities Co. Ltd.	1,250,000.00	1,760,000	<1	1,250,000.00	1,455,019		Long-term equity investment	Subscription
China Galaxy Securities Co.Ltd.	50,000,000.00	10,000,000	<1	50,000,000.00			Long-term equity investment	wealth management funds converted into equity
Total	51,250,000.00		/	51,250,000.00			/	/

4. Details of dealings in shares of other listed companies

During the Reporting Period, the Group did not deal in any shares of other listed companies.

Significant Events

(IV) ASSET TRANSACTIONS

1. Acquisition of assets

Unit: Ten thousand Currency: RMB

Counterparty or Ultimate controlling party	Assets acquired	Date of acquisition	Price of assets acquired	Contribution to the net profit of the listed company from the date of acquisition to the end of the year	Contribution to the net profit of the listed company from the date of acquisition to the end of the year (appropriate for the merge of enterprises under common control)	Related party transaction? (If yes, specify pricing principle)	Pricing principle of assets acquired	Are all the property rights of the concerning assets transferred to the Group?	Are all the claims and liabilities of the concerning assets transferred to the Group?	Contribution to the net profit as a percentage of total net profit of the listed company(%)	Related party relationship
Shanghai Pharmaceutical (Group)	96.9% equity interests in Shanghai New Asiatic Pharmaceuticals Co., Ltd.	30 September 2011	113,202.45		10,003.89	Yes	Asset valuation	Yes	Yes	4.90%	Controlling shareholder
Shanghai Pharmaceutical (Group)	100% equity interests in Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	30 September 2011	35,576.01		301.73	Yes	Asset valuation	Yes	Yes	0.15%	Controlling shareholder
Northern Light Venture Capital II, Ltd. etc.	China Health System Ltd.	1 April 2011	356,891.99	14,255.78		No	Asset valuation	Yes	Yes	6.98%	

2. Disposal of assets

During the Reporting Period, the Group had no major disposal of assets.

(V) SIGNIFICANT RELATED PARTY TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

1. Related party transactions relating to daily operations

Unit: Ten thousand Currency: RMB

Related parties	Related party relationship	Type of the related party transaction	Particulars of the related party transaction	Pricing principle of the related party transaction	Amount of the related party transaction	Percentage of transaction value to the same type of transactions(%)	Payment method of the related party transaction
Shanghai Pharmaceutical (Group)	Parent company	Purchase of goods	Pharmaceuticals	Market price	190.81	0	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Purchase of goods	Pharmaceuticals	Market price	6,552.06	0.14	Cash
Shanghai Zhenshen Pharmaceutical Imp. & Exp. Co., Ltd.	subsidiary controlled by the parent company	Purchase of goods	Pharmaceuticals	Market price	20.34	0	Cash
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of the parent company	Sales of goods and other items	Pharmaceuticals	Market price	2,702.77	0.05	Cash

2. Related party transactions relating to acquisition and sale of assets

Unit: Ten thousand Currency: RMB

Related parties	Related party relationship	Type of the related party transaction	Particulars of the related party transaction	Pricing principle of the related party transaction	Book value of the transferred asset	Appraisal value of the transferred asset	Transfer price	Reason for the substantial difference between the transfer price and the book value or appraisal value	Payment method of the related party transaction
Shanghai Pharmaceutical (Group) and Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Parent company and wholly-owned subsidiary of parent company	Equity acquisition	96.9% equity interest in New Asiatic Pharmaceuticals and 100% equity interest in Asia Pioneer Huakang	Asset valuation	92,249.64	148,778.46	148,778.46	Capital appreciation	Cash

Significant Events

3. Related party loans and liabilities

Unit: Ten thousand Currency: RMB

Related parties	Related party relationship	Providing funds to related parties		Providing funds to listed companies by related companies	
		Amount provided	Balance	Amount provided	Balance
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Wholly-owned subsidiary of parent company			51,086.30	0
Total				51,086.30	0
Reason for the formation of debts and obligations		Historical reasons			
Repayment of related party debts and obligations		Fully repaid during the period			
Impact of the related party debts and obligations on the operating results and financial conditions of the Company		None			

Appropriation and settlement of funds during the Reporting Period

Unit: Ten thousand Currency: RMB

Balance of listed company's funds appropriated by controlling shareholders and other related parties for non-operating purposes			The total amount appropriated during the Reporting Period and repaid at the end of period	Settlement during the Reporting Period			
Beginning of Reporting Period	Amount appropriated during the Reporting Period	End of Reporting Period		Total amount settled during the Reporting Period	Settlement method	Settlement amount	Time of settlement (month)
51,086.30	51,086.30	0	51,086.30	51,086.30	Settlement of debt out of capital	51,086.30	December 2011
Reasons for additional appropriation of funds for non-operating purposes during the Reporting Period				No additional appropriation during the Reporting Period			
Further note on the non-operating funds appropriation by controlling shareholders and other related parties and its settlement				During 2011, Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. and Shanghai New Asiatic Pharmaceuticals Co., Ltd. became part of the listed company by means of business combination under common control. The relationship with them changed from related parties to subsidiaries of the listed company. On 31 December 2010, Shanghai Asia Pioneer Pharmaceutical Co., Ltd., the subsidiary of the controlling shareholder had balance of appropriated funds from the controlling shareholder. The balance of funds appropriated by the related party at the beginning of the Reporting Period was adjusted retrospectively due to business combination under common control. The non-operating balances have been fully settled during the year.			

4. Other significant related party transactions

Name of lessor	Name of lessee	Type of leased asset	Starting date of lease	Expiry day of lease	Basis for determining rental	Rental confirmed for the year (RMB'000)
Shanghai Pharmaceutical (Group)	The Company	Housing building	1 February 2010	31 January 2015	By negotiation	4,959.44
Shanghai Pharmaceutical (Group)	Shanghai Fahrenheit Pharmacy Distribution Co., Ltd.	Housing building	1 September 2010	31 August 2018	By negotiation	3,799.03
Shanghai Pharmaceutical (Group)	Shanghai Sine Pharmaceutical Laboratories Co., Ltd. – Headquarters	Housing building	30 June 2009	30 June 2019	By negotiation	64.93
Shanghai Pharmaceutical (Group)	Shipu Medical Chemical Factory of Shanghai Sunve Pharmaceutical Co., Ltd.	Housing building	30 June 2009	30 June 2019	By negotiation	153.47
Shanghai Pharmaceutical (Group)	Shanghai Sunve Yangtze River Biochemical Pharmaceutical Factory (上海三維製藥公司石浦藥物化工廠)	Housing building	30 June 2009	30 June 2019	By negotiation	515.28
Shanghai Pharmaceutical (Group)	Shanghai Leiyunshang Pharmaceutical Co., Ltd.	Housing building	30 June 2009	30 June 2019	By negotiation	8,168.57
Shanghai Pharmaceutical (Group)	Shanghai Medical Instrument Co., Ltd.	Housing building	No fixed term		By negotiation	3,912.80
Shanghai Pharmaceutical (Group)	Wholesale Department of Shanghai Medical Instrument Co., Ltd.	Housing building	No fixed term		By negotiation	1,363.01
Shanghai Pharmaceutical (Group)	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Housing building	1 March 2009	28 February 2029	By negotiation	2,262.75
Shanghai Pharmaceutical (Group)	Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.	Housing building	30 June 2009	30 June 2019	By negotiation	71.56
Shanghai Pharmaceutical (Group)	Shanghai Haichang Medical Plastic Plant	Housing building	30 June 2009	30 June 2019	By negotiation	651.94
Shanghai Pharmaceutical (Group)	Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Housing building	30 June 2009	30 June 2019	By negotiation	126.01
Shanghai Pharmaceutical (Group)	Shanghai Pharmaceutical Imp. & Exp. Co., Ltd.	Housing building	30 June 2009	30 June 2019	By negotiation	181.75
Shanghai Pharmaceutical (Group)	Shanghai Traditional Chinese Medicine Co., Ltd.	Housing building	30 June 2009	30 June 2019	By negotiation	116.95
Total						26,347.49

(VI) CONFIRMATION OF CONTINUING RELATED PARTY TRANSACTIONS

1. Entrustment Agreement

As disclosed in the Company's H Shares Prospectus, on December 13, 2010, Shanghai New Asiatic Pharmaceutical Co., Ltd. ("**Shanghai New Asiatic**") (which has become a subsidiary of the Company following completion of our acquisition of Shanghai New Asiatic, Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. and their respective subsidiaries (collectively, the "**Antibiotics Business**")), entered into a entrustment agreement with Shanghai Pharmaceutical (Group) (the "**Entrustment Agreement**"), under which Shanghai Pharmaceutical (Group) has entrusted to Shanghai New Asiatic all the equity interest held by Shanghai Pharmaceutical (Group) in Shanghai Asia Pioneer Pharmaceutical Co., Ltd. ("**Shanghai Asia Pioneer**", a subsidiary of Shanghai Pharmaceutical (Group)) as well as all the assets and business of Shanghai Asia Pioneer for the manufacture of antibiotics (collectively, the "**Target Assets**"). The Entrustment Agreement will expire on December 31, 2011. By entering into this agreement we were expecting to improve the operations of Shanghai Asia Pioneer through our management of the Target Assets pursuant to the Entrustment Agreement, and to have Shanghai Asia Pioneer injected into our Group when it meets the relevant requirements for such injection.

Pursuant to the customary practice of similar entrustment arrangements in China, Shanghai New Asiatic shall not collect any entrustment fee from Shanghai Pharmaceutical (Group) but shall be entitled to be present at Shanghai Asia Pioneer's shareholders' meetings and to exercise the voting right, right to appoint directors and hire senior managers of Shanghai Asia Pioneer and run day-to-day business of Shanghai Asia Pioneer in the name of shareholder of Shanghai Asia Pioneer (although subject to the requests of the legitimate shareholder, Shanghai Pharmaceutical (Group)), except for the rights to dispose of the Target Assets, receive revenue generated from the Target Assets and lease the real properties involved in the Target Assets as the landlord thereof. In addition, under the Entrustment Agreement, Shanghai New Asiatic is entitled to, subject to prior communications with Shanghai Pharmaceutical (Group) and without prejudice to the legitimate interests of Shanghai Pharmaceutical (Group), exercise veto right with respect to the Target Assets in the event of any potential competition with the business of the Company. All products manufactured by Shanghai Asia Pioneer shall be exclusively sold to third party customers through Shanghai New Asiatic or its subsidiaries, and Shanghai Asia Pioneer is not allowed to sell any products. The Entrustment Agreement enables Shanghai New Asiatic to manage the manufacturing and sales of Shanghai Asia Pioneer's products so as to prevent Shanghai Asia Pioneer from competing with the business of our Group following completion of our acquisition of the Antibiotics Business.

The Entrustment Agreement does not constitute a de minimis continuing connected transaction exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules due to the special arrangements thereunder. We have applied for and have obtained a waiver from the Hong Kong Stock Exchange from compliance with the announcement requirement relating to the Entrustment Agreement under the Hong Kong Listing Rules. This waiver shall expire on December 31, 2011.

2. Continuing Connected Transactions

As disclosed in the Company's H Shares Prospectus, Shanghai Pharmaceutical (Group), as one of the Controlling Shareholders of the Company, entered into a comprehensive framework agreement with the Company for connected transactions in the ordinary course of business (the "Framework Connected Transactions Agreement"), which became effective on November 5, 2009. The Framework Connected Transactions Agreement sets forth the scope and principles of transactions in the ordinary course of business including supply of raw materials, products, entrusted manufacturing services and other services between Shanghai Pharmaceutical (Group) and the Company (each including its subsidiaries). The initial term of the Framework Connected Transactions Agreement is three years from November 2009 to November 2012.

3. Amount of Continuing Connected Transactions

As at the end of the Reporting Period, the actual amount and information of the continuing connected transactions between the Group and Shanghai Pharmaceutical (Group) is set out in the table below:

Unit: Ten thousand Currency: RMB

	Year 2011
Rental expenses due to Shanghai Pharmaceutical (Group)	2,634.75
Sales of goods and render of services to Shanghai Pharmaceutical (Group) (Note)	2,702.77
Purchases of goods and services from Shanghai Pharmaceutical (Group) (Note)	6,763.21

Note: Sale and purchase do not include the transactions between Shanghai New Asiatic Pharmaceuticals Co., Ltd. and Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. and Shanghai Pharmaceutical (Group) and its subsidiaries prior to the acquisition date.

The highest applicable ratio in relation to our Group's supply of raw materials, products and sales agency services and in relation to our Group's purchases of products and entrusted manufacturing services, respectively, contemplated under the Framework Connected Transactions Agreement is, on an annual basis, expected to be more than 0.1% but less than 5%. As such, these transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting, annual review and announcement requirements set out in Rules 14A.37 to 14A.40 and 14A.45 to 14A.47 of the Hong Kong Listing Rules.

Significant Events

4. Confirmation of Continuing Related/Connected Party Transaction

The directors of the Group (including independent non-executive directors) confirmed that, all of the above related/connected party transactions are undertaken in daily and general business processes of the Company on general commercial terms, complying with of the relevant related transaction agreement, being fair and reasonable and is in the overall interest of shareholders of the Company. PricewaterhouseCoopers, the international auditor of the Company has been engaged to report on the continuing connected party 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). They have also confirmed that nothing has come into their notice for them to believe that any of the above continuing connected party transactions are: (1) not approved by the Board of the Company; (2) transactions involving the provision of products and service of the Group which were not in compliance with the pricing policies of the Company in material aspects; (3) not carried out in accordance with the related agreement regulating the transactions in material aspects; and (4) the ones whose amount is beyond the total annual cap as stated in the prospectus of H shares and the total annual cap for each of the disclosed continuing connected party transactions set out in the meeting documents of the annual general meeting held on 30 June 2011.

(VII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Trusteeship, contracting and leasing that derived profit for 10% or more of the total profit of the Company in the period.

(1) Trusteeship

During the Reporting Period, the Group had no material trusteeship.

(2) Contracting

During the Reporting Period, the Group had no material contracting.

(3) Leasing

During the Reporting Period, the Group had no material leasing.

2. Guarantee

Unit: Ten thousand Currency: RMB

Guarantee granted by the Company (excluding those to subsidiaries controlled by the company)													
Guarantor	Relationship between guarantor and listed company	Guarantee	Guaranteed amount	Commencement date of guarantee (Agreement execution date)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled?	Overdue?	Overdue amount	Counter guarantee available?	Guarantee provided to the related parties?	Related party relationship
the Company	The same entity	Shanghai Luoda Pharmaceutical Co., Ltd.	100.00		27 May 2010	27 May 2011	joint and several liability	Yes	No		No	No	Associate
Shanghai Pharmaceuticals Distribution Co., Ltd.	Wholly-owned subsidiary	Shanghai Luoda Pharmaceutical Co., Ltd.	100.00		30 May 2011	8 April 2012	joint and several liability	No	No		No	No	Associate
Shanghai Pharmaceuticals Holding Co., Ltd.	The same entity	Shenzhen Kondarl (Group) Corp., Ltd.	7,302.55		16 June 2005	16 June 2006	General guarantee	Yes	Yes	7,302.55	No	No	
Shanghai Pharmaceuticals Distribution Co., Ltd.	Wholly-owned subsidiary	Jiangxi Nanhua Medicines Co., Ltd.	2,000.00		10 August 2010	13 February 2011	joint and several liability	Yes	No		No	No	Jointly controlled entity
Shanghai Pharmaceuticals Distribution Co., Ltd.	Wholly-owned subsidiary	Jiangxi Nanhua Medicines Co., Ltd.	2,000.00		14 February 2011	13 February 2012	joint and several liability	No	No		No	No	Jointly controlled entity
Shanghai Pharmaceuticals Distribution Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Co., Ltd.	155.81		6 December 2010	20 April 2011	joint and several liability	Yes	No		No	No	Associate
Shanghai Pharmaceuticals Distribution Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Co., Ltd.	500.00		7 March 2011	30 November 2011	joint and several liability	Yes	No		No	No	Associate
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	1,000.00		20 September 2010	20 September 2011	joint and several liability	Yes	No		No	No	Associate
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,000.00		22 December 2011	21 December 2012	joint and several liability	No	No		No	No	Associate
Shanghai Pharma Keyuan Xinhai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	2,000.00		23 June 2011	22 December 2011	joint and several liability	Yes	No		No	No	Associate
Shanghai New Asiatic Pharmaceuticals Co.,Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,500.00		29 December 2011	28 December 2012	joint and several liability	No	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co.,Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		14 March 2011	14 March 2012	joint and several liability	No	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co.,Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	1,000.00		16 September 2011	16 September 2012	joint and several liability	No	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co.,Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,000.00		16 September 2011	16 September 2012	joint and several liability	No	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co.,Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	4,000.00		6 August 2010	6 March 2011	joint and several liability	Yes	No		Yes	No	Associate

Significant Events

Guarantee granted by the Company (excluding those to subsidiaries controlled by the company)													
Guarantor	Relationship between guarantor and listed company	Guarantee	Guaranteed amount	Commencement date of guarantee (Agreement execution date)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled?	Overdue?	Overdue amount	Counter guarantee available?	Guarantee provided to the related parties?	Related party relationship
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	5,000.00		1 July 2010	30 June 2011	joint and several liability	Yes	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		3 September 2010	3 September 2011	joint and several liability	Yes	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	3,000.00		15 October 2010	15 October 2011	joint liability	Yes	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	subsidiary	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	3,000.00		26 August 2010	25 August 2011	joint and several liability	Yes	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	2,000.00		6 August 2009	6 August 2011	joint and several liability	Yes	No		Yes	No	Associate
Shanghai New Asiatic Pharmaceuticals Co.,Ltd.	subsidiary controlled by the listed company	Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	4,000.00		8 September 2009	8 September 2011	joint and several liability	Yes	No		Yes	No	Associate
Total guarantees incurred during the reporting period (excluding those provided to subsidiaries)							19,681.50						
Total guarantees balance at the end of the Reporting Period (A) (excluding those provided to subsidiaries)							17,181.50						
Guarantee provided by the Company to its subsidiaries													
Total guarantee to subsidiaries incurred during the Reporting Period							250,990.41						
Total guarantee balance to subsidiaries at the end of the Reporting Period (B)							0						
Aggregate guarantee granted by the Company (including those provided to subsidiaries controlled by the Company)													
Aggregate guarantee (A+B)							17,181.50						
Percentage of aggregate guarantee to net assets of the Company (%)							0.74						
In which:													
Amount of guarantee provided for shareholders, ultimate controller and their related parties (C)							0						
Amount of debts guarantee directly or indirectly provided to guaranteed parties with gearing ratio over 70% (D)							15,181.50						
Excess amount of aggregate guarantee over 50% of net assets (E)							0						
Aggregate amount of the above three categories (C+D+E)							15,181.50						

3. Other material contracts

Other than those disclosed in the report, the Group had no material contract during the Reporting Period.

