

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

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

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors (the "Board") of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company" or "Shanghai Pharmaceuticals") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively refer to as the "Group") for the year ended 31 December 2013 ("Reporting Period") prepared under the Hong Kong Financial Reporting Standards ("HKFRS") and Chinese Accounting Standards for Business Enterprises respectively.

CHAIRMAN'S STATEMENT

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

During the Reporting Period, the Company overcame the effects from the slackening drug market, declining drug price, control of medical insurance reimbursement, restrictive policies on antibiotics and GSK incident, focused on the overall work deployment set forth at the beginning of the year, carried forward the optimization of organizational structure, advanced the consolidation of internal resources, effectively controlled the operating risk, and achieved the annual operating budget targets in general. The re-election of the new board of directors and the new board of supervisors of the Company was also smoothly completed, establishing a new operating management team. The Company devised new 2013-2015 three-year development plan, actively advocated the establishment of a V-shaped collaborative team among its employees with strong sense of cooperation and

responsibility and initiated optimization of marketing system and Lean Six Sigma management, which are strategic management modes, so as to lay a solid foundation for the Company's sustainable development in the long run.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Unless otherwise stated, the management discussion and analysis is based on the financial statements data prepared by the Company under the Chinese Accounting Standards, and is presented in RMB. There are no substantial discrepancies in the consolidated net profit and consolidated net assets disclosed in the financial reports prepared under both the Hong Kong Financial Reporting Standards and the Chinese Accounting Standards for Business Enterprises.

I. PHARMACEUTICAL RESEARCH AND DEVELOPMENT (THE "R&D") AND MANUFACTURE

1. Pharmaceutical R&D

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

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

The research and development of innovative drugs proceeded as scheduled, of which the phase I project for the clinical trial of LLTD-8, a new drug under class 1.1, was completed and the application for phase II clinical trial is underway. Deuteroporphyrin, a drug invented through cooperation with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (“Fudan Zhangjiang”), is still in the clinical trial phase. The Company has formulated a preliminary plan for its antibody project. High affinity recombinant human TNF receptor 2-Fc fusion protein mutant, another drug invented through cooperation with Fudan Zhangjiang, is still