(VIII) FULFILMENT STATUS OF COMMITMENTS

1. Commitments of listed companies, controlling shareholders and ultimate controllers that are made or existing during the Reporting Period (commitments fulfilled by the Company before the Reporting Period are not included)

Background of commitment	Type of commitment	Commitment making party	Content of commitment	is there a fulfilment deadline	whether fulfilled strictly in time	Detailed reasons for unfulfilment shall be specified if commitments are not fulfilled in time	Further steps shall be specified if commitments are not fulfilled in time
Commitments in relation to substantial assets restructuring	Share restriction	Shanghai Pharmaceutical (Group)	Shares of Shanghai Pharmaceuticals held by it will not be sold within 36 months after the completion date of the Non-public Offering in relation to the substantial assets restructuring,	Yes	Yes	/	/
		Shanghai Shangshi	Shares of Shanghai Pharmaceuticals will not be sold within 36 months after the completion date of the Non-public Offering in relation to the substantial assets restructuring,	Yes	Yes	/	/
		Shanghai Shengrui	Shares of Shanghai Pharmaceuticals will not be sold within 12 months after the completion date of the Non-public Offering in relation to the substantial assets restructuring,	Yes	Yes	This commitment has been fulfilled completely during the Reporting Period	/
	resolution of horizontal competition, resolution of related transactions	Shanghai Pharmaceutical (Group)	Pursuant to the Report on the Merger by share Exchange, Share Issuance, Asset Purchase and Related Transactions of Shanghai Pharmaceutical Co., Ltd.: the Shanghai Pharmaceutical (Group) has committed to inject into Shanghai Pharmaceuticals the total equity interests or assets it holds in Shanghai Asia Pioneer Pharmaceutical Co., Ltd., Shanghai New Asiatic Pharmaceutical Co., Ltd., and Shanghai Huakang Pharmaceutical Co., Ltd. through transfer or subscription to the additional directional shares issued by Shanghai Pharmaceuticals before 31 December 2011 the latest. The consideration of such assets shall be determined by valuation conducted by asset valuation organisations and valuation filed with the administrative body of state-owned assets; within 60 days from the date on which Shanghai Pharmaceuticals completes the substantial assets restructuring and its shares resume trading, Shanghai Pharmaceutical (Group) and Shanghai Pharmaceuticals will enter into a custody agreement in relation to such assets; and to hand over the management of such assets and relevant businesses to Shanghai Pharmaceuticals. After the substantial assets restructuring, in the event that Shanghai Pharmaceutical (Group) sells shares of its subsidiary controlled or participating enterprises, Shanghai Pharmaceuticals will be given pre-emptive right under the same condition.	Yes	No	As approved by the 3rd extraordinary shareholders meeting of Shanghai Pharmaceuticals in 2010 held on 30 December 2010, Shanghai Pharmaceuticals purchased in cash 96.9% of the equity interests in Shanghai New Asiatic Pharmaceutical Co., Ltd. held by Shanghai Pharmaceutical (Group) and 100% of the equity interests in Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. held by Shanghai Pharmaceutical (Group). Such activities have been completed at the end of the Reporting Period. As entrusted by Shanghai Pharmaceutical (Group), the Group managed the asset of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. ("Asia Pioneer Pharmaceutical") during the Reporting Period, and legally exercised corresponding shareholder rights to avoid horizontal competition between the underlying assets and the Group during the consolidation period. The majority of this commitment has been fulfilled. In light of several objective factors, including the significant influence exerted upon the industry by the grading and categorizing policy for antibacterial agents put forward in 2011, the uncertain outlook for future antibiotics policies, and the various material pending litigations of Shanghai Asia Pioneer Pharmaceutical Co., Ltd. and the subsequent contingent liabilities which remain unsolved during the time limit of the commitment, Shanghai Asia Pioneer Pharmaceutical Co., Ltd. can not be injected into a listed company according to the planned time frame or be sold to an independent third party, or cease to operate.	The Group shall cooperate with Shanghai Pharmaceutical (Group) to inject Asia Pioneer Pharmaceutical into the listed company, or dispose it to independent third parties or to terminate its operations as soon as possible, and aim to complete the process by the end of Jun 2012.
	resolution of flaws in land and other property rights	Shanghai Pharmaceutical (Group)	Pursuant to the Report on the Merger by share Exchange, Share Issuance for, Asset Purchase and Related Transactions of Shanghai Pharmaceutical Co., Ltd.: the Shanghai Pharmaceutical (Group) has committed to accelerate the process of regulating unregulated land and property, by means such as paying the grant fee, applying for a property ownership certificate, or negotiating arrangement with the government on the acquisition and reservation of land. If such procedures cannot be completed before 30 June, 2011, the Shanghai Pharmaceutical (Group) will, by means such as acquiring the land in cash at the valuation at that time, resolve the problems on land and property as soon as possible. The Shanghai Pharmaceutical (Group) must ensure that the relevant party will use said property as it is before the ownership regulation is completed. The Shanghai Pharmaceutical (Group) will compensate the relevant party for any additional cost, fee, loss due to suspension of operation (if any) incurred as a result of the unregulated ownership.	Yes	No	By merging and restructuring, the land area admitted into the Shanghai Pharmaceutical (Group)'s possession totaled 2,203,800 square meters of land, and 1,097,200 square meters of property, of which 95.54% and 88.22% are regulated land and property. During the period after the completion of merging to the end of the reporting period, the Group had regulated 4,692.3 m2 of land and 9,719.62 m2 of property through transferring equity and asset to external parties and registered for real estate ownership certificate. The proportion of unregulated land reduced from 5.46% to 5.24%, and the proportion of unregulated property reduced from 11.78% to 10.90%. Currently some properties are still under regulation.	The Board of the Group shall urge on Shanghai Pharmaceutical (Group) to carry out compliance work without prejudice to the interests of the listed company.

Significant Events

2. The assets and projects of the Company contained a profit forecast, and the Reporting Period is within the profit forecast period. The Company shall explain whether the assets and projects have achieved the profit forecast and the relevant reasons.

- (1) As disclosed in Appendix V to the Group's H Shares Prospectus, based on certain assumptions, it is estimated that the Group's consolidated profit attributable to equity holders of the Company (net of tax) in 2011 would be not less than RMB2.1 billion. Due to the deflation of Hong Kong dollars as a result of the fluctuation of the exchange rate between RMB and Hong Kong dollars in 2011 and the fact that the proceeds of the global offering of the Group's H Shares were denominated in Hong Kong dollars and deposited in a special bank account in Hong Kong, the H Share proceeds (after deducting certain portion for uses as disclosed in the H Shares Prospectus and this report) remaining in the bank account in Hong Kong for the duration of 2011 booked certain loss. This booked loss was partially offset by the interest income accrued as a result of the H Share proceeds being deposited in the bank account in Hong Kong. Taking this into account, the Group's actual net profit attributable to equity holders of the Company for 2011 was RMB2.042 billion, slightly lower than the profit forecast as disclosed in the H Shares Prospectus but representing 97.2% of the profit forecast stated in the H Shares Prospectus. Without taking into account the net loss in relation to the H Share proceeds as a result of the fluctuation of exchange rate, the Group's net profit attributable to equity holders would have achieved 102% of the profit forecast.
- (2) During the major asset reorganization in 2009, certain assets were acquired from Shanghai Pharmaceutical (Group) and Shanghai Industrial Holdings and appraised using the income method, and the actual earnings in 2011 were in line with the forecasted earnings. The realisation ratio of assets acquired from Shanghai Pharmaceutical (Group) was 141.76% and the realisation ratio of assets acquired from Shanghai Industrial Holdings was 103.30%. PricewaterhouseCoopers Zhong Tian CPAs Limited Company has issued the Special Examination Report Explaining the Differences Between the Actual Earnings and the Forecasted Earnings (Pu Hua Yong Dao Zhong Tian Te Shen Zi (2012) No. 766).

(IX) APPOINTMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANTS

Unit: Ten Thousand Currency: RMB

Change of appointment:	Yes	
	Originally engaged	Currently engaged
Name of domestic auditor engaged by the Company	Lixin Certified Public Accountants Co., Ltd.	PricewaterhouseCoopers Zhong Tian CPAs Limited Company
Remuneration for domestic auditor	RMB1 million (Parent Company)	Charged a total of RMB3.2 million with the international auditor (Parent Company)
Maximum years of service for domestic auditor	13	1
Name of international auditor engaged by the Company	None	PricewaterhouseCoopers
Remuneration for international auditor	/	Charged a total of RMB3.2 million with the domestic auditor (Parent Company)
Maximum years of service for international auditor	/	1

Change of the Company's auditor in any one year within the three years prior to the date of this Report:

The Group was listed on the Main Board of the Hong Kong Stock Exchange on 20 May, 2011, becoming the first major listed pharmaceutical company in China issuing both A and H shares, under the supervision of authorities in both China and Hong Kong. PricewaterhouseCoopers, being one of the four major international accounting firms, is qualified to be engaged in securities related business. It has ample auditing experience for both A and H shares and thorough understanding of domestic and international accounting principles, which enables it to satisfy the requirements from supervising authorities and investors from China and Hong Kong. During the listing of the Group's H shares, PricewaterhouseCoopers performed its duty with high level of professionalism and completed, completing various auditing work entrusted by the Group. As approved in the general meeting held on 30 June, 2011, PricewaterhouseCoopers Zhong Tian CPAs Limited Company was appointed as our domestic auditor for 2011, and PricewaterhouseCoopers as our international auditor for 2011.

The 2011 financial statements prepared in accordance with the Chinese Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards has been audited by the PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers respectively according to auditing standards in China and Hong Kong. The standard unqualified auditor's reports have been issued.

(X) PUNISHMENT AND REFORM OF LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS AND ACTUAL CONTROLLERS

During the Reporting Period, none of the Group nor its directors, supervisors, senior management, Shareholders and actual controllers of the Group has been inspected, or received administrative penalty, nor criticized by the China Securities Regulatory Commission, and no public condemnation has been made against the Group by the Shanghai Stock Exchange or the Hong Kong Stock Exchange.

(XI) OTHER MATERIAL EVENTS

The Company's issuing of H shares and listing in Hong Kong:

On 20 May, 2011, the Group issued 664,214,000 H Shares. The Group's relevant state-owned shareholders reduced a total of 66,421,400 A shares, which were converted into H shares on a one-for-one basis and transferred to the National Social Security Fund Council. A total of 730,635,400 H Shares were listed in the Main Board of Hong Kong Stock Exchange under the name of SH PHARMA with stock code 02607.

On 11 June, 2011, Goldman Sachs (Asia) Co., Ltd. partially exercised the Over-allotment Option stated in the H Shares IPO of the Group on behalf of international buyers, and 32,053,200 H shares were issued; the state-owned shareholders with the obligations to reduce their 3,205,320 A Shares into H shares on a one-for-one basis, and transferred the same to the NSSF. On 17 June, 2011, a total of 35,258,520 shares of over-allotment H shares and converted H shares were traded on the Main Board of Hong Kong Stock Exchange.

The issuing price of this batch of H Shares is HKD23/share, raising net proceeds of HKD15,492,302,200.

Significant Events

(XII) INFORMATION DISCLOSURE INDEX

Event	Name and page of the published material	Date of publish	Website and link
Announcement on the Progress of H Shares Listing in Hong Kong	China Securities Journal, Shanghai Securities News, Securities Times	4 January 2011	http://www.sse.com.cn
Announcement on the Shares Acquisition of China Health System Ltd. and the Establishment of Beijing Office	China Securities Journal, Shanghai Securities News, Securities Times	13 January 2011	http://www.sse.com.cn
Announcement of Resolution from the 11th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	29 January 2011	http://www.sse.com.cn
Announcement on Strategic R&D Agreement on Innovative Medicine with Shanghai Fudan-zhangjiang Bio-Pharmaceutical Co.,Ltd.	China Securities Journal, Shanghai Securities News, Securities Times	24 February 2011	http://www.sse.com.cn
2010 Self-evaluation Report on Internal Control	/	9 March 2011	http://www.sse.com.cn
2010 Audit Report for Capital Turnover with Connected Parties	/	9 March 2011	http://www.sse.com.cn
Guarantee Management System	/	9 March 2011	http://www.sse.com.cn
2010 Social Responsibility Report	/	9 March 2011	http://www.sse.com.cn
2010 Brief Annual Report	China Securities Journal, Shanghai Securities News, Securities Times	9 March 2011	http://www.sse.com.cn
2010 Annual Report	/	9 March 2011	http://www.sse.com.cn
Announcement of Resolution from the 6th Board Meeting of the 4th Session of the Board of Supervisors	China Securities Journal, Shanghai Securities News, Securities Times	9 March 2011	http://www.sse.com.cn
Announcement of Resolution from the 12th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	9 March 2011	http://www.sse.com.cn
Announcement on the Progress of H Shares Listing in Hong Kong	China Securities Journal, Shanghai Securities News, Securities Times	10 March 2011	http://www.sse.com.cn
Announcement on the Progress of H Shares Listing in Hong Kong	China Securities Journal, Shanghai Securities News, Securities Times	14 March 2011	http://www.sse.com.cn
Announcement on the Increase of Shares Held by Shanghai Industrial Investment (Holding) Co., Ltd.	China Securities Journal, Shanghai Securities News, Securities Times	6 April 2011	http://www.sse.com.cn
Contining Guidance and Opinions from independent Financial Advisor on Material Assests Restructuring	/	7 April 2011	http://www.sse.com.cn
Announcement on the Progress of Shares Acquisition of China Health System Ltd.	China Securities Journal, Shanghai Securities News, Securities Times	7 April 2011	http://www.sse.com.cn

Significant Events

Event	Name and page of the published material	Date of publish	Website and link
Announcement on the Progress of H Shares Listing in Hong Kong	China Securities Journal, Shanghai Securities News, Securities Times	13 April 2011	http://www.sse.com.cn
Announcement on Enhancing Strategic Cooperation with Multi-national Pharmaceutical Corporation	China Securities Journal, Shanghai Securities News, Securities Times	13 April 2011	http://www.sse.com.cn
Announcement on Online Publishing of H Shares Issuing Information	China Securities Journal, Shanghai Securities News, Securities Times	18 April 2011	http://www.sse.com.cn
Announcement on the Review by Hong Kong Stock Exchange of the Application of the Issuance of Overseas Listed Foreign Shares by our Company	China Securities Journal, Shanghai Securities News, Securities Times	18 April 2011	http://www.sse.com.cn
Announcement on the Anticipation of Results Better Than Expected in the 1st Quarter of 2011	China Securities Journal, Shanghai Securities News, Securities Times	18 April 2011	http://www.sse.com.cn
Announcement of Resolution from the 13th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	19 April 2011	http://www.sse.com.cn
Rules of Procedure for the President Meetings	/	19 April 2011	http://www.sse.com.cn
Management System of Relations with Investors	/	19 April 2011	http://www.sse.com.cn
Announcement on Entering into Framework Agreement for Comprehensive Strategic Cooperation with China Post Group Corporation	China Securities Journal, Shanghai Securities News, Securities Times	21 April 2011	http://www.sse.com.cn
Announcement on the Momerendum of Understanding Signed with Pfizer	China Securities Journal, Shanghai Securities News, Securities Times	21 April 2011	http://www.sse.com.cn
2011 First Quarter Report	China Securities Journal, Shanghai Securities News, Securities Times	26 April 2011	http://www.sse.com.cn
Announcement on Suspension of Stock Trading	China Securities Journal, Shanghai Securities News, Securities Times	3 May 2011	http://www.sse.com.cn
Announcement on the Publication of H Share Prospectus, H Share Issuing Price Range and H Share Hong Kong Public Offering	China Securities Journal, Shanghai Securities News, Securities Times	6 May 2011	http://www.sse.com.cn
Announcement on the Price of Public Offering for the Overseas Listed Foreign Share (H Share)	China Securities Journal, Shanghai Securities News, Securities Times	16 May 2011	http://www.sse.com.cn
Rules of Procedures for Secretary of the Board	/	17 May 2011	http://www.sse.com.cn
Announcement of Resolution from the 15th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	17 May 2011	http://www.sse.com.cn

Significant Events

Event	Name and page of the published material	Date of publish	Website and link
Clarification Announcement	China Securities Journal, Shanghai Securities News, Securities Times	19 May 2011	http://www.sse.com.cn
Announcement on the Listing and Trading of the Overseas Listed Foreign Share (H share)	China Securities Journal, Shanghai Securities News, Securities Times	20 May 2011	http://www.sse.com.cn
Announcement on State-owned Share Reduction of Public Offering for the Overseas Listed Foreign Share(H share)	China Securities Journal, Shanghai Securities News, Securities Times	20 May 2011	http://www.sse.com.cn
Announcement on the Increase of Shares Held by Shanghai Industrial Investment (Holding) Co., Ltd.	China Securities Journal, Shanghai Securities News, Securities Times	23 May 2011	http://www.sse.com.cn
Announcement of Resolution from the 16th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	9 June 2011	http://www.sse.com.cn
Material of the 2010 Annual General Meeting	/	10 June 2011	http://www.sse.com.cn
Announcement on Holding Annual General Meeting of 2010	China Securities Journal, Shanghai Securities News, Securities Times	10 June 2011	http://www.sse.com.cn
Announcement on the Partial Exercise of Over-allotment Option, Price Stabilizing and the End of Price Stabilizing Period	China Securities Journal, Shanghai Securities News, Securities Times	13 June 2011	http://www.sse.com.cn
Announcement on Change of Shareholding after Exercising Over-allotment Option for the Overseas Listed Foreign Share(H share)	China Securities Journal, Shanghai Securities News, Securities Times	17 June 2011	http://www.sse.com.cn
Second Announcement on Holding Annual General Meeting of 2010	China Securities Journal, Shanghai Securities News, Securities Times	24 June 2011	http://www.sse.com.cn
Resolution of Annual General Meeting of 2010 and the 1st H Share Class Meeting of 2011	China Securities Journal, Shanghai Securities News, Securities Times	1 July 2011	http://www.sse.com.cn
Legal Opinion of Annual General Meeting of 2010 and the 1st H Share Class Meeting of 2011	/	1 July 2011	http://www.sse.com.cn
Announcement of Resolution from the 17th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	13 July 2011	http://www.sse.com.cn
Semi-annual Report of 2011	/	15 August 2011	http://www.sse.com.cn
2011 Brief Semi-annual Report	China Securities Journal, Shanghai Securities News, Securities Times	15 August 2011	http://www.sse.com.cn
Announcement of Resolution from the 18th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	15 August 2011	http://www.sse.com.cn

Significant Events

Event	Name and page of the published material	Date of publish	Website and link
Self-evaluation Report on Internal Control of First Half of 2011	/	15 August 2011	http://www.sse.com.cn
Announcement on Implementation of Profit Distribution Plan of 2010	China Securities Journal, Shanghai Securities News, Securities Times	18 August 2011	http://www.sse.com.cn
Announcement on Purchase of Company's A Share by Senior Management	China Securities Journal, Shanghai Securities News, Securities Times	22 August 2011	http://www.sse.com.cn
Announcement on the Progress of the Increase of Shares Held by Shanghai Industrial Investment (Holding) Co., Ltd.	China Securities Journal, Shanghai Securities News, Securities Times	25 August 2011	http://www.sse.com.cn
Rules of Procedure of Board of Directors (Revised in 2011)	/	13 September 2011	http://www.sse.com.cn
Rules of Procedure of General Meeting (Revised in 2011)	/	13 September 2011	http://www.sse.com.cn
Articles of Association (Revised in 2011)	/	13 September 2011	http://www.sse.com.cn
Rules of Procedure of the Board of Supervisors (Revised in 2011)	/	13 September 2011	http://www.sse.com.cn
Announcement on Acquisition of Antibiotic Asset and Pledged Equity Interests of Controlling Shareholders	China Securities Journal, Shanghai Securities News, Securities Times	23 September 2011	http://www.sse.com.cn
Implementing Rules of Audit Committee	/	28 October 2011	http://www.sse.com.cn
Related Transaction Management System	/	28 October 2011	http://www.sse.com.cn
Information Disclosure Management System	/	28 October 2011	http://www.sse.com.cn
Third quarter Report	China Securities Journal, Shanghai Securities News, Securities Times	28 October 2011	http://www.sse.com.cn
Announcement of Resolution from the 19th Board Meeting of the 4th Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	28 October 2011	http://www.sse.com.cn
Indicative Announcement on the Trading of Restricted Shares relating to Major Assets Restructuring	China Securities Journal, Shanghai Securities News, Securities Times	28 October 2011	http://www.sse.com.cn
Third Quarter Report (Revised Version)	/	29 October 2011	http://www.sse.com.cn
Announcement on Corrections of the 2011 Third Quarter Report	China Securities Journal, Shanghai Securities News, Securities Times	29 October 2011	http://www.sse.com.cn
Announcement on the Resignation of Company's Vice President Mr. Ge Jianqiu	China Securities Journal, Shanghai Securities News, Securities Times	1 December 2011	http://www.sse.com.cn

Note: The above information was also published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>).

Financial Summary

RESULTS

	For the year ended 31 December			
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	27,440,761	31,228,163	38,692,157	54,899,873
Profit before income tax	1,205,502	2,130,044	2,283,250	3,035,102
Income tax expenses	(210,193)	(464,854)	(415,885)	(589,072)
Profit for the year	995,309	1,665,190	1,867,365	2,446,030
Attribute to:				
Equity holders of the Company	696,992	1,296,789	1,456,195	2,042,239
Non-controlling interests	298,317	368,401	411,170	403,791

ASSETS AND LIABILITIES

	As at 31 December			
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	19,781,049	21,874,562	30,163,469	47,667,824
Total liabilities	10,958,505	11,439,418	17,335,241	21,686,359
Total equity	8,822,544	10,435,144	12,828,228	25,981,465
Attribute to:				
Equity holders of the Company	7,062,585	8,282,010	10,009,718	23,078,471
Non-controlling interests	1,759,959	2,153,134	2,818,510	2,902,994

Note:

The financial figures for year 2010 and 2011 were extracted from the financial statements prepared under HKFRS in this Annual Report.

The financial figures for year 2008 and 2009 were extracted from the accountant's report of our Company as set out in our H share prospectus.

No retrospective adjustments for the business combinations under common control regarding the acquisitions of Shanghai New Asiatic Pharmaceuticals Co., Ltd. and Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. were made on the financial figures for year 2008 and 2009.

Reference Document Catalogue

- (1) Financial statements signed and sealed by legal representative, person in charge of accounting matters of the Company and person in charge of accounting department.
- (2) The original copies of auditor's reports.
- (3) All the original copies of the Company's documents and the announcements published on the newspaper designated by China Securities Regulatory Commission during the Reporting Period.

Chairman: Lu Mingfang
Shanghai Pharmaceuticals Holding Co., Ltd.
29 March 2012

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2011

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 121, which comprise the consolidated and Company balance sheets as at 31 December 2011, 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
TO THE SHAREHOLDERS OF
SHANGHAI PHARMACEUTICALS HOLDING CO., LTD. (Continued)**
(incorporated in the People's Republic of China with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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, 29 March 2012

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2011	2010
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights	7	818,338	799,025
Investment properties	8	384,548	399,163
Property, plant and equipment	9	4,171,765	4,383,480
Intangible assets	10	3,447,509	520,990
Investments in jointly controlled entities	12	250,109	204,695
Investments in associates	13	2,204,408	1,281,028
Deferred income tax assets	26	178,629	153,579
Available-for-sale financial assets	14	182,792	383,716
Other long-term prepayments	15	33,899	816,236
		<u>11,671,997</u>	<u>8,941,912</u>
Current assets			
Inventories	16	8,297,483	5,233,322
Trade and other receivables	17	12,845,631	9,473,154
Financial assets at fair value through profit or loss	19	2,659	3,647
Restricted cash	18	295,345	300,985
Cash and cash equivalents	18	14,554,709	6,210,449
		<u>35,995,827</u>	<u>21,221,557</u>
Total assets		<u>47,667,824</u>	<u>30,163,469</u>
Equity attributable to owners of the Company			
Share capital	21	2,688,910	1,992,643
Share premium	22	14,396,727	3,673,565
Other reserves	22	796,573	829,983
Retained earnings	23	5,196,261	3,513,527
		<u>23,078,471</u>	<u>10,009,718</u>
Non-controlling interests		<u>2,902,994</u>	<u>2,818,510</u>
Total equity		25,981,465	12,828,228

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2011 RMB'000	2010 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	25	52,311	66,098
Deferred income tax liabilities	26	266,288	43,554
Termination benefit obligations	28	58,524	79,835
Other non-current liabilities	27	453,324	227,127
		<u>830,447</u>	<u>416,614</u>
Current liabilities			
Trade and other payables	24	14,948,013	11,354,902
Current income tax liabilities		232,440	221,648
Borrowings	25	5,675,459	5,342,077
		<u>20,855,912</u>	<u>16,918,627</u>
Total liabilities		<u>21,686,359</u>	<u>17,335,241</u>
Total equity and liabilities		<u>47,667,824</u>	<u>30,163,469</u>
Net current assets		<u>15,139,915</u>	<u>4,302,930</u>
Total assets less current liabilities		<u>26,811,912</u>	<u>13,244,842</u>

The notes on pages 12 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 121 were approved by the Board of Directors on 29 March 2012 and were signed on its behalf.

Director

Director

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY BALANCE SHEET

		As at 31 December	
	Note	2011	2010
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights	7	25,138	25,778
Investment properties	8	56,206	57,705
Property, plant and equipment	9	164,155	120,350
Intangible assets	10	1,574	903
Investments in subsidiaries	11	12,058,741	6,473,753
Investments in associates	13	386,927	234,243
Available-for-sale financial assets	14	54,346	153,492
		<u>12,747,087</u>	<u>7,066,224</u>
Current assets			
Inventories		-	2,146
Trade and other receivables	17	1,675,610	725,554
Restricted cash	18	-	24,500
Cash and cash equivalents	18	8,608,622	245,271
		<u>10,284,232</u>	<u>997,471</u>
Total assets		<u>23,031,319</u>	<u>8,063,695</u>
Equity attributable to owners of the Company			
Share capital	21	2,688,910	1,992,643
Share premium	22	16,328,357	4,689,309
Other reserves	22	335,701	345,408
Retained earnings	23	675,542	512,974
Total equity		20,028,510	7,540,334

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY BALANCE SHEET (CONTINUED)

		As at 31 December	
	Note	2011	2010
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities		271	20,693
Other non-current liabilities	27	28,278	-
		<u>28,549</u>	<u>20,693</u>
Current liabilities			
Trade and other payables	24	2,028,260	459,096
Current income tax liabilities		-	23,572
Borrowings	25	946,000	20,000
		<u>2,974,260</u>	<u>502,668</u>
Total liabilities		<u>3,002,809</u>	<u>523,361</u>
Total equity and liabilities		<u>23,031,319</u>	<u>8,063,695</u>
Net current assets		<u>7,309,972</u>	<u>494,803</u>
Total assets less current liabilities		<u>20,057,059</u>	<u>7,561,027</u>

The notes on pages 12 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 121 were approved by the Board of Directors on 29 March 2012 and were signed on its behalf.

Director

Director

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2011 RMB'000	2010 RMB'000
Revenue	6	54,899,873	38,692,157
Cost of sales	32	<u>(47,043,403)</u>	<u>(31,706,276)</u>
Gross profit		<u>7,856,470</u>	<u>6,985,881</u>
Distribution and selling expenses	32	(3,288,687)	(3,071,522)
General and administrative expenses	32	<u>(2,188,151)</u>	<u>(1,968,685)</u>
Operating profit		<u>2,379,632</u>	<u>1,945,674</u>
Other income	29	167,631	169,493
Other (losses)/gains – net	30	(84,107)	65,649
Gains on disposal of subsidiaries and associates	31	521,612	17,479
Finance income	34	262,917	47,717
Finance costs	34	(516,333)	(245,059)
Share of profit of jointly controlled entities	12	56,959	12,296
Share of profit of associates	13	<u>246,791</u>	<u>270,001</u>
Profit before income tax		3,035,102	2,283,250
Income tax expense	35	<u>(589,072)</u>	<u>(415,885)</u>
Profit for the year		<u>2,446,030</u>	<u>1,867,365</u>
Profit attributable to:			
Owners of the Company		2,042,239	1,456,195
Non-controlling interests		<u>403,791</u>	<u>411,170</u>
		<u>2,446,030</u>	<u>1,867,365</u>
Earnings per share attributable to owners of the Company during the year (expressed in RMB per share)			
-Basic and diluted	37	<u>0.84</u>	<u>0.73</u>

The notes on pages 12 to 121 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2011 RMB'000	2010 RMB'000
Dividends	38	<u>430,226</u>	<u>314,527</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2011	2010
		RMB'000	RMB'000
Profit for the year		2,446,030	1,867,365
Other comprehensive income:			
Available-for-sale financial assets			
- Gross	14	(86,562)	(35,469)
- Tax	26	21,531	8,780
Share of other comprehensive income of associates	13	-	2,200
Currency translation differences, net	22	(5,538)	(10,299)
Others		10,550	4,812
Other comprehensive income for the year, net of tax		<u>(60,019)</u>	<u>(29,976)</u>
Total comprehensive income for the year		<u>2,386,011</u>	<u>1,837,389</u>
Attributable to:			
- Owners of the Company		1,982,648	1,428,223
- Non-controlling interests		<u>403,363</u>	<u>409,166</u>
Total comprehensive income for the year		<u>2,386,011</u>	<u>1,837,389</u>

The notes on pages 12 to 121 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2010		569,173	5,152,410	823,173	2,502,258	2,246,451	11,293,465
Comprehensive income							
Profit for the year		-	-	-	1,456,195	411,170	1,867,365
Other comprehensive income							
Available-for-sale financial assets							
- Gross	14	-	-	(35,410)	-	(59)	(35,469)
- Tax	26	-	-	8,765	-	15	8,780
Share of other comprehensive income of associates	13	-	-	2,200	-	-	2,200
Currency translation differences, net	22	-	-	(10,299)	-	-	(10,299)
Others		-	-	(2,272)	9,044	(1,960)	4,812
Total other comprehensive income		-	-	(37,016)	9,044	(2,004)	(29,976)
Total comprehensive income		-	-	(37,016)	1,465,239	409,166	1,837,389
Transactions with owners							
Deemed distribution to equity holders		-	-	-	(272,108)	(91,252)	(363,360)
Issue of shares as the consideration for business combination under common control, net of expenses	21	1,423,470	6,722,470	-	-	-	8,145,940
Capital injections from non-controlling interests		-	-	-	-	67,904	67,904
Acquisitions of subsidiaries		-	-	-	-	341,048	341,048
Consideration for business combination under common control	22	-	(8,201,315)	-	-	-	(8,201,315)
Disposal of a subsidiary		-	-	-	-	(12,952)	(12,952)
Transaction with non-controlling interests		-	-	4,674	-	(60,354)	(55,680)
Dividends		-	-	-	(139,569)	(76,327)	(215,896)
Appropriation to statutory reserves	22, 23	-	-	37,141	(37,141)	-	-
Others		-	-	2,011	(5,152)	(5,174)	(8,315)
Total transaction with owners		1,423,470	(1,478,845)	43,826	(453,970)	162,893	(302,626)
Balance at 31 December 2010		1,992,643	3,673,565	829,983	3,513,527	2,818,510	12,828,228

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011		1,992,643	3,673,565	829,983	3,513,527	2,818,510	12,828,228
Comprehensive income							
Profit for the year		-	-	-	2,042,239	403,791	2,446,030
Other comprehensive income							
Available-for-sale financial assets							
- Gross	14	-	-	(86,019)	-	(543)	(86,562)
- Tax	26	-	-	21,416	-	115	21,531
Currency translation differences, net	22	-	-	(5,538)	-	-	(5,538)
Others		-	-	10,550	-	-	10,550
Total other comprehensive income		-	-	(59,591)	-	(428)	(60,019)
Total comprehensive income		-	-	(59,591)	2,042,239	403,363	2,386,011
Transactions with owners							
Deemed distribution to equity holders		-	-	-	(1,140)	-	(1,140)
Issue of shares, net of expenses	21, 22	696,267	12,211,184	-	-	-	12,907,451
Capital injections from non-controlling interests		-	-	-	-	46,316	46,316
Consideration for business combination under common control	22	-	(1,488,022)	-	-	-	(1,488,022)
Acquisitions of subsidiaries	43	-	-	-	-	256,180	256,180
Disposal of a subsidiary		-	-	-	-	(297,094)	(297,094)
Transaction with non-controlling interests	42	-	-	(25,377)	(18,341)	(57,942)	(101,660)
Dividends		-	-	-	(278,970)	(261,911)	(540,881)
Appropriation to statutory reserves	22, 23	-	-	51,558	(51,558)	-	-
Others		-	-	-	(9,496)	(4,428)	(13,924)
Total transaction with owners		696,267	10,723,162	26,181	(359,505)	(318,879)	10,767,226
Balance at 31 December 2011		2,688,910	14,396,727	796,573	5,196,261	2,902,994	25,981,465

The notes on pages 12 to 121 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2011	2010
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	39(i)	2,044,114	2,646,905
Interest paid		(453,733)	(264,385)
Income tax paid		(501,190)	(428,752)
Net cash generated from operating activities		1,089,191	1,953,768
Cash flows from investing activities			
Business combination under common control	39(vi)	(1,070,452)	(2,002,177)
Acquisition of subsidiaries, net of cash acquired	43	(2,823,776)	(1,063,769)
Cash outflow due to deemed disposal of TECHPOOL		(266,733)	-
Increase in investments in associates		-	(350,514)
Purchases of property, plant and equipment ("PP&E") and investment properties		(407,063)	(528,261)
Proceeds from disposal of PP&E and investment properties	39(ii)	41,419	510,851
Purchases of land use rights and intangible assets		(6,473)	(46,120)
Repayment of loan receivables from non-controlling interests		143,837	-
Purchases of available-for-sale financial assets		-	(1,093)
Interest received		229,514	45,041
Dividends received		198,260	219,636
Proceeds from disposal of available-for-sale financial assets	39(iv)	231,172	142,521
Proceeds from disposal of land use rights and intangible assets	39(iii)	190	44,058
Proceeds from disposal of subsidiaries, associates and jointly controlled entities	39(v)	68,753	80,517
Other cash flows generated from/(used in) investing activities		100,443	(46,351)
Net cash used in investing activities		(3,560,909)	(2,995,661)
Cash flows from financing activities			
Proceeds from non-controlling interests of certain subsidiaries		46,316	46,813
Proceeds from issuance of ordinary shares of the Company		13,324,331	1,999,604
Cash paid in respect of expenses related to issuance of new shares		(372,710)	-
Proceeds from borrowings		11,355,279	6,984,032
Repayments of borrowings		(12,753,308)	(6,144,429)
Dividends paid by the Group		(515,962)	(484,857)
Others cash flows generated/(used in) financing activities		12,844	(47,442)
Net cash generated from financing activities		11,096,790	2,353,721
Net increase in cash and cash equivalents		8,625,072	1,311,828
Cash and cash equivalents at beginning of year		6,210,449	4,904,133
Exchange losses on cash and cash equivalents		(280,812)	(5,512)
Cash and cash equivalents at end of year		14,554,709	6,210,449

The notes on pages 12 to 121 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. (上海四药股份有限公司), 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 (上海第四制药厂), 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”, 上海医药(集团)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. (上海市医药股份有限公司) 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, 上海实业(集团)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”, 上海实业医药投资股份有限公司), 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”, 上海中西药业股份有限公司), 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. (上海实业控股有限公司), 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”, 上海上实(集团)有限公司), another company controlled by Shanghai Industrial Group for cash of RMB1,999.6 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information (continued)

1 History and group reorganisation (continued)

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

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

On 30 September 2011, the Company acquired 96.9% equity interests of Shanghai New Asiatic Pharmaceuticals Co., Ltd. (Shanghai New Asiatic) and 100% equity interests of Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (Huakang) (collectively, the “Anti-biotic Businesses”) from Shanghai Pharma Group (Note 43 (a)). The Anti-biotic Businesses are mainly engaged in manufacturing and distribution of anti-biotic medicine and other pharmaceutical products.

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

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

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2012.

2. Principal activities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of significant accounting policies

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

3.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS 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.

- (b) As mentioned in Note 1 of this section, the Company acquired the Anti-biotic Businesses from Shanghai Pharma Group in 2011. As the Company and the Anti-biotic Businesses are under common control of Shanghai Pharma Group, which is controlled by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("SASAC Shanghai"), the aforementioned acquisitions of the Anti-biotic Businesses from Shanghai Pharma Group have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements include the financial positions, results and cash flows of the Anti-biotic Businesses as if the acquisitions had been completed prior to the beginning of year 2010, of which the financial statements were restated.

3.2 Accounting policies

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

The following new standards and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2011 that would be expected to have a material impact on the Group.

- HKAS 24 (Revised), 'Related Party Disclosures' is effective for annual year beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
 - The name of the government and the nature of their relationship;
 - The nature and amount of any individual significant transactions; and
 - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. The Group has already early adopted the government related entity exemption in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Accounting policies

- HKAS 32 (Amendment), 'Classification of rights issues'
- HK(IFRIC) - Int 19, 'Extinguishing financial liabilities with equity instruments'
- Amendment to HKFRS 1, 'Limited Exemption from comparative HKFRS 7 disclosures for first time adopters'
- Amendment to HK(IFRIC) - Int 14, 'Prepayments of a minimum funding requirement'

The adoption of the abovementioned revised standard and also those third annual improvements project (2010) to HKFRS as published by HKICPA in May 2010 did not result in any substantial changes to the Group's significant accounting policies and presentation of the consolidated financial statements.

- (b) New and amended standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 January 2011 and have not been early adopted.
- HKAS 1, the main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group is yet to assess HKAS 1's full impact and intends to adopt HKAS 1 no later than the accounting period beginning on or after 1 July 2012.
 - HKAS 12 (Amendment), 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, HK(SIC) 21, 'Income taxes – recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC) 21, which is withdrawn. The Group is yet to assess HKAS 12's full impact and intends to adopt HKAS 12 no later than the accounting period beginning on or after 1 January 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Accounting policies (continued)

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2013.
- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.
- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates

(a) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assessed existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Except for the business combination under common control as described in (i) below, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

(i) Business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” to account for the purchase of the equity interests in the Anti-biotic Businesses in 2011, as if the acquisition had been occurred and the Anti-biotic Businesses had been combined from 1 January 2010, the beginning of the earliest financial year presented. The net assets of the Group and the Anti-biotic Businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised in respect of goodwill or excess of the Group’s interest in the net fair value of the Anti-biotic Businesses’ identifiable assets, liabilities and contingent liabilities over cost of acquisition at the time of the business combinations under common control. The consolidated income statement includes the results of the Group and the Anti-biotic Businesses from 1 January 2010, the earliest date presented, regardless of the date of the business combinations under common control.

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) Consolidation (continued)

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

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

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

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

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

(iv) Disposal of subsidiaries

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

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) Jointly controlled entities and associates

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

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

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

Other than the associates acquired as an integrated part of the Acquired Businesses which were accounted for as prescribed in Note 1, 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.4 Segment reporting

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

3.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

(c) Group companies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.5 Foreign currency translation (continued)

(c) Group companies (continued)

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 equity.

3.6 Property, plant and equipment

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.7 Investment properties

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

Investment properties, principally comprising land use right, buildings, plant and warehouses, are held for long-term rental yields and/or for capital appreciation.

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

3.8 Land use rights

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

3.9 Intangible assets

(a) Goodwill

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

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

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

(b) Business network

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.9 Intangible assets (continued)

(c) Trademarks and patent rights

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

(d) Know-how

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

(e) Research and development

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.9 Intangible assets (continued)

(f) Computer software

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

(g) Other intangible assets

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

3.10 Impairment of non-financial assets

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

3.11 Financial assets

(a) Classification

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

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

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

(ii) Loans and receivables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.11 Financial assets (continued)

(a) Classification (continued)

(iii) Available-for-sale financial assets

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

(b) Recognition and measurement

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

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

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

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

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

3.12 Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available for sale

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.14 Inventories

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

3.15 Trade and other receivables

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

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

3.16 Cash and cash equivalents

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

3.17 Share capital

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

3.18 Trade payables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.19 Borrowings

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

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

3.20 Borrowing costs

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

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

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

3.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

(i) Inside basis differences

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

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

3 Summary of significant accounting policies (continued)

3.21 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

(ii) Outside basis differences

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

(c) Offsetting

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

3.22 Employee benefits

(a) Pension obligations

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

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

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

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

(c) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.23 Provisions

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

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

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

3.24 Government grants

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

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

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

3.25 Revenue recognition

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

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

(a) Sales of goods – wholesale

The Group manufactures and sells a range of medicine, pharmaceutical and other products in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the wholesaler (including hospital and distributor), the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.25 Revenue recognition (continued)

(b) Sales of goods – retail pharmacy operations

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

(c) Rental income

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

(d) Interest income

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

(e) Sales of services

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

(f) Dividend income

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

3.26 Leases (as a lessee)

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

3.27 Dividend distribution

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.28 Financial guarantee contracts

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management

4.1 Financial risk factors

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

(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, 17, 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.

For the year ended 31 December 2011 and 2010, the Group did not use any financial instruments or derivatives to hedge against the foreign exchange risk. However, management will continue to monitor closely the foreign exchange risk exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2011, 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 lower/higher by approximately RMB344,312,000 (2010: higher/lower RMB30,885,000), mainly as a result of foreign exchange losses/gains (2010: gains/losses) arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

(b) Fair value and cash flow interest rate risk

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

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

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

As at 31 December 2011, 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 RMB5,658,000 (2010: lower/higher RMB1,581,000) respectively, mainly as a result of higher/lower interest expenses on bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Credit risk

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

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

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

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

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

(d) Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management

4.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011					
Borrowings (Note 25)	5,675,459	7,710	23,731	20,870	5,727,770
Interests payments on borrowings	174,098	1,652	3,725	280	179,755
Financial liabilities as included in trade and other payables	14,084,696	-	-	-	14,084,696
	<u>19,934,253</u>	<u>9,362</u>	<u>27,456</u>	<u>21,150</u>	<u>19,992,221</u>
At 31 December 2010					
Borrowings (Note 25)	5,342,077	1,635	30,080	34,383	5,408,175
Interests payments on borrowings	97,689	2,763	5,367	737	106,556
Financial liabilities as included in trade and other payables	10,570,385	-	-	-	10,570,385
	<u>16,010,151</u>	<u>4,398</u>	<u>35,447</u>	<u>35,120</u>	<u>16,085,116</u>

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 2011 and 2010, it was not anticipated that any material liabilities will arise from such loan guarantee contracts. An analysis of the Group's outstanding loan guarantee provided to related parties has been disclosed in Note 44 (d).

4.2 Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management**4.2 Capital management (continued)**

The gearing ratios are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Total borrowings	5,727,770	5,408,175
Total equity	25,981,465	12,828,228
Total capital	31,709,235	18,236,403
Gearing ratio (%)	18%	30%

The decrease of gearing ratio is mainly due to the increase of total equity arising from the issuance of H shares.

4.3 Fair value estimation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgements

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

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

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

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

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

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

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

(b) Useful lives of business network

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

(c) Estimated impairment of goodwill

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgements (continued)

(e) 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.

(f) 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.

(g) Fair value of the investment in TECHPOOL upon its initial recognition

The Group initially recognised its investment in associate arising from the deemed disposal of TECHPOOL at its fair value. As the shares of TECHPOOL are not traded in an active market, the Group uses its judgement to select a method and make assumptions to estimate its fair value. The Group has used discounted cash flow analysis to determine the fair value of its investment in TECHPOOL. The assumptions used in determining the fair value include expected future cash flows, the discount rate determined by weighted average cost of capital and lack of control discount. Any changes in these assumptions will impact the fair value of the investment.

6 Segment information

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

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

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

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

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

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

For the year ended 31 December 2011

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

For the year ended 31 December 2010

	Production Segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	7,896,775	28,773,926	1,725,546	295,910	-	38,692,157
Inter-segment revenue	1,108,560	818,269	-	38,975	(1,965,804)	-
Segment revenue	9,005,335	29,592,195	1,725,546	334,885	(1,965,804)	38,692,157
Segment operating profit	1,243,368	653,554	25,904	106,363	(83,515)	1,945,674
Other income						169,493
Gains on disposal of subsidiaries and associates						17,479
Other gains - net						65,649
Finance costs - net						(197,342)
Share of profit of jointly controlled entities	40,942	(28,646)	-	-	-	12,296
Share of profit of associates	208,839	61,162	-	-	-	270,001
Profit before income tax						2,283,250
Income tax expense						(415,885)
Profit for the year						1,867,365

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

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

Other segment items included in the consolidated financial statements for the year ended 31 December 2010 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	321,969	67,650	8,975	6,155	-	404,749
Amortisation of intangible assets and land use rights	24,505	6,698	548	227	-	31,978
Capital expenditure	498,106	120,223	20,190	696	-	639,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

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

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

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

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

The segment assets and liabilities as at 31 December 2010 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	107,938	96,757	-	-	-	204,695
Investment in associates	1,201,798	79,230	-	-	-	1,281,028
Other assets	11,652,138	14,287,211	590,501	10,962,944	153,579	37,646,373
Elimination						(8,968,627)
Total assets						<u>30,163,469</u>
Segment liabilities	5,950,395	11,525,766	333,922	3,311,345	265,202	21,386,630
Elimination						(4,051,389)
Total liabilities						<u>17,335,241</u>

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	30,009,890	17,070,039
Unallocated:		
Current income tax liabilities	-	221,648
Deferred tax assets/liabilities - net	153,579	43,554
Total	<u>30,163,469</u>	<u>17,335,241</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Land use rights

The Group

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

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Opening net book amount	799,025	821,652
Additions	5,336	59,395
Transfer from PP&E (Note 9)	53,599	-
Amortisation charge (Note 32)	(24,727)	(23,225)
Transfer to investment properties	-	(23,389)
Disposals	(519)	(35,408)
Disposal of subsidiaries	(14,376)	-
Closing net book amount	<u>818,338</u>	<u>799,025</u>

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost of sales	628	1,366
Distribution and selling expenses	2,274	2,513
General and administrative expenses	21,825	19,346
	<u>24,727</u>	<u>23,225</u>

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Land use rights, secured	<u>61,979</u>	<u>47,801</u>

- (c) As at 31 December 2011, 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 RMB6,618,000 (2010: RMB31,757,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Land use rights (continued)**The Company**

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Opening net book amount	25,778	55,497
Additions	-	32,702
Amortisation charge	(640)	(1,424)
Disposals	-	(60,997)
Closing net book amount	<u>25,138</u>	<u>25,778</u>

8 Investment properties**The Group**

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost	531,162	528,906
Accumulated depreciation	(146,614)	(129,743)
Net book amount	<u>384,548</u>	<u>399,163</u>
Opening net book amount	399,163	743,641
Transfer from owner-occupied PP&E (Note 9)	2,219	19,233
Transfer from land use right (Note 7)	-	23,389
Depreciation (Note 32)	(15,861)	(23,692)
Disposals	(973)	(363,408)
Closing net book amount	<u>384,548</u>	<u>399,163</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Investment properties (continued)**The Group**

- (a) As at 31 December 2011, the fair values of the investment properties were approximately RMB818,763,000 (2010: RMB788,840,000). 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	
	2011 RMB'000	2010 RMB'000
Rental income	78,034	78,399

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	
	2011 RMB'000	2010 RMB'000
Cost	83,293	83,293
Accumulated depreciation	(27,087)	(25,588)
Net book amount	56,206	57,705
Opening net book amount	57,705	190,383
Additions	-	59,580
Depreciation	(1,499)	(6,661)
Disposals	-	(185,597)
Closing net book amount	56,206	57,705

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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 2010							
Cost	3,487,172	2,199,326	259,281	368,457	425,171	359,091	7,098,498
Accumulated depreciation	(910,402)	(1,120,990)	(159,132)	(251,754)	(216,450)	-	(2,658,728)
Impairment	(38,973)	(45,902)	(1,820)	(91)	(2,959)	(3,725)	(93,470)
Net book amount	2,537,797	1,032,434	98,329	116,612	205,762	355,366	4,346,300
Year ended 31 December 2010							
Opening net book amount	2,537,797	1,032,434	98,329	116,612	205,762	355,366	4,346,300
Acquisition of subsidiaries	89,835	19,006	11,418	6,260	14,539	50,031	191,089
Additions	80,428	46,307	30,384	37,462	57,128	325,929	577,638
Internal transfer	125,056	193,445	8,440	4,534	46,951	(378,426)	-
Transfer to investment properties (Note 8)	(19,233)	-	-	-	-	-	(19,233)
Disposals (Note 39(ii))	(109,044)	(37,627)	(3,792)	(3,019)	(20,425)	(17,948)	(191,855)
Depreciation charge (Note 32)	(124,339)	(151,959)	(27,431)	(33,947)	(43,381)	-	(381,057)
Disposal of subsidiaries	(92,485)	(19,540)	(3,773)	(3,053)	(168)	(7,532)	(126,551)
Provision for impairment (Note 30)	(2,209)	(10,218)	(3)	(421)	-	-	(12,851)
Closing net book amount	2,485,806	1,071,848	113,572	124,428	260,406	327,420	4,383,480
At 31 December 2010							
Cost	3,555,439	2,241,630	283,484	398,062	491,545	331,145	7,301,305
Accumulated depreciation	(1,028,485)	(1,116,781)	(168,457)	(273,354)	(228,748)	-	(2,815,825)
Impairment	(41,148)	(53,001)	(1,455)	(280)	(2,391)	(3,725)	(102,000)
Net book amount	2,485,806	1,071,848	113,572	124,428	260,406	327,420	4,383,480
Year ended 31 December 2011							
Opening net book amount	2,485,806	1,071,848	113,572	124,428	260,406	327,420	4,383,480
Acquisition of subsidiaries	7,615	5,443	15,393	1,762	16,027	150	46,390
Additions	8,292	77,837	50,872	36,010	74,249	204,789	452,049
Internal transfer	57,583	42,789	5,621	15,534	45,999	(167,526)	-
Transfer to land use rights (Note 7)	(25,417)	-	-	-	-	(28,182)	(53,599)
Transfer to investment properties (Note 8)	(2,219)	-	-	-	-	-	(2,219)
Disposals (Note 39(ii))	(13,671)	(11,026)	(11,998)	(14,510)	(13,298)	(2,068)	(66,571)
Depreciation charge (Note 32)	(134,269)	(154,756)	(32,469)	(37,025)	(69,242)	-	(427,761)
Disposal of subsidiaries	(56,153)	(35,492)	(5,199)	(2,242)	(33,824)	(22,910)	(155,820)
Provision for impairment (Note 30)	-	(4,184)	-	-	-	-	(4,184)
Closing net book amount	2,327,567	992,459	135,792	123,957	280,317	311,673	4,171,765
At 31 December 2011							
Cost	3,491,000	2,242,617	319,618	421,311	493,681	314,842	7,283,069
Accumulated depreciation	(1,138,454)	(1,205,692)	(182,634)	(297,080)	(210,975)	-	(3,034,835)
Impairment	(24,979)	(44,466)	(1,192)	(274)	(2,389)	(3,169)	(76,469)
Net book amount	2,327,567	992,459	135,792	123,957	280,317	311,673	4,171,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment (continued)

The Group

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost of sales	238,707	231,464
Distribution and selling expenses	31,569	28,165
General and administrative expenses	157,485	121,428
	<u>427,761</u>	<u>381,057</u>

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Property, plant and equipment, pledged	<u>189,227</u>	<u>293,016</u>

- (c) As at 31 December 2011, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB276,673,000 (2010: RMB470,585,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment (continued)

The Company

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 1 January 2010							
Cost	308,643	128,915	25,582	9,035	7,204	1,450	480,829
Accumulated depreciation	(63,270)	(42,640)	(16,440)	(3,283)	(5,015)	-	(130,648)
Impairment	-	(627)	-	-	-	-	(627)
Net book amount	245,373	85,648	9,142	5,752	2,189	1,450	349,554
Year ended 31 December 2010							
Opening net book amount	245,373	85,648	9,142	5,752	2,189	1,450	349,554
Additions	95,578	25,920	6,323	3,149	20,209	17,983	169,162
Internal transfer	-	-	-	-	5,156	(5,156)	-
Transfer to subsidiaries	(171,366)	(85,479)	(8,447)	(5,508)	(2,209)	(2,582)	(275,591)
Disposals	(91,914)	(110)	(1,346)	(290)	(57)	-	(93,717)
Depreciation charge	(11,662)	(10,588)	(2,226)	(1,335)	(3,247)	-	(29,058)
Closing net book amount	66,009	15,391	3,446	1,768	22,041	11,695	120,350
At 31 December 2010							
Cost	113,454	15,922	4,673	2,985	25,218	11,695	173,947
Accumulated depreciation	(47,445)	(531)	(1,227)	(1,217)	(3,177)	-	(53,597)
Net book amount	66,009	15,391	3,446	1,768	22,041	11,695	120,350
Year ended 31 December 2011							
Opening net book amount	66,009	15,391	3,446	1,768	22,041	11,695	120,350
Additions	-	-	1,126	2,430	27,462	28,177	59,195
Internal transfer	7,883	457	(1,116)	1,530	239	(8,993)	-
Disposals	(6)	-	(32)	(281)	(295)	-	(614)
Depreciation charge	(2,709)	-	(796)	(989)	(10,282)	-	(14,776)
Closing net book amount	71,177	15,848	2,628	4,458	39,165	30,879	164,155
At 31 December 2011							
Cost	118,364	15,848	4,432	6,663	52,619	30,879	228,805
Accumulated depreciation	(47,187)	-	(1,804)	(2,205)	(13,454)	-	(64,650)
Net book amount	71,177	15,848	2,628	4,458	39,165	30,879	164,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets

The Group

	Goodwill RMB'000	Business network RMB'000	Trademarks and patent rights RMB'000	Know-how RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010							
Cost	222,156	-	84,828	99,269	26,475	27,786	460,514
Accumulated amortisation	-	-	(16,136)	(47,177)	(22,599)	(5,529)	(91,441)
Impairment	(122,202)	-	(60,000)	(26,840)	-	(19,177)	(228,219)
Net book amount	99,954	-	8,692	25,252	3,876	3,080	140,854
Year ended 31 December 2010							
Opening net book amount	99,954	-	8,692	25,252	3,876	3,080	140,854
Acquisition of subsidiaries	334,017	57,714	-	-	-	-	391,731
Additions	-	-	4,220	8,526	5,517	6,888	25,151
Disposals	(11,190)	-	-	(15,618)	(630)	(555)	(27,993)
Amortisation charge (Note 32)	-	-	(1,351)	(4,290)	(2,263)	(849)	(8,753)
Closing net book amount	422,781	57,714	11,561	13,870	6,500	8,564	520,990
At 31 December 2010							
Cost	529,349	57,714	87,507	79,817	32,252	35,038	821,677
Accumulated amortisation	-	-	(15,946)	(58,344)	(25,752)	(7,297)	(107,339)
Impairment	(106,568)	-	(60,000)	(7,603)	-	(19,177)	(193,348)
Net book amount	422,781	57,714	11,561	13,870	6,500	8,564	520,990
Year ended 31 December 2011							
Opening net book amount	422,781	57,714	11,561	13,870	6,500	8,564	520,990
reclassification	-	-	3,620	4,656	(1,336)	(6,940)	-
Acquisition of subsidiaries (Note 43)	2,567,152	397,022	-	-	2,001	1,713	2,967,888
Additions	-	-	2,619	-	5,567	1,562	9,748
Disposal of subsidiaries	-	-	(490)	(4,814)	-	-	(5,304)
Impairment Charge (Note 30)	(1,038)	-	-	-	-	-	(1,038)
Amortisation charge (Note 32)	-	(35,509)	(3,988)	(1,684)	(3,264)	(330)	(44,775)
Closing net book amount	2,988,895	419,227	13,322	12,028	9,468	4,569	3,447,509
At 31 December 2011							
Cost	3,096,485	464,081	31,317	125,898	40,764	30,106	3,788,651
Accumulated amortisation	-	(44,854)	(17,995)	(37,777)	(31,296)	(7,769)	(139,691)
Impairment	(107,590)	-	-	(76,093)	-	(17,768)	(201,451)
Net book amount	2,988,895	419,227	13,322	12,028	9,468	4,569	3,447,509

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost of sales	926	1,061
Distribution and selling expenses	35,509	122
General and administrative expenses	8,340	7,570
	<u>44,775</u>	<u>8,753</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets (continued)

The Group

(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	
	2011 RMB'000	2010 RMB'000
Production segment	9,374	72,407
Distribution segment	2,963,164	334,017
Others	16,357	16,357
	<u>2,988,895</u>	<u>422,781</u>

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

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

	Production segment	Distribution segment	Others
Gross margin	20%-30%	4%-8%	20%-26%
Growth rate to extrapolate cash flows beyond the budget period	2%-3%	2%-4%	2%-3%
Discount rate	10%-14%	11%-13%	10%-14%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets (continued)

The Company

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Cost	1,873	903
Accumulated amortisation	(299)	-
Net book amount	<u>1,574</u>	<u>903</u>
Opening net book amount	903	-
Additions	970	903
Depreciation	(299)	-
Closing net book amount	<u>1,574</u>	<u>903</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Investments in subsidiaries**The Company**

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Investment at cost		
- Unlisted shares	12,058,741	6,473,753

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

12 Investments in jointly controlled entities**The Group**

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Share of net assets, unlisted	250,109	204,695
At 1 January	204,695	197,941
Share of profit for the year	56,959	12,296
Dividends declared	(11,545)	(2,742)
Deductions	-	(2,800)
End of the year	250,109	204,695

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

(a) Jiangxi Nanhua Medicines Co., Ltd.

	As at and for the year ended 31 December	
	2011 RMB'000	2010 RMB'000
Assets	611,272	498,015
Liabilities	511,446	409,299
Revenues	1,239,797	1,015,541
Profit/(loss) for the year	8,269	(31,502)
Percentage of interests held	50%	50%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Investments in jointly controlled entities (continued)

The Group

(b) Shanghai Hutchison Pharmaceutical Co., Ltd.

	As at and for the year ended 31 December	
	2011 RMB'000	2010 RMB'000
Assets	228,608	179,265
Liabilities	84,112	71,327
Revenues	319,661	241,260
Profit for the year	46,583	38,038
Percentage of interests held	50%	50%

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

13 Investments in associates

The Group

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Share of net assets	2,273,552	1,350,172
Provision for impairment	(69,144)	(69,144)
	2,204,408	1,281,028
At 1 January	1,281,028	842,296
Addition arising from deemed disposal of TECHPOOL (Note 31)	742,754	-
Other additions	124,945	368,220
Share of profit for the year	246,791	270,001
Share of other comprehensive income	-	2,200
Dividends declared	(188,840)	(158,848)
Transfer (to)/from available-for-sale financial assets	(300)	5,090
Deductions	(1,970)	(47,931)
End of the year	2,204,408	1,281,028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

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

(a) Shanghai Roche Pharmaceutical Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	1,370,634	962,771
Liabilities	887,425	520,802
Revenues	1,579,069	1,177,582
Profit for the year	97,816	120,374
Percentage of interest held	30.00%	30.00%

(b) Sino-American Shanghai Squibb Pharmaceutical Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	447,482	379,271
Liabilities	254,129	160,549
Revenues	754,997	672,858
Profit for the year	57,955	89,638
Percentage of interest held	30.00%	30.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

(c) TECHPOOL Bio-Pharma Co., Ltd. (Note 31(a))

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	843,833	Not applicable
Liabilities	63,810	Not applicable
Revenues	332,197	Not applicable
Profit for the year	61,454	Not applicable
Percentage of interest held	40.8%	Not applicable

(d) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	106,229	90,030
Liabilities	46,713	40,092
Revenues	39,631	27,347
Profit for the year	9,582	351
Percentage of interest held	29.6%	29.6%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

(e) Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	37,282	32,882
Liabilities	16,442	14,547
Revenues	75,763	66,495
Profit for the year	14,959	13,683
Percentage of interest held	24.0%	24.0%

(f) Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	411,958	Not applicable
Liabilities	272,051	Not applicable
Revenues	876,600	Not applicable
Profit for the year	14,988	Not applicable
Percentage of interest held	50.0%	Not applicable

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

(g) Shanghai Ajinomoto Amino Acid Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	82,297	74,554
Liabilities	8,483	4,044
Revenues	56,705	53,944
Profit for the year	4,992	3,972
Percentage of interest held	39.00%	39.00%

(h) Shanghai Tsumura Pharmaceutical Co., Ltd.

	As at and for the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Assets	131,873	111,507
Liabilities	26,108	9,839
Revenues	86,086	78,415
Profit for the year	5,484	6,923
Percentage of interest held	34.00%	34.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)**The Company**

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Investment at cost		
- Unlisted shares	449,741	297,057
Provision for impairment	(62,814)	(62,814)
	<u>386,927</u>	<u>234,243</u>
At 1 January	234,243	73,408
Deemed disposal of TECHPOOL	152,684	-
Additions	-	212,809
Deductions	-	(51,974)
End of the year	<u>386,927</u>	<u>234,243</u>

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	
	2011 RMB'000	2010 RMB'000
Listed equity investment, at fair value	18,470	116,368
Unlisted equity investment, cost	221,345	317,114
Provision for impairment of unlisted equity investment	(57,023)	(49,766)
Unlisted equity investment, net	<u>164,322</u>	<u>267,348</u>
	<u>182,792</u>	<u>383,716</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Available-for-sale financial assets (continued)

The Group

	As at 31 December	
	2011 RMB'000	2010 RMB'000
At 1 January	383,716	443,590
Transfer from/(to) investments in associates (Note 13)	300	(5,090)
Additions	8,310	97,506
Net amount recognised in equity	(86,562)	(35,469)
Disposals	(22,692)	(116,821)
Transfer to investment in a subsidiary (Note 43)	(93,989)	-
Provision for impairment (Note 30)	(6,291)	-
End of the year	<u>182,792</u>	<u>383,716</u>

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

The Company

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Listed equity investment, at fair value	1,222	100,368
Unlisted equity investment, cost	53,124	53,124
	<u>54,346</u>	<u>153,492</u>
At 1 January	153,492	71,663
Additions	-	143,408
Net amount recognised in equity	(81,687)	(16,840)
Disposals	(17,459)	(44,739)
End of the year	<u>54,346</u>	<u>153,492</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Other long-term prepayments

Pursuant to the approval of the board of directors on 13 December 2010 and a series of agreements entered into by the Group with certain third parties, the Group would acquire 65.24% equity interests of China Health System Ltd. ("CHS"), which is mainly engaged in the distribution of pharmaceutical products, at a consideration of approximately RMB2,328,000,000.

Pursuant to a subsequent approval by the board of directors on 28 January 2011, the Group would acquire the remaining 34.76% equity interests of CHS from certain third parties at a consideration of approximately RMB1,241,000,000.

As at 31 December 2010, the Group had paid approximately RMB895,373,000 to certain then shareholders of CHS, out of which RMB816,236,000 had been paid as prepayment for the acquisition of equity interest of 62.61% of CHS, RMB79,137,000 had been paid for the acquisition of equity interest of 2.63% of CHS.

For the year ended 31 December 2011, the Group had paid remaining consideration of RMB2,673,547,000 to the then shareholders of CHS to obtain the right to control CHS. This acquisition of 100% equity interest in CHS was completed in early April 2011 as disclosed in Note 43(b)(i).

As at 31 December 2011, other long-term prepayments primarily represented construction cost prepaid by the Group.

16 Inventories**The Group**

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Raw materials	593,581	539,205
Work in progress	351,682	352,277
Finished goods	7,522,888	4,508,169
	<u>8,468,151</u>	<u>5,399,651</u>
Less: write-down to net realisable value	(170,668)	(166,329)
	<u>8,297,483</u>	<u>5,233,322</u>
At the year end	<u>8,297,483</u>	<u>5,233,322</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Inventories (continued)**The Group**

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

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cost of sales, distribution and selling expenses and general and administrative expenses	46,063,401	30,855,687

17 Trade and other receivables**The Group**

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables from third parties		
Accounts receivable	11,264,715	7,651,736
Less: Provision for impairment	(747,859)	(748,074)
Accounts receivable – net	10,516,856	6,903,662
Notes receivable	971,206	579,120
Trade receivables – net	11,488,062	7,482,782
Other receivables from third parties	1,295,235	1,360,600
Less: Provision for impairment	(718,924)	(736,379)
Other receivables – net	576,311	624,221
Amount due from related parties (Note 44(c))	149,518	682,035
Less: Provision for impairment	(21,391)	(51,039)
Amount due from related parties – net	128,127	630,996
Prepayments (Note b)	478,002	660,735
Value-added tax recoverable	144,482	71,927
Interest receivables	30,647	2,493
Trade and other receivables	12,845,631	9,473,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Trade and other receivables (continued)

The Group

- (a) The fair values of trade and other receivables approximate their carrying amounts due to the short maturities.
- (b) As of 31 December 2011 and 2010, prepayments are in connection with:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Purchases of:		
- Raw materials and merchandise	402,669	521,586
- Prepaid expenses and others	79,113	106,427
- Property, plant and equipment	-	32,722
	<u>481,782</u>	<u>660,735</u>

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB	14,314,697	10,979,067
HKD	412	192
USD	8,830	12,632
Other currencies	9,866	16,755
	<u>14,333,805</u>	<u>11,008,646</u>

- (d) As of 31 December 2011, trade receivables of approximately RMB844,458,000 (2010: RMB179,849,000) have been pledged by the Group for acquiring borrowings of approximately RMB788,765,000 (2010: RMB305,934,000) (Note 25).
- (e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, sales are made on credit terms of within 180 days. Ageing analysis of gross trade receivables from third parties (accounts receivable and notes receivable) at 31 December 2011 and 2010 are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Less than 3 months	8,428,295	5,873,458
3 months to 6 months	2,134,609	752,550
6 months to 12 months	904,193	807,447
1 year to 2 years	102,095	63,136
Over 2 years	666,729	734,265
	<u>12,235,921</u>	<u>8,230,856</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Trade and other receivables (continued)

The Group

As of 31 December 2011, trade receivables from third parties of approximately RMB1,673,017,000 (2010: RMB1,604,848,000) were past due and impaired. It was assessed that a portion or none of the receivables is expected to be recovered. The ageing analysis of these trade receivables and expected recovery are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
6 months to 12 months	904,193	807,447
1 year to 2 years	102,095	63,136
Over 2 years	666,729	734,265
	<u>1,673,017</u>	<u>1,604,848</u>
Less: Expected recovery	(971,265)	(889,258)
Impairment	<u>701,752</u>	<u>715,590</u>

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

	For the year ended 31 December	
	2011 RMB'000	2010 RMB'000
At beginning of the year	1,535,492	1,570,468
Provision for impairment	11,106	15,927
Reversal of impairment on certain long ageing receivables	(20,684)	-
Write-off against uncollectible receivables	(37,740)	(50,903)
At the end of year	<u>1,488,174</u>	<u>1,535,492</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Trade and other receivables (continued)

The Company

	As at 31 December	
	2011	2010
	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	-	50
Trade receivables - net	-	50
Other receivables	466,925	445,345
Less: Provision for impairment	(428,983)	(428,241)
Other receivables - net	37,942	17,104
Amount due from related parties, net (Note)	1,635,487	705,869
Others		
Prepayments	-	2,531
Prepaid tax	2,181	-
	1,675,610	725,554

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Cash and cash equivalents and restricted cash

The Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash at bank	14,843,951	6,500,965
Cash on hand	6,103	10,469
	<u> </u>	<u> </u>
Less: restricted cash (Note a)	(295,345)	(300,985)
	<u> </u>	<u> </u>
Cash and cash equivalents	14,554,709	6,210,449
	<u> </u>	<u> </u>
Denominated in:		
– RMB	6,809,611	6,126,618
– HKD	7,971,390	86,893
– USD	42,624	268,317
– EUR	4,643	4,908
– Other currencies	21,786	24,698
	<u> </u>	<u> </u>
	14,850,054	6,511,434
	<u> </u>	<u> </u>

- (a) As of 31 December 2011 and 2010, certain of the Group's bank deposits have been pledged for the following purposes:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bank deposits pledged for:		
– issue of notes payable	194,970	275,115
– issue of bank borrowings	-	24,500
– others	100,375	1,370
	<u> </u>	<u> </u>
	295,345	300,985
	<u> </u>	<u> </u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Cash and cash equivalents and restricted cash (continued)**The Group**

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

	As at 31 December	
	2011 % per annum	2010 % per annum
Effective interest rate	0.40% ~ 3.10%	0.36% ~ 1.71%

The Company

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Cash at bank	8,608,621	269,770
Cash on hand	1	1
	8,608,622	269,771
Less: restricted cash	-	(24,500)
Cash and cash equivalents	8,608,622	245,271
Denominated in:		
– RMB	1,350,161	269,771
– HKD	7,258,461	-
	8,608,622	269,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Financial instruments by category

The Group

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Assets per balance sheet:		
Financial assets at fair value through profit or loss	2,659	3,647
Available-for-sale financial assets (Note 14)	182,792	383,716
Loans and receivables		
- Accounts and notes receivables (Note 17)	11,488,062	7,482,782
- Amount due from related parties (Note 44)	124,347	630,758
- Other receivables (Note 17)	606,958	626,714
- Cash and bank (Note 18)	14,850,054	6,511,434
	<u>27,254,872</u>	<u>15,639,051</u>
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
- Accounts and notes payables (Note 24)	12,372,127	8,712,048
- Amount due to related parties (Note 44)	374,384	460,113
- Accrual and other payables	1,338,185	1,398,224
- Borrowings (Note 25)	5,727,770	5,408,175
	<u>19,812,466</u>	<u>15,978,560</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Financial instruments by category (continued)

The Company

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Assets per balance sheet:		
Available-for-sale financial assets	54,346	153,492
Loans and receivables		
- Amounts due from related parties (Note 17)	1,635,487	705,869
- Other receivables (Note 17)	37,942	16,236
- Cash and bank (Note 18)	8,608,622	269,771
	<u>10,336,397</u>	<u>1,145,368</u>
Liabilities per balance sheet:		
Other financial liabilities at amortised cost		
- Accounts and notes payables (Note 24)	10,785	24,778
- Accrual and other payables (Note 24)	957,529	412,617
- Borrowings (Note 25)	946,000	20,000
	<u>1,914,314</u>	<u>457,395</u>

20 Credit quality of financial assets

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

(a) Trade receivables

As at 31 December 2011, the Group's trade receivables due from third parties of approximately RMB8,428,295,000 (2010: RMB5,873,458,000) were within three months. Trade receivables that were within three months mainly represent those due from customers with good credit history and low default rate. Trade receivables that were either past due or impaired were disclosed in Note 17.

None of the financial assets that are fully performing has been renegotiated in year 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Credit quality of financial assets (continued)**(b) Cash and cash equivalents**

As at 31 December 2011 and 2010, all the bank deposits are deposited in reputable financial institutions which primarily comprise reputable international banks and PRC listed banks or state-owned banks.

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

21 Share capital**The Group and the Company**

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total shares of RMB1 each RMB'000
Issued and fully paid:					
At 1 January and 2010	569,173	-	569,173	-	569,173
Issue of A Shares (Note 1)	1,423,470	-	1,423,470	-	1,423,470
At 31 December 2010	1,992,643	-	1,992,643	-	1,992,643
Issue of H Shares (note a)	-	696,267	-	696,267	696,267
Internal transfer (note b)	(69,627)	69,627	(69,627)	69,627	-
At 31 December 2011	1,923,016	765,894	1,923,016	765,894	2,688,910

Note:

- (a) Pursuant to the approval from the China Securities Regulatory Commission (the "CSRC") for the filing of application to list the H Shares on the HKSE and the Global Offering in April 2011, the Company initially issued 664,214,000 H Shares of RMB1 each and partially exercised the Over-Allotment Option of 32,053,200 H Shares of RMB1 each to certain foreign investors at a price of HKD23 per each H Share on 20 May 2011 and 11 June 2011, respectively.
- (b) Pursuant to certain regulations and agreements, 69,626,720 state-owned A Shares of the Company held by the controlling shareholders were transferred to the National Council for Social Security Fund of the PRC (the "NSSF") and converted into H Shares on a one-for-one basis.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves

The Group

	Share premium	Statutory reserves Note (a)	Available- for-sale financial Assets	Revaluation surplus Note (b)	Translation difference	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	5,152,410	624,630	89,411	28,227	5,688	75,217	5,975,583
Appropriation to statutory reserves (Note (a), 23)	-	37,141	-	-	-	-	37,141
Issue of shares as considerations for business combination under common control (Note (c))	6,722,470	-	-	-	-	-	6,722,470
Deemed distribution to equity holders (Note (b))	(8,201,315)	-	-	-	-	-	(8,201,315)
Available-for-sale financial assets							
- Gross	-	-	(35,410)	-	-	-	(35,410)
- Tax	-	-	8,765	-	-	-	8,765
Share of other comprehensive income of associates	-	-	-	-	-	2,200	2,200
Transaction with non-controlling interests	-	-	-	-	-	4,674	4,674
Currency translation difference	-	-	-	-	(10,299)	-	(10,299)
Others	-	-	-	-	-	(261)	(261)
At 31 December 2010	3,673,565	661,771	62,766	28,227	(4,611)	81,830	4,503,548

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Group

	Share premium	Statutory reserves Note (a)	Available- for-sale financial Assets	Revaluation surplus Note (b)	Translation difference	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	3,673,565	661,771	62,766	28,227	(4,611)	81,830	4,503,548
Issue of shares, net of expenses (Note (c))	12,211,184	-	-	-	-	-	12,211,184
Appropriation to statutory reserves (Note (a), 23)	-	51,558	-	-	-	-	51,558
Available-for-sale financial assets	-	-	-	-	-	-	-
- Gross	-	-	(86,019)	-	-	-	(86,019)
- Tax	-	-	21,416	-	-	-	21,416
Deemed distribution to equity holders (Note (b))	(1,488,022)	-	-	-	-	-	(1,488,022)
Transaction with non-controlling interests	-	-	-	-	-	(25,377)	(25,377)
Currency translation difference	-	-	-	-	(5,538)	-	(5,538)
Others	-	-	-	-	-	10,550	10,550
At 31 December 2011	14,396,727	713,329	(1,837)	28,227	(10,149)	67,003	15,193,300

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Company

	Share premium	Statutory reserves Note (a)	Available-for- sale financial Assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	544,181	252,065	1,413	-	797,659
Issue of shares as considerations for business combination under common control (Note (c))	6,722,470	-	-	-	6,722,470
Effect of business combination under common control	(2,577,342)	-	75,794	-	(2,501,548)
Appropriation to statutory reserves (Note (a), 23)	-	28,491	-	-	28,491
Available-for-sale financial assets					
- Gross	-	-	(16,840)	-	(16,840)
- Tax	-	-	4,485	-	4,485
At 31 December 2010	4,689,309	280,556	64,852	-	5,034,717
Capital injection from shareholders (Note (c))	12,211,184	-	-	-	12,211,184
Effect of business combination under common control	(565,527)	-	-	-	(565,527)
Appropriation to statutory reserves (Note (a), 23)	-	51,558	-	-	51,558
Available-for-sale financial assets					
- Gross	-	-	(81,687)	-	(81,687)
- Tax	-	-	20,422	-	20,422
Others	-	-	-	(6,609)	(6,609)
At 31 December 2011	16,334,966	332,114	3,587	(6,609)	16,664,058

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Group and the Company

- (a) In accordance with the PRC Company Law and the articles of association of the PRC companies comprising the Group (the “PRC Companies”), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year’s losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.
- (b) Deemed distribution to equity holders represents consideration paid out for business combination under common control to the then shareholders of certain subsidiaries before the completion of business combination under common control as disclosed in Note 1.

In February 2010, the Company completed the restructuring with Shanghai Pharma Group, Shang Shi Pharma, Zhong Xi Pharma and Shanghai Shangshi (collectively the “Transfer Out Parties”) to acquire the business from the Transfer Out Parties. This transaction was accounted for as a business combination under common control (Note 1). Total deemed and/or actual consideration amounting to approximately RMB8,201,315,000 has been debited to the share premium in the consolidated statements of changes in equity.

In September 2011, the Company completed the acquisition of the “Anti-biotic Businesses from Shanghai Pharma Group. This transaction was accounted for as a business combination under common control (Notes 1 and 43). Total consideration amounting to approximately RMB1,488,022,000 has been debited to the share premium in the consolidated statements of changes in equity.

- (c) On 4 February 2010, the Company issued additional total number of 624,317,752 new A Shares to Shanghai Pharma Group and Shanghai Shangshi at a price of RMB11.83 each for acquiring certain subsidiaries, associates and other assets from them. Excess of total deemed and/or actual proceeds over the notional amount of share capital and issue costs directly related to the issuance amounting to approximately RMB6,735,855,000 has been recognised as share premium in the consolidated statements of changes in equity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 Retained earnings

	The Group RMB'000	The Company RMB'000
At 1 January 2010	2,502,258	480,905
Profit for the year	1,456,195	200,129
Deemed distribution to equity holders (note)	(272,108)	-
Dividends of the Company (Note 38)	(139,569)	(139,569)
Appropriation to statutory reserves (Note 22)	(37,141)	(28,491)
Others	3,892	-
At 31 December 2010	3,513,527	512,974
Profit for the year	2,042,239	493,096
Deemed distribution to equity holders (note)	(1,140)	-
Dividends of the Company (Note 38)	(278,970)	(278,970)
Appropriation to statutory reserves (Note 22)	(51,558)	(51,558)
Others	(27,837)	-
At 31 December 2011	5,196,261	675,542

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables

The Group

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Accounts payable to third parties	10,276,215	6,832,291
Notes payable	2,095,912	1,879,757
Advances received from customers	366,944	325,704
Payables for purchase of PP&E	106,844	63,202
Staff welfare and salary payables	331,376	340,745
Tax liabilities other than income tax	160,681	114,257
Amounts due to related parties (Note 44)	378,700	463,924
Accrued expenses	530,144	457,657
Deposits	216,825	142,471
Dividends payable	52,317	48,383
Considerations payable in respect of acquisition of certain subsidiaries	-	234,695
Others	432,055	451,816
	<u>14,948,013</u>	<u>11,354,902</u>

- (a) As at 31 December 2011 and 2010, ageing analysis of the accounts payables to third parties and notes payables is as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Less than 3 months	9,085,183	6,803,929
3 months to 6 months	2,266,272	552,455
6 months to 12 months	716,681	1,108,280
1 year to 2 years	140,137	124,787
2 years to 3 years	52,051	35,151
Over 3 years	111,803	87,446
	<u>12,372,127</u>	<u>8,712,048</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables (continued)

The Group

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
RMB	14,075,938	11,325,034
USD	604,618	10,562
EUR	23,747	1,088
HKD	239,804	18,218
Other currencies	3,906	-
	<u>14,948,013</u>	<u>11,354,902</u>

The Company

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Accounts payable	10,785	24,778
Dividends payable	-	34,672
Amounts due to related parties (Note)	1,854,120	342,833
Accrued expenses	37,415	3,933
Advances from customers	4,207	4,207
Tax liabilities other than income tax	6,533	2,114
Salary, bonus and staff welfare benefits payable	14,206	15,380
Others	100,994	31,179
	<u>2,028,260</u>	<u>459,096</u>

Note:

Amount due to related parties primarily represents other payables and dividends payable due to the Company's subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings

The Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
- guaranteed (Note a)	4,470	5,200
- secured (Note b)	31,886	45,042
- unsecured	11,522	11,423
Other borrowings	4,433	4,433
	<u>52,311</u>	<u>66,098</u>
Current		
Short-term bank borrowings		
- guaranteed (Note a)	212,100	724,350
- secured (Note b)	1,126,455	768,822
- unsecured	4,197,614	3,789,888
Other borrowings	138,560	31,287
	<u>5,674,729</u>	<u>5,314,347</u>
Current portion of long-term bank borrowings		
- guaranteed (Note a)	730	730
- secured (Note b)	-	27,000
	<u>5,675,459</u>	<u>5,342,077</u>
Total borrowings	<u><u>5,727,770</u></u>	<u><u>5,408,175</u></u>

- (a) As at 31 December 2011, the bank borrowings as guaranteed by independent third parties amounted to approximately RMB127,220,000 (2010: RMB274,670,000).

As at 31 December 2011, the bank borrowings as guaranteed by a related party amounted to approximately RMB90,080,000 (2010: RMB455,610,000) (Note 44).

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Secured by:		
- PP&E and Land use rights (Note 7, 9)	369,576	534,930
- Trade receivables and fixed deposits	788,765	305,934
	<u>1,158,341</u>	<u>840,864</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings (continued)

The Group

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
RMB	5,415,229	4,405,950
USD	285,843	1,002,225
HKD	26,698	-
	<u>5,727,770</u>	<u>5,408,175</u>

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Bank borrowings		
- RMB	6.45%	4.63%
- USD	4.55%	1.23%
- HKD	4.72%	-
	<u> </u>	<u> </u>

Interest rates of bank borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Within 1 year	5,675,459	5,342,077
Between 1 and 2 years	7,710	1,635
Between 2 and 5 years	23,731	30,080
	<u>5,706,900</u>	<u>5,373,792</u>
Wholly repayable within 5 years		
Over 5 years	20,870	34,383
	<u>5,727,770</u>	<u>5,408,175</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings (continued)

The Group

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Within 6 months	2,780,217	4,508,962
Between 6 and 12 months	2,947,553	899,213
	<u>5,727,770</u>	<u>5,408,175</u>

- (g) The carrying amounts of short-term and current borrowings approximate their fair values.

The carrying amount and fair value of non-current borrowings are set out as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Carrying amounts	52,311	66,098
Fair value	<u>50,061</u>	<u>65,403</u>

The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each balance sheet dates.

The Company

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Current		
Short-term borrowings		
- unsecured	946,000	-
- guaranteed	-	20,000
	<u>946,000</u>	<u>20,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income tax

The Group

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deferred income tax assets		
- To be recovered after more than 12 months	12,825	18,873
- To be recovered within 12 months	165,804	134,706
	<u>178,629</u>	<u>153,579</u>
Deferred income tax liabilities		
- To be recovered after more than 12 months	240,419	33,346
- To be recovered within 12 months	25,869	10,208
	<u>266,288</u>	<u>43,554</u>
Deferred income tax (liabilities)/ assets - net	<u>(87,659)</u>	<u>110,025</u>

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
At 1 January	110,025	86,900
Recognised in the consolidated income statements (Note 35)	(113,014)	30,845
Disposal of subsidiaries	(11,488)	(1,267)
Acquisition of subsidiaries	(94,713)	(15,233)
Recognised in equity	21,531	8,780
Deferred income tax (liabilities)/ assets - net	<u>(87,659)</u>	<u>110,025</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income tax (continued)

The Group

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

Deferred income tax assets

	Provision for impairment of assets RMB'000	Termination Benefit obligations RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	86,491	11,515	6,697	15,642	120,345
Acquisition of a subsidiary	631	-	-	95	726
Disposal of subsidiaries	(331)	-	-	(936)	(1,267)
Recognised in the consolidated income statements	(1,068)	(1,155)	29,053	6,945	33,775
At 31 December 2010	85,723	10,360	35,750	21,746	153,579
Acquisition of subsidiaries	8,419	-	6,279	-	14,698
Disposal of subsidiaries	(2,931)	-	(4,852)	(3,705)	(11,488)
Recognised in the consolidated income statements	5,436	(796)	272	16,928	21,840
At 31 December 2011	96,647	9,564	37,449	34,969	178,629

Deferred income tax liabilities

	Fair value of intangible assets RMB'000	Deemed disposal of TECHPOOL RMB'000	Fair value gains from available-for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010	-	-	32,161	1,284	33,445
Acquisition of a subsidiary	-	-	-	15,959	15,959
Recognised in the consolidated income statements	-	-	-	2,930	2,930
Recognised in equity	-	-	(8,780)	-	(8,780)
At 31 December 2010	-	-	23,381	20,173	43,554
Acquisition of subsidiaries	102,704	-	-	6,707	109,411
Recognised in the consolidated income statements	-	142,048	-	(7,194)	134,854
Recognised in equity	-	-	(21,531)	-	(21,531)
At 31 December 2011	102,704	142,048	1,850	19,686	266,288

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 RMB29,771,000 (2010: RMB33,693,000) in respect of tax losses amounting to approximately RMB119,085,000 (2010: RMB134,770,000) that can be carried forward against future taxable income. Tax losses amounting to RMB3,075,000, RMB116,010,000 will expire in 2015 and 2016, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Other non-current liabilities

The Group

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Medical reserve funds (Note a)	63,014	62,147
Project development funds (Note b)	80,372	71,461
Office and plant relocation funds (Note c)	255,908	75,738
Others	54,030	17,781
	<u>453,324</u>	<u>227,127</u>

- (a) During the years ended 31 December 2011 and 2010, certain medical reserve funds were received by the Group from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group will sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2011 and 2010 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

In addition, in accordance with notices from Central Ministry of Finance, such balance is not repayable within one year.

- (b) Certain of the Group's subsidiaries and the Company received funds from local governments as compensation for expenses arising from research expenses on certain special projects. Upon completion of the research, such funds, after offsetting against actual expenses arising during the course of research, will be recognised as other income. As at each balance sheet date, the directors expect that such project will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.
- (c) Certain of the Group's subsidiaries received funds from local governments or other organisations as compensation for losses arising from office or plant relocation upon the request from the local government. Upon completion of the office or plant relocation, such funds, after offsetting against actual losses arising from office relocation, will be recognised as other income. As at each respective balance sheet date, the directors expect that such office or plant relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

The Company

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Project development funds	<u>28,278</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Termination benefit obligations

The Group

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Termination benefit	58,524	79,835

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	
	2011 RMB'000	2010 RMB'000
At beginning of year	79,835	98,064
Recognised as expense (Note 33)	637	2,377
Benefits paid	(21,948)	(20,606)
At end of year	58,524	79,835

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Other income

The Group

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Government grants (Note a)	109,846	110,115
Subsidy for relocation (Note 27(c))	51,663	29,814
Dividend income from available-for-sale financial assets	6,122	29,564
	<u>167,631</u>	<u>169,493</u>

- (a) Government grants mainly represented subsidy income received from various government organisations.

30 Other (losses)/gains – net

The Group

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
(Loss)/gain of financial assets at fair value through profit or loss, net	(1,075)	4,892
Gain/(loss) on disposals of investment properties	4,129	(65,268)
Gain on disposals of PP&E	454	24,235
Gain on disposals of intangible assets	-	71
Gain on disposals of available-for-sale financial assets	119,412	114,768
Loss on disposals of land use rights	(329)	(8,224)
Provision for impairment of PP&E (Note 9)	(4,184)	(12,851)
Provision for impairment of available-for-sale financial assets (Note 14)	(6,291)	-
Provision for impairment of intangible assets (Note 10)	(1,038)	-
Reversal for impairment of long ageing receivables	20,684	-
Foreign exchange losses	(194,586)	(1,938)
Others - net	(21,283)	9,964
	<u>(84,107)</u>	<u>65,649</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Gains on disposal of subsidiaries

The Group

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Deemed disposal of TECHPOOL (note (a))	479,195	-
Disposal of Qingdao Growful Dongrui Pharmaceutical Co., Ltd. ("Dongrui") (note (b))	37,803	-
Others	4,614	17,479
	<u>521,612</u>	<u>17,479</u>

Note:

- (a) During the year ended and up to 31 December 2010, the Group held 40.8% equity interest in TECHPOOL Bio-Pharma Co., Ltd. ("TECHPOOL"). The directors of the Company and the Group's management were of the view that the Group had the power to govern the financial and operating policies of TECHPOOL during the year ended and up to 31 December 2010 although its equity interests in this company was below 50%, after considering the facts that the Group can control the financial and operating policies of the entity by virtue of an agreement with other shareholders. From 1 January 2011 onwards, the relevant agreement expired and the Group does not exert control over TECHPOOL. Accordingly, from 1 January 2011, TECHPOOL was no longer qualified as a subsidiary of the Group but as an associate, despite the fact that there was no changes in the respective shareholding percentage between the Group and the other shareholders.

Consequently, in recording such transaction, the Group (a) derecognised the assets (including goodwill) and liabilities of the TECHPOOL at their carrying amounts at 1 January 2011; (b) derecognised the carrying amount of non-controlling interests in TECHPOOL at 1 January 2011; (c) recognised the investment retained in TECHPOOL at fair value at 1 January 2011; and (d) recognised the resulting difference as gain in the income statement. Impact of the transaction is analysed as below:

	2011 RMB'000
Fair value of the 40.8% equity investment in TECHPOOL (Note 13)	742,754
Less: Carrying amount of net assets of TECHPOOL as at 1 January 2011	(491,485)
Goodwill in relation to TECHPOOL as at 1 January 2011	(63,033)
Carrying amount of non-controlling interest in TECHPOOL as at 1 January 2011	290,959
Gain on deemed disposal of TECHPOOL	<u>479,195</u>

The deferred tax impact on the above gain is recorded under deferred income tax liabilities in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Gains on disposal of subsidiaries**The Group**

- (b) On 9 May 2011, the Group disposed 100% of the share capital of Dongrui for approximately RMB24,500,000.

	2011 RMB'000
Fair value of the 100% equity investment in Dongrui	19,391
Add: Carrying amount of net liabilities of Dongrui as at 9 May 2011	18,412
Gain on disposal of Dongrui	<u>37,803</u>

32 Expenses by nature**The Group**

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Raw materials, merchandise and consumables used	49,077,744	32,078,324
Changes in inventories of finished goods and work in progress	(3,014,344)	(1,222,637)
Employee benefit expenses (Note 33)	2,035,075	1,722,379
Travelling and meeting expenses	739,438	746,644
Promotion and advertising costs	431,804	384,813
Depreciation of PP&E (Note 9)	427,761	381,057
Transportation costs	240,325	167,263
Operating lease rentals	214,017	159,582
Real estate tax, stamp duties and other taxes	207,476	148,443
Office expenditures	193,793	226,578
Energy and utilities	124,559	103,872
Repair and maintenance fee	100,755	131,663
Amortisation of intangible assets (Note 10)	44,775	8,753
Amortisation of land use rights (Note 7)	24,727	23,225
Depreciation of investment properties (Note 8)	15,861	23,692
Provision for impairment of trade and other receivables (Note 17)	11,106	15,927
Auditor's remuneration	9,389	9,686
Write-down/(reversal of write-down) of inventories to net realisable value	4,338	(20,595)
Others	1,631,642	1,657,814
Total cost of sales, distribution and selling expenses and general and administrative expenses	<u>52,520,241</u>	<u>36,746,483</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses

The Group

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Salaries, wages and bonuses	1,428,140	1,222,230
Contributions to pension plans (Note (a))	239,690	173,474
Housing fund, medical insurance and other social insurance (Note (b))	220,037	181,950
Termination benefit obligations (Note 28)	637	2,377
Others	146,571	142,348
	<u>2,035,075</u>	<u>1,722,379</u>

- (a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 22% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 0.3% to 15% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.
- (c) Emoluments of directors and senior management

The remuneration of each director of the Company for the year is set out below:

Year ended 31 December 2011

Name of director	Salaries and fee RMB'000	Bonuses RMB'000	Others RMB'000	Total RMB'000
Mr. Lu Mingfang	-	-	-	-
Mr. Zhang Jialin	-	-	-	-
Mr. Xu Guoxiong	451	2,540	71	3,062
Mr. Lu Shen	-	-	-	-
Mr. Jiang Ming	-	-	-	-
Mr. Zeng Yixin	115	-	-	115
Mr. Bai Huiliang	115	-	-	115
Mr. Chen Naiwei	115	-	-	115
Ms. Tommei Tong	115	-	-	115
	<u>911</u>	<u>2,540</u>	<u>71</u>	<u>3,522</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses (continued)

The Group

(c) Emoluments of directors and senior management (continued)

Year ended 31 December 2010

Name of director	Salaries and fee RMB'000	Bonuses RMB'000	Others RMB'000	Total RMB'000
Mr. Lu Mingfang	-	-	-	-
Mr. Zhang Jialin	-	-	-	-
Mr. Xu Guoxiong	396	781	65	1,242
Mr. Lu Shen	-	-	-	-
Mr. Jiang Ming	-	-	-	-
Mr. Zeng Yixin	60	-	-	60
Mr. Bai Huiliang	60	-	-	60
Mr. Chen Naiwei	60	-	-	60
Ms. Tommei Tong	60	-	-	60
	<u>636</u>	<u>781</u>	<u>65</u>	<u>1,482</u>

Note:

In addition to the directors' emoluments as disclosed above, certain directors of the Company received emoluments (the "Emoluments") from Shanghai Pharma Group or Shanghai Industrial Group, the immediate holding company and ultimate parent company respectively. No apportionment has been made as the directors consider that it is impractical to apportion the emoluments between their services rendered to the Group and their service rendered to the immediate holding company and ultimate parent company.

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include one 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	
	2011 RMB'000	2010 RMB'000
Salaries and fee	3,103	1,465
Bonuses	11,191	2,399
Employer's contribution to pension scheme	320	325
	<u>14,614</u>	<u>4,189</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses (continued)**The Group****(d) Five highest paid individuals (continued)**

The emoluments fell within the following bands:

	Year ended 31 December	
	2011 Number	2010 Number
Emolument bands (in HK dollars)		
HKD500,001 - HKD1,000,000	-	3
HKD1,000,001 - HKD1,500,000	-	2
HKD2,500,001 - HKD3,000,000	1	-
HKD3,000,001 - HKD3,500,000	1	-
HKD3,500,001 - HKD4,000,000	1	-
HKD4,000,001 - HKD4,500,000	2	-

- (e) In 2011 and 2010, 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	
	2011 RMB'000	2010 RMB'000
Interest income on bank deposits	259,283	47,717
Others	3,634	-
Total finance income	262,917	47,717
Interest expenses on borrowings	(326,621)	(197,490)
Interest expenses on notes discounted	(135,175)	(39,681)
Other costs	(54,537)	(7,888)
Total finance cost	(516,333)	(245,059)
Net finance costs	(253,416)	(197,342)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Taxation

The Group

(a) Income tax expense

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current income tax, PRC enterprise income tax	476,058	446,730
Deferred income tax	113,014	(30,845)
	<u>589,072</u>	<u>415,885</u>

- (i) The Group was not subject to Hong Kong profits tax during the years presented as there was no assessable income arising in or derived from Hong Kong.
- (ii) On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law") which is with effect from 1 January 2008. The New CIT Law reduces (increases) the CIT rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008.

For enterprises which were established before the publication of the New CIT Law and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 22% for 2010 and 24% for 2011 and will be 25% for 2012. For enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Details of the preferential CIT policies and significant subsidiaries who enjoy these policies are listed as follows:

- Shanghai WaiGaoQiao Pharmaceutical Business and Distribution Centre, Shanghai SiFu Pharmaceutical Co., Ltd., Shanghai Far-east Pharmaceutical Machinery Co., Ltd., Shanghai XinLing Pharmaceutical Co., Ltd., and Shanghai Hua Cheng Property Management Co., Ltd. used to enjoy the preferential CIT rate of 15% applicable to the domestic enterprises established in Pudong New Area, Shanghai. According to the New CIT Law and "the Circular of the State Council on the Implementation of Transitional Preferential Enterprise income Tax Policies" (GuoFa [2007] No.39), the applicable CIT rate for the subsidiaries abovementioned is 22% and 24% for 2010 and 2011, respectively.
- Shanghai Sine Jiahua Pharmaceutical Co., Ltd., Shanghai New Asiatic Pharmaceutical Co., Ltd., Shanghai Dehua Traditional Chinese Medicines Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Shanghai Xing Ling SCI&TECH Pharmaceutical Co., Ltd., Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Shanghai Fuda Pharmacy Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai Zhongxisunve Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., and Changzhou Pharmaceutical Factory Co., Ltd., were approved by relevant local tax authorities as the High-technological Enterprise, and had enjoyed a preferential CIT rate of 15% for 2010 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Taxation (continued)**The Group****(a) Income tax expense (continued)**

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	3,035,102	2,283,250
Tax calculated at the domestic CIT rate applicable	758,776	570,813
Income not subject to taxation	(115,709)	(83,940)
Cost not deductible for taxation purposes	77,798	90,521
Preferential tax rate of certain subsidiaries	(117,097)	(153,574)
Additional deduction on research and development expenses	(17,584)	(19,615)
Utilisation of tax losses for which no deferred income tax asset was recognised	(26,114)	(15,202)
Tax losses for which no deferred income tax asset was recognised	29,002	26,882
Income tax expenses	589,072	415,885
Effective tax rate	19.4%	18.2%

(b) Business tax ("BT") and related taxes

Certain of the Group's revenues are subject to BT at rate of 5% of the amount of revenue. In addition, the Group is subject to city construction tax ("CCT") and educational surcharge ("ES") based on 1%, 5% or 7% and 1% to 5% of the amount of BT payable.

(c) Value-added tax ("VAT") and related taxes

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 3%, 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 2011 has been dealt with in the financial statements of the Company to the extent of approximately RMB493,096,000 (2010: RMB200,129,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 Earnings per share

For year ended 31 December 2011 and 2010, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	2,042,239	1,456,195
Number of ordinary shares (thousands)	2,420,563	1,992,643
Basic earnings per share (RMB)	0.84	0.73

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Dividends declared by the Company	430,226	314,527

In March 2012, the directors of the Company proposed a final dividend for 2011. Net amount of the dividend for 2011 was approximately RMB430,226,000, representing RMB0.16 per share. This proposal was subject to the shareholders' approval.

In March 2011, the directors of the Company proposed a final dividend for 2010. Net amount of the dividend for 2010 was approximately RMB278,970,000, representing RMB0.14 per share. This proposal was approved by the shareholders meeting in June 2011.

In April 2010, the directors of the Company proposed a final dividend for 2009 and a special dividend for one month ended 31 January 2010. Net amount of the dividend for 2009 and special dividend was approximately RMB104,012,000 and RMB35,557,000, respectively, representing RMB0.102 per share. This proposal was approved by the shareholders meeting in May 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Notes to the consolidated statements of cash flows

(i) Cash generated from operations

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	3,035,102	2,283,250
Adjustments for:		
- Share of profit from associates	(246,791)	(270,001)
- Share of profit from jointly controlled entities	(56,959)	(12,296)
- Depreciation of PP&E and investment properties	443,622	404,749
- Amortisation of land use rights and intangible assets	69,502	31,978
- Financial assets at fair value through profit or loss	1,075	(769)
- (Gain)/Loss on disposals of		
- investment property	(4,129)	65,268
- PP&E	(454)	(24,235)
- land use rights and intangible assets	329	8,153
- investment in subsidiaries and associates	(521,612)	(21,741)
- available-for-sale financial assets	(119,412)	(114,768)
- Reversal for impairment of long-term receivables	(20,684)	-
- Provisions for impairment of		
- trade and other receivables	11,106	15,927
- inventories	4,339	(20,595)
- PP&E	4,184	12,851
- available-for-sale financial assets	6,291	-
- intangible assets	1,038	-
- Dividend income on available-for-sale financial assets	(6,122)	(29,564)
- Financial cost - net	198,879	199,213
- Foreign exchange gain and loss - net	210,616	-
- Other gains – others, net	23,121	(7,655)
	3,033,041	2,519,765
Changes in working capital:		
- Inventories	(1,565,903)	(879,424)
- Trade and other receivables	(1,210,110)	(822,110)
- Trade and other payables	1,808,863	1,819,445
- Restricted cash	(21,777)	9,229
Cash generated from operations	2,044,114	2,646,905

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 properties comprise:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Net book amount	67,544	555,263
Gain/(Loss) on disposal (Note 30)	4,583	(41,033)
	<u> </u>	<u> </u>
Cash receipt in respect of disposal of PP&E in prior year	3,379	-
Receivables in respect of disposal of investment properties	(34,087)	(3,379)
	<u> </u>	<u> </u>
Proceeds from disposal	<u>41,419</u>	<u>510,851</u>

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Net book amount	519	52,211
Loss on disposal (Note 30)	(329)	(8,153)
	<u> </u>	<u> </u>
Proceeds from disposal	<u>190</u>	<u>44,058</u>

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

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Net book amount	22,692	116,821
Gain on disposal (Note 30)	119,412	114,768
	<u> </u>	<u> </u>
	142,104	231,589
Cash receipt in respect of disposal of available-for-sale financial assets in prior year	89,068	-
Receivables in respect of disposal of available-for-sale financial assets	-	(89,068)
	<u> </u>	<u> </u>
Proceeds from disposal	<u>231,172</u>	<u>142,521</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Notes to the consolidated statements of cash flows (continued)

- (v) In the cash flow statements, proceeds from disposals of subsidiaries, associates and jointly controlled entities comprise:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net book amount	871	157,365
Gain on disposal	42,417	21,741
	<u>43,288</u>	<u>179,106</u>
Cash receipt in respect of disposal of associate in prior year	44,072	-
Cash and cash equivalents in subsidiaries disposed	(18,607)	(54,517)
Receivables in respect of disposal of a associate	-	(44,072)
	<u>68,753</u>	<u>80,517</u>

- (vi) In 2010, the principal non-cash transactions are the issue of shares as consideration for the acquisition of certain entities from Shanghai Pharma Group and Shanghai Industrial Group as described in Note 1.

In 2011, the Group has entered into certain assignments with Shanghai Pharma Group and Shanghai Asia Pioneer Pharmaceutical Co., Ltd., pursuant to which, part of the total consideration (approximately RMB1,488,022,000) in respect of acquisition of Anti-biotic Businesses (as disclosed in Note 1) amounting to RMB417,570,000 due to Shanghai Pharma was settled by the Group through the current receivable account with Shanghai Asia Pioneer Pharmaceutical Co., Ltd..

In 2011, the Group has entered into certain assignments with Shanghai Pharma Group, pursuant to which, trade payables amounting to RMB100,000,000 due to Shanghai Pharma Group was settled by the Group through the current receivable account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 Contingencies and guarantees

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Outstanding loan guarantees provided to related parties	176,000	351,384

As of 31 December 2011, outstanding loan guarantees represented loan guarantees of approximately RMB176,000,000 (2010: RMB351,384,000) provided by the Group to certain related parties of the Group (Note 44(d)).

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

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	
	2011 RMB'000	2010 RMB'000
PP&E	21,556	9,696

- (ii) Other commitments

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 2011, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB35,065,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Commitments (continued)

(b) Operating lease commitments

(i) The Group is the lessee:

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
No later than 1 year	40,562	24,228
Later than 1 year and no later than 2 years	35,016	17,213
Later than 2 years and no later than 5 years	34,810	39,983
Later than 5 years	10,829	23,693
	<u>121,217</u>	<u>105,117</u>

(ii) The Group is the lessor:

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
No later than 1 year	32,668	21,769
Later than 1 year and no later than 2 years	28,205	7,877
Later than 2 years and no later than 5 years	41,852	17,323
Later than 5 years	10,395	8,245
	<u>113,120</u>	<u>55,214</u>

42 Transactions with non-controlling interests

Significant transactions with non-controlling shareholders of certain subsidiaries relate to acquisition of additional interest in subsidiaries as follows:

(i) Transaction with non-controlling interests of Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青岛华氏国风医药有限责任公司, "Huashi Growful")

On 1 January 2011, the Group acquired 34.78% equity interests of Huashi Growful for a purchase consideration of approximately RMB35,000,000. The carrying amount of the non-controlling interests in Huashi Growful on the date of acquisition was approximately RMB17,593,000. The Group recognised a decrease in non-controlling interests of approximately RMB17,593,000 and a decrease in equity attributable to owners of the Company of approximately RMB17,407,000. The effect of changes in the ownership interest of Huashi Growful on the equity attributable to owners of the company during the year is summarised as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42 Transactions with non-controlling interests (continued)

- (i) Transaction with non-controlling interests of Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青岛华氏国风医药有限责任公司, "Huashi Growful") (continued)

	2011 RMB'000
Carrying amount of non-controlling interests acquired	17,593
Consideration paid to non-controlling interests	(35,000)
Excess of consideration paid recognised within equity	(17,407)

- (ii) Transaction with non-controlling interests of Shanghai Shanglian Pharmaceutical Co., Ltd. (上海上联药业有限公司, "Shanghai Shanglian")

On 31 May 2011, the Group acquired 49% equity interests of Shanghai Shanglian for a purchase consideration of approximately RMB29,560,700. The carrying amount of the non-controlling interests in Shanghai Shanglian on the date of acquisition was approximately RMB7,531,000. The Group recognised a decrease in non-controlling interests of approximately RMB7,531,000 and a decrease in equity attributable to owners of the Company of approximately RMB22,029,000. The effect of changes in the ownership interest of Shanghai Shanglian on the equity attributable to owners of the Company during the year is summarised as follows:

	2011 RMB'000
Carrying amount of non-controlling interests acquired	7,531
Consideration paid to non-controlling interests	(29,560)
Excess of consideration paid recognised within equity	(22,029)

- (iii) Transaction with non-controlling interests of Qingdao Growful Pharmaceutical Co., Ltd. (青岛国风药业股份有限公司, "Qingdao Growful")

On 21 May 2011, the Group acquired 3.59% equity interests of Qingdao Growful for a purchase consideration of approximately RMB23,865,000. The carrying amount of the non-controlling interests in Qingdao Growful on the date of acquisition was approximately RMB17,256,000. The Group recognised a decrease in non-controlling interests of approximately RMB17,256,000 and a decrease in equity attributable to owners of the Company of approximately RMB6,609,000. The effect of changes in the ownership interest of Qingdao Growful on the equity attributable to owners of the Company during the year is summarised as follows:

	2011 RMB'000
Carrying amount of non-controlling interests acquired	17,256
Consideration paid to non-controlling interests	(23,865)
Excess of consideration paid recognised within equity	(6,609)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination

(a) Business combinations under common control

The following is a reconciliation of the effect arising from the common control combination (Note 1) in respect of the acquisition of Anti-biotic Businesses on the consolidated reserves.

The consolidated balance sheet as at 31 December 2011:

	The Group excluding Anti-biotic Businesses RMB'000	Anti-biotic Businesses RMB'000	Adjustments Note RMB'000	Consolidated RMB'000
Investment in Anti-biotic Businesses	922,496	-	(922,496)	-
Other non-current assets	11,084,491	587,506	-	11,671,997
Current assets	34,977,763	1,457,819	(439,755)	35,995,827
Non-current liabilities	830,411	36	-	830,447
Current liabilities	20,293,758	1,001,909	(439,755)	20,855,912
Net Assets	<u>25,860,581</u>	<u>1,043,380</u>	<u>(922,496)</u>	<u>25,981,465</u>
Share capital	2,688,910	381,418	(381,418)	2,688,910
Share premium	14,916,937	36,684	(556,894)	14,396,727
Other reserves	706,035	78,158	12,380	796,573
Retained earnings	4,703,596	508,940	(16,275)	5,196,261
Non-controlling interests	<u>2,845,103</u>	<u>38,180</u>	<u>19,711</u>	<u>2,902,994</u>
	<u>25,860,581</u>	<u>1,043,380</u>	<u>(922,496)</u>	<u>25,981,465</u>

The consolidated balance sheet as at 31 December 2010:

	The Group excluding Anti-biotic Businesses RMB'000	Anti-biotic Businesses RMB'000	Adjustments Note RMB'000	Consolidated RMB'000
Non-current assets	8,278,028	663,884	-	8,941,912
Current assets	19,962,916	1,271,468	(12,827)	21,221,557
Non-current liabilities	414,170	2,444	-	416,614
Current liabilities	15,942,511	988,943	(12,827)	16,918,627
Net Assets	<u>11,884,263</u>	<u>943,965</u>	<u>-</u>	<u>12,828,228</u>
Share capital	1,992,643	381,418	(381,418)	1,992,643
Share premium	3,282,151	36,684	354,730	3,673,565
Other reserves	742,742	75,125	12,116	829,983
Retained earnings	3,117,023	402,011	(5,507)	3,513,527
Non-controlling interests	<u>2,749,704</u>	<u>48,727</u>	<u>20,079</u>	<u>2,818,510</u>
	<u>11,884,263</u>	<u>943,965</u>	<u>-</u>	<u>12,828,228</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)**(a) Business combinations under common control (continued)**

Note:

The above adjustments mainly represent adjustments to (i) eliminate the share capital and reserves of the Anti-biotic Businesses against the investment costs; and (ii) eliminate inter-company balances and unrealised profit between the Group excluding the Anti-biotic Businesses.

No significant accounting adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common combination to achieve consistency of accounting policies.

(b) Significant business combinations not under common control

- (i) On 1 April 2011, the Group acquired 100% equity interests in China Health System Ltd. ("CHS") from an independent third party for a cash consideration of approximately RMB3,568,920,000. The acquisition date of this transaction was 1 April 2011, on which the Group effectively obtained the right to control CHS.

The following table summarizes the consideration paid for acquisition of RMB3,568,920,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	CHS
At 1 April 2011	RMB'000
Acquisition consideration (note)	3,568,920
Total consideration	<u><u>3,568,920</u></u>

Recognised amounts of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	296,830
PP&E	25,433
Intangible assets	364,961
Investment in an associate	125,546
Deferred income tax assets	10,690
Inventories	1,445,718
Trade and other receivables	2,548,866
Deferred income tax liabilities	(98,828)
Trade and other payables	(1,931,990)
Borrowings	(1,460,161)
Total identifiable net assets	<u><u>1,327,065</u></u>
Non-controlling interests	(16,142)
Goodwill	<u><u>2,257,997</u></u>
	<u><u>3,568,920</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)**(b) Significant business combinations not under common control (continued)**

Note:

Total consideration for acquisition of CHS was approximately RMB3,568,920,000, out of which approximately RMB816,236,000 and RMB79,137,000 was prepaid by the Group in 2010 and recognized as other long-term prepayments and available-for-sale financial assets as at 31 December 2010 respectively, approximately RMB2,673,547,000 was paid by the Group in cash in 2011.

Had CHS been consolidated from 1 January 2011, the consolidated revenue and profit of the Group would be increased by approximately RMB1,900,588,000 and RMB43,945,000, respectively.

- (ii) On 1 July 2011, the Group acquired 80% equity interests in Shanghai Shanhe Wuxi Pharmaceutical Co., Ltd. (上药山禾无锡医药股份有限公司, "Shanhe Wuxi") from an independent third party for a cash consideration of approximately RMB344,000,000. The acquisition date of this transaction was 1 July 2011, on which the Group effectively obtained the right to control Shanhe Wuxi.

The following table summarizes the consideration paid for acquisition of RMB344,000,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	Shanhe Wuxi
At 1 July 2011	RMB'000
Acquisition consideration – Cash	344,000
Total consideration	<u>344,000</u>

Recognised amounts of identifiable assets acquired and liabilities assumed

Cash and cash equivalents	35,594
PP&E	14,877
Intangible assets	23,911
Deferred income tax assets	4,238
Available-for-sale financial assets	6,484
Other non-current assets	2,000
Inventories	93,111
Trade and other receivables	372,851
Other non-current liabilities	(28,081)
Deferred income tax liabilities	(7,116)
Trade and other payables	(286,058)
Borrowings	(119,000)
Total identifiable net assets	<u>112,811</u>
Non-controlling interests	(22,562)
Goodwill	<u>253,751</u>
	<u>344,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)**(b) Significant business combinations not under common control (continued)**

Had Shanhe Wuxi been consolidated from 1 January 2011, the consolidated revenue and profit of the Group would be increased by approximately RMB639,193,000 and RMB972,000, respectively.

- (iii) On 1 January 2011, the Group had established a subsidiary named SPH Zhongxie Pharmaceutical Co., Ltd. (上海医药众协药业有限公司, "Zhongxie Pharma"). On 31 May 2011, Zhongxie Pharma acquired certain pharmaceutical business ("Zhongxie Pharma Business") from an independent third party for a cash consideration of approximately RMB119,000,000. The acquisition date of this transaction was 31 May 2011, on which the Group effectively obtained the right to control its pharmaceutical business.

The following table summarizes the consideration paid for acquisition of RMB 119,000,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Consideration	Zhongxie Pharma Business
At 31 May 2011	RMB'000
Acquisition consideration – Cash	119,000
Total consideration	119,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	119,000
Intangible assets	14,000
Deferred tax liabilities	(3,500)
Total identifiable net assets	129,500
Non-controlling interests	(64,750)
Goodwill	54,250
	119,000

Had Zhongxie Pharma Business been consolidated from 1 January 2011, the consolidated profit of the Group would not be affected significantly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

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

<u>Name of related party</u>	<u>Nature of relationship</u>
Shanghai Pharmaceutical (Group) Co., Ltd. (上海医药(集团)有限公司)	Parent company
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先锋药业有限公司)	Controlled by Shanghai Pharma Group
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd. (上海振申医药进出口有限公司)	Controlled by Shanghai Pharma Group
Shanghai Wuzhou Pharmaceutical Co., Ltd. (上海五洲药业股份有限公司)	Controlled by Shanghai Pharma Group
Shanghai Pharmaceutical Advertisement Company (上海医药广告公司)	Controlled by Shanghai Pharma Group
Shanghai Pharmaceutical Technology Development Co., Ltd. (上海医药科技发展有限公司)	Controlled by Shanghai Industrial Group
Shanghai International Pharmaceutical Trade Co., Ltd. (上海国际医药贸易有限公司)	Controlled by Shanghai Industrial Group
Shanghai Xinyun Chemical Co., Ltd. (上海新云化工有限公司)	Controlled by Shanghai Industrial Group
Shanghai Antibioticos Pioneer Pharmaceutical Co., Ltd. (上海安替比奥先锋制药有限公司)	Controlled by Shanghai Industrial Group
Shanghai SIICINV Consulting Co., Ltd. (上海上实投资管理咨询有限公司)	Controlled by Shanghai Industrial Group
Shanghai Xinshidai Pharmaceutical Co., Ltd. (上海新时代药业有限公司)	Controlled by Shanghai Industrial Group
Shanghai Siyaogu Trading Co., Ltd. (上海思耀毅贸易有限公司)	Controlled by Shanghai Industrial Group

44 Significant related parties transactions (continued)

<u>Name of related party</u>	<u>Nature of relationship</u>
Shanghai Shen Wei Pharmaceutical Co., Ltd. (上海申威医药有限公司)	Controlled by Shanghai Industrial Group
Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd. (沪港新亚药业(扬州)有限公司) (note)	Controlled by Shanghai Industrial Group
Shanghai Pudong New Area Caolu Investment And Management Co., Ltd. (上海浦东新区曹路投资管理有限公司)	Controlled by Shanghai Industrial Group
Shanghai New Asiatic - Maclean Chemical Co., Ltd. (上海新亚-麦克林化学有限公司)	Controlled by Shanghai Industrial Group
Shanghai Yafei Industry Co., Ltd. (上海亚飞实业有限公司)	Controlled by Shanghai Industrial Group
Shanghai Industrial Trade Co., Ltd. (上海实业贸易有限公司)	Controlled by Shanghai Industrial Group
Shanghai Haoya Investment Co., Ltd. (上海浩亚投资有限公司)	Controlled by Shanghai Industrial Group
Ningbo United Medical Instruments Chemical Experimental Glass Apparatus Co., Ltd. (宁波联合医疗器械化试玻仪有限公司)	Jointly controlled entity
Jiangxi Nanhua Medicines Co., Ltd. (江西南华医药有限公司)	Jointly controlled entity
Shanghai Jianer Pharmacy Co., Ltd. (上海健尔药房有限公司)	Jointly controlled entity
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黄药业有限公司)	Jointly controlled entity
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施贵宝制药有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海罗氏制药有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信谊百路达药业有限公司)	Associate
Shanghai Bracco Sine Pharmaceutical Corp. Ltd. (上海信谊博莱科药业有限公司)	Associate
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北区药业股份有限公司)	Associate
Shanghai Beisiou Pharmaceutical Co., Ltd. (上海贝斯欧药业有限公司)	Associate
Shanghai Deyi Pharmaceutical Co., Ltd. (上海得一医药有限公司)	Associate
Jilin Yitai Fahrenheit Medicine Co., Ltd. (吉林亚泰华氏医药有限公司)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd. (上海绿苑药房有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd. (上海罗达医药有限公司)	Associate

44 Significant related parties transactions (continued)

<u>Name of related party</u>	<u>Nature of relationship</u>
Shanghai Draeger Medical Instrument Co., Ltd. (上海德 尔格医疗器械有限公司)	Associate
Shanghai Tongyong Pharmaceutical Corp., Ltd. (上海通 用药业股份有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重庆医药上海药品销售有限公司)	Associate
Shanghai Baohua Industrial Co., Ltd. (上海保华实业公 司)	Associate
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海复旦张江生物医药股份有限公司)	Associate
Shanghai Sanhe Biotechnology Co., Ltd. (上海三合生物 技术有限公司)	Associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd. (杭州胡庆余堂国药号有限公司)	Associate
Hengren Manchu Municipality Grain Packaging Co., Ltd. (桓仁满族自治县格瑞恩包装有限公司)	Associate
TECHPOOL (广东天普生化医药股份有限公司)	Associate
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd. (北京信海丰园生物医药科技发 展有限公司)	Associate

Note:

In 2011, Shanghai Pharma Group disposed equity interest in Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd. ("Hugang Xinya"). Therefore, Hugang Xinya is not considered to be related to the Group anymore.

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

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

In 2011 and 2010, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year end 31 December	
	2011	2010
	RMB'000	RMB'000
Sales of goods and render of service		
Jiangxi Nanhua Medicines Co., Ltd.	191,187	179,410
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	72,948	98,537
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	67,401	49,583
Shanghai Luoda Pharmaceutical Co., Ltd.	59,113	41,198
Shanghai Hutchison Pharmaceutical Co., Ltd.	56,812	53,631
Shanghai Deyi Pharmaceutical Co., Ltd.	52,437	50,227
Shanghai Ivyuan Pharmacy Co., Ltd.	26,305	20,529
Shanghai Jianer Pharmacy Co., Ltd.	5,588	1,956
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	4,085	7,261
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	3,080	8,522
Shanghai Roche Pharmaceutical Co., Ltd.	2,843	49
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	2,508	2,665
Jilin Yaitai Fahrenheit Medicine Co., Ltd.	584	3,141
Others	2,596	2,392
	<u>547,487</u>	<u>519,101</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year end 31 December	
	2011	2010
	RMB'000	RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	1,052,900	706,755
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	603,913	433,664
TECHPOOL	149,180	-
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	108,618	94,931
Shanghai Hutchison Pharmaceutical Co., Ltd.	118,378	109,777
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	30,139	25,756
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	26,482	-
Shanghai Luoda Pharmaceutical Co., Ltd.	21,112	17,465
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	19,438	-
Shanghai Deyi Pharmaceutical Co., Ltd.	12,477	13,939
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	7,764	5,789
Hengren Manchu Municipality Grain Packaging Co., Ltd.	2,808	3,229
Shanghai Pharmaceutical (Group) Co., Ltd.	1,908	53,531
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	1,378	13,111
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd.	203	22,615
Shanghai Tongyong Pharmaceutical Corp., Ltd.	-	10,715
Shanghai Xinyun Chemical Co., Ltd.	-	5,815
Others	3,830	4,852
	<u>2,160,528</u>	<u>1,521,944</u>
	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	<u>7,575</u>	<u>8,076</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	26,347	15,338
Others	-	552
	<u>26,347</u>	<u>15,890</u>
	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	<u>35,065</u>	-
	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Sales of PP&E and land use rights		
Shanghai SIICINV Consulting Co., Ltd.	<u>-</u>	<u>74,256</u>
	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest income		
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	1,885	-
Others	71	-
	<u>1,956</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest cost		
Shanghai Pharmaceutical (Group) Co., Ltd.	8,396	-
Others	146	-
	<u>8,542</u>	<u>-</u>

Transfer of investment in an associate

Pursuant to the agreement entered into by the Group and Shanghai Shangshi International Trade (Group) Co., Ltd. ("Shangshi Guomao") dated 31 May 2010, the Group transferred its entire 49% equity interest in the then associate, Shanghai Kangjian Import and Export Co., Ltd. to Shangshi Guomao at the consideration of approximately RMB21,740,000.

Borrowings

Pursuant to the agreement entered into by the Group and a subsidiary of Shanghai Industrial Group, the Group obtained borrowings of USD12,000,000, bearing 1.5% interest rate per annum, from a subsidiary of Shanghai Industrial Group for the purpose of acquisition of equity interest in CHS. The balance in relation to this borrowings was equivalent to approximately RMB79,647,000 as at 31 December 2010 and were all settled by the Group in January 2011.

- (b) Key management compensation

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries and fee	2,480	1,883
Bonuses	9,368	2,399
Retirement plans contributions	420	348
	<u>12,268</u>	<u>4,630</u>

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.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

Amount due from related parties:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables	93,326	100,048
Other receivables	36,421	574,832
Prepayments	3,780	238
Dividends receivables	15,991	6,917
	<u>149,518</u>	<u>682,035</u>
	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables due from		
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	27,015	11,327
Jiangxi Nanhua Medicines Co., Ltd.	18,157	41,468
Shanghai Luoda Pharmaceutical Co., Ltd.	12,962	15,204
Shanghai Hutchison Pharmaceutical Co., Ltd.	12,049	6,773
Shanghai Deyi Pharmaceutical Co., Ltd.	6,376	6,513
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	4,452	7,029
Shanghai Ivyuan Pharmacy Co., Ltd.	3,126	1,488
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,765	3,045
Others	6,424	7,201
	<u>93,326</u>	<u>100,048</u>
Less: Provision for impairment	<u>(3,817)</u>	<u>(4,662)</u>
	<u>89,509</u>	<u>95,386</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Other receivables due from		
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	16,542	-
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd.	10,000	10,000
Shanghai Beisiou Pharmaceutical Co., Ltd.	5,800	5,800
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	3,052	3,252
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	-	510,863
Shanghai Sanhe Biotechnology Co., Ltd.	-	7,209
Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd.	-	30,000
Shanghai Pudong New Area Caolu Investment And Management Co., Ltd.	-	6,340
Others	1,027	1,368
	36,421	574,832
Less: Provision for impairment	(17,574)	(46,377)
	18,847	528,455

Other receivables are all non-trade receivables 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	
	2011 RMB'000	2010 RMB'000
Less than 3 months	70,072	41,388
3 months to 6 months	16,772	520,603
6 months to 12 months	20,610	13,704
1 year to 2 years	268	15,151
Over 2 years	22,025	84,034
	129,747	674,880

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	
	2011 RMB'000	2010 RMB'000
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	3,349	-
Shanghai Wuzhou Pharmaceutical Co., Ltd.	238	238
Others	193	-
	<u>3,780</u>	<u>238</u>

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Dividends receivable		
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	8,107	-
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	6,351	-
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	863	863
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	500	2,212
Shanghai Draeger Medical Instrument Co., Ltd.	-	2,518
Shanghai Roche Pharmaceutical Co., Ltd.	-	982
Others	170	342
	<u>15,991</u>	<u>6,917</u>

Amount due to related parties:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Trade Payables	263,634	173,529
Other Payables	90,131	195,269
Advances	4,316	3,811
Dividends Payable	20,619	91,315
	<u>378,700</u>	<u>463,924</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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	
	2011 RMB'000	2010 RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	144,390	77,401
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	54,122	25,490
TECHPOOL	26,470	-
Shanghai Hutchison Pharmaceutical Co., Ltd.	16,608	14,187
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	6,397	10,429
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	3,242	8,061
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	2,560	-
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,469	3,397
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	618	2,551
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd.	124	2,911
Shanghai Xinyun Chemical Co., Ltd.	-	2,288
Shanghai Pharmaceutical (Group) Co., Ltd.	-	19,337
Others	7,634	7,477
	<u>263,634</u>	<u>173,529</u>

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Other payables due to		
Shanghai Pharmaceutical (Group) Co., Ltd.	65,315	104,064
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,103	-
Shanghai Baohua Industrial Co., Ltd.	4,500	500
Shanghai Hutchison Pharmaceutical Co., Ltd.	3,440	-
Shanghai Zhenshen Pharmaceutical Import and Export Co., Ltd.	2,974	543
Shanghai Roche Pharmaceutical Co., Ltd.	2,000	-
Shanghai Industrial Trade Co., Ltd.	-	79,647
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	-	5,150
Shanghai Haoya Investment Co., Ltd.	-	2,802
Others	2,799	2,563
	<u>90,131</u>	<u>195,269</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Less than 3 months	341,638	219,274
3 months to 6 months	1,096	119,729
6 months to 12 months	6,249	24,505
1 year to 2 years	1,249	1,567
Over 2 years	3,533	3,724
	<u>353,765</u>	<u>368,799</u>

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Advances due to		
Shanghai Baohua Industrial Co., Ltd.	2,064	2,064
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,530	-
Shanghai Pharmaceutical (Group) Co., Ltd.	-	1,500
Others	722	247
	<u>4,316</u>	<u>3,811</u>

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	20,540	91,236
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	<u>20,619</u>	<u>91,315</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Outstanding loan guarantees provided by the Group to		
Shandong Ruiying Pioneer Pharmaceuticals Co., Ltd.	135,000	229,800
Jiangxi Nanhua Medicines Co., Ltd.	20,000	20,000
Beijing Xinhai Fengyuan Biopharma Technology Development Co., Ltd.	20,000	-
Shanghai Luoda Pharmaceutical Co., Ltd.	1,000	1,000
Shenzhen Kondarl (Group) Corp., Ltd.	-	73,026
Shanghai Baihong Industry Co., Ltd.	-	20,000
Hugang Xinya Pharmaceutical Industry (Yangzhou) Co., Ltd.	-	6,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	-	1,558
	<u>176,000</u>	<u>351,384</u>
	As at 31 December	
	2011 RMB'000	2010 RMB'000
Outstanding loan guarantees given to the Group by		
Shanghai Pharmaceutical (Group) Co., Ltd.	90,080	255,610
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	-	200,000
	<u>90,080</u>	<u>455,610</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries, jointly controlled entities and associates

As at 31 December 2011, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Shanghai Pharmaceutical Distribution Co., Ltd. (上海医药分销控股有限公司)	PRC, 26 April 2010	2,836,868	100	-	Distribution of pharmaceutical products in the PRC
Shanghai Sine Pharmaceutical Laboratories Co., Ltd. (上海信谊药厂有限公司)	PRC, 23 October 1993	821,000	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. (上海第一生化药业有限公司)	PRC, 30 July 1994	225,000	100	-	Medicine and medical equipment manufacture and trading in the PRC
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市药材有限公司)	PRC, 28 April 1992	463,690	100	-	Manufacture and distribution of Chinese medicine and property rental in the PRC
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春宝药业有限公司)	PRC, 6 November 1992	128,500	-	55	Medicine manufacture and trading in the PRC
Changzhou Pharmaceutical Co., Ltd. (常州药业股份有限公司)	PRC, 1 November 1993	78,790	62.69	-	Medicine Distribution in the PRC
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三维药业有限公司)	PRC, 3 November 1995	545,800	65.13	44.87	Medicines development and manufacture in the PRC
Qingdao Growful Pharmaceutical Co., Ltd. (青岛国风药业股份有限公司)	PRC, 30 June 1994	93,000	67.52	-	Traditional Chinese medicine manufacture and trading in the PRC
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中华药业有限公司)	PRC, 10 Mar 2009	63,642	100	-	Medicine manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Shanghai Fahrenheit Pharmacy Co., Ltd. (上海华氏大药房有限公司)	PRC, 27 October 1994	99,570	-	100	Retail pharmacy operations
	Xiamen Traditional Chinese Medicine Co., Ltd. (厦门中药厂有限公司)	PRC, 11 September 2002	84,030	-	61	Medicine manufacture and trading in the PRC
	Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡庆余堂药业有限公司)	PRC, 1 January 1999	53,160	-	51.01	Medicine manufacture and trading in the PRC
	Liaoning Herbapex Pharmaceutical (group) Co., Ltd. (辽宁好护士药业(集团)有限公司)	PRC, 12 December 1999	51,000	-	55	Medicine manufacture and trading in the PRC
	Shanghai Medical Instruments Co., Ltd. (上海医疗器械股份有限公司)	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. (上海医药物资供销有限公司)	PRC, 12 May 1982	71,390	100	-	Distribution of pharmaceutical products in the PRC
	Shanghai Pharmaceutical Import and Export Co., Ltd. (上海医药进出口有限公司)	PRC, 1 October 1986	90,140	100	-	Imports and exports business on medical equipment, medicine and chemical raw materials in the PRC
	Shanghai New Asiatic	PRC, 11 August 1993	36,997	96.9	-	Medicine manufacture and trading in the PRC
	Huakang	PRC, 10 January 1994	1,145	100	-	Distribution of pharmaceutical products in the PRC
	Shanghai Sine Tianyi Pharmaceutical Co., Ltd. (上海信谊天一药业有限公司)	PRC, 29 December 2000	3,500	-	100	Distribution of pharmaceutical products in the PRC
	Shanghai Sine Yellow River Pharmaceutical Co., Ltd. (上海信谊黄河制药有限公司)	PRC, 2 August 1992	6,624 (USD1,200,000)	-	66	Medicine manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Shanghai Yichuang Chinese Medicine Research and Development Center Co., Ltd. (上海医创中医药科研开发中心有限公司)	PRC, 25 May 2000	3,000	-	55	Medicines development in the PRC
	Shanghai Sunve Co., Ltd. (上海三维有限公司)	PRC, 10 February 1990	99,033	100	-	Investment holding practices in the PRC
	SIIC Medical Science and Technology (Group) Limited (上海实业医药科技(集团)有限公司)	Cayman Island, 17 September 1999	HKD4,250,893	100	-	Investment holding practices in the PRC
	Mergen Biotech Ltd.	British Virgin Island, 22 December 1998	HKD106,470	70.41	-	Investment holding practices in the PRC
	Shanghai United International Limited (香港上联国际有限公司)	Hongkong, 2 June 1999	HKD:50,000	100	-	International trading in Hongkong
	Shanghai Industrial United Holdings Pharmaceutical Co., Ltd. (上海实业联合集团药业有限公司)	PRC, 19 Jan 2000	257,130	100	-	Investment holding practices in the PRC
	Huarui Shanghai Investment Co., Ltd. (上海华瑞投资有限公司)	PRC, 15 November 2000	200,000	90	10	Assets management and investment consultation within pharmaceutical system in the PRC
	Shanghai Industrial United Holdings Pharmaceutical Research Center Co., Ltd. (上海实业联合集团药物研究所有限公司)	PRC 18 December 2002	50,600	100	-	Medicine and medical equipment research and development in the PRC
	Ningbo Pharmaceutical Co., Ltd. (宁波医药股份有限公司)	PRC, 5 July 1994	140,000	-	63.61	Distribution of pharmaceutical products in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

	Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Shanghai Suzuken Chinese Medicine Co., Ltd. (上海铃谦沪中医药有限公司) (a)	PRC, 10 November 1999	84,460	-	50	Distribution of pharmaceutical products in the PRC
	Shanghai Wai Gao Qiao Pharmaceutical Business and Distribution Center (上海外高桥医药分销中心有限公司)	RPC, 9 August 2001	20,000	-	65	Distribution of pharmaceutical products in the PRC
	Shanghai Sifu Pharmaceutical Co., Ltd. (上海思富医药有限公司)	PRC, 27 May 1994	12,000	-	60	Distribution of pharmaceutical products in the PRC
	Shangqiu Xin Xian Feng Pharmaceutical Co., Ltd. (商丘市新先锋药业有限公司)	PRC, 5 April 2005	50,000	-	52	Distribution of pharmaceutical products in the PRC
	Shanghai Hujiao Pharmaceutical Co., Ltd. (上海沪郊医药有限公司)	PRC, 24 August 2005	50,000	-	100	Distribution of pharmaceutical products in the PRC
	Shanghai Jinguichao Pharmaceutical Co., Ltd. (上海金龟华超医药有限公司)	PRC, 17 June 1992	30,000	-	100	Distribution of pharmaceutical products in the PRC
	Shanghai Sine United Medical Material Co., Ltd. (上海信谊联合医药药材有限公司)	PRC, 28 January 1994	20,653	-	81.60	Pharmaceutical products trading in the PRC
	Shanghai Pharmaceutical Group Sine Yangpu Co., Ltd. (上海医药集团信谊洋浦有限公司)	PRC, 24 November 2004	1,000	-	100	Imports and exports business on medicine and chemical raw materials in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Shanghai Sine Pharmaceutical Co., Ltd. (上海信谊医药有限公司)	PRC, 21 May 2001	5,000	-	100	Pharmaceutical products manufacture and trading in the PRC
	Shanghai Leiyunshang Pharmaceutical Co., Ltd. (上海雷允上药业有限公司)	PRC, 21 May 1998	335,070	-	97.58	Pharmaceutical products manufacture and trading in the PRC
	Shanghai Huayu Pharmaceutical Co., Ltd. (上海华宇药业有限公司)	PRC, 17 December 1998	60,600	-	65.22	Manufacture and distribution of Chinese medicine in the PRC
	Changzhou Pharmaceutical Factory Co., Ltd. (常州制药厂有限公司)	PRC, 14 December 2001	108,000	-	77.78	Medicine manufacture in the PRC
	Shanghai Fahrenheit Pharmacy Distribution Co., Ltd. (上海华氏大药房配送中心有限公司)	PRC, 7 November 2002	5,000	-	100	Distribution of pharmaceutical products in the PRC
	Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青岛华氏国风医药有限责任公司)	PRC, 27 September 2003	46,000	-	100	Distribution of pharmaceutical products in the PRC

Principal jointly controlled entities

As at 31 December 2011, the Company has indirect interests in the following principal jointly controlled entities:

	<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
			RMB'000	Direct %	Indirect %	
	Jiangxi Nanhua Medicines Co., Ltd. (江西南华医药有限公司)	PRC, 31 December 2001	180,000	-	50	Distribution of pharmaceutical products in the PRC
	Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黄药业有限公司)	PRC, 30 April 2001	88,000	-	50	Chinese medicine manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal associates

As at 31 December 2011, the Company has indirect interests in the following principal jointly controlled entities:

<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital	Share percentage held by the Company	Share percentage held by the Company	Principal activities and place of operations
		RMB'000	Direct %	Indirect %	
Shanghai Roche Pharmaceutical Co., Ltd. (上海罗氏制药有限公司)	PRC, 6 May 1994	460,079 (USD62,357,143)	-	30	Pharmaceutical products manufacture and trading in the PRC
Sino-American Shanghai Squibb Pharmaceutical Ltd. (中美上海施贵宝制药有限公司)	PRC, 14 October 1982	126,814 (USD18,440,000)	30	-	Pharmaceutical products manufacture and trading in the PRC
TECHPOOL Bio-Pharma Co., Ltd. (广东天普生化医药股份有限公司) (b)	PRC, 25 March 1993	100,000	39.28	1.52	Development, manufacture and distribution of chemical medicine in the PRC
Shanghai Ajinomoto Amino Acid Co., Ltd. (上海味之素氨基酸有限公司)	PRC, 24 February 1998	99,352 (USD12,000,000)	39	-	Amino acids in bulk drugs manufacture in the PRC
Shanghai Tsumura Pharmaceutical Co., Ltd. (上海津村制药有限公司)	PRC, 26 July 2001	171,336 (USD36,200,000)	-	34	Chinese medicine manufacture and trading in the PRC
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北区药业股份有限公司)	PRC, 28 August 1997	50,000	-	44.24	Distribution of pharmaceutical products in the PRC

- (a) 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 Shanghai Suzuken Chinese Medicine Co., Ltd. although it held 50% of its equity interests, after considering the facts that the majority of the executive directors of Shanghai Suzuken Chinese Medicine Co., Ltd. were representatives of the Group.
- (b) In 2010, 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 TECHPOOL Bio-Pharma Co., Ltd. ("TECHPOOL") although its equity interests in this company was below 50%, after considering the facts that the Group can control the financial and operating policies of the entity by virtue of an agreement with other shareholders. From 1 January 2011, because of the expiration of the relevant agreement, the Group cannot control over TECHPOOL and it is not a subsidiary of the Group but accounted for as an associated company from then on (Note 31 (a)).

46 Subsequent event

(a) Acquisition of Shanghai Jinhe Bio-technology Co., Ltd. (“Jinhe Bio-tech”)

In early 2012, the Group has entered into an agreement with certain third parties to acquire 33.5% equity interest in Jinhe Bio-tech followed by capital injection to obtain 51.1% equity interest in Jinhe Bio-tech.

(b) Acquisition of Changzhou Kony Pharm Co., Ltd. (“Changzhou Kony”)

As approved by the executive committee of board of directors in early 2012, the Group would first acquire certain equity interests of Changzhou Kony to obtain control over it, and then acquire the rest of remaining equity interests of it in the future (the “Acquisition”). Consideration of the Acquisition will be determined on the basis of the valuation result of 100% equity interest of Changzhou Kony which should be filed by SASAC Shanghai for approval.

(c) Proposed dividend of the Company

As approved by the board of directors on 29 March 2012, the Company proposed a final dividend for 2011 of approximately RMB430,226,000 to its shareholders, representing RMB0.16 per share. This proposal is subject to the shareholders’ approval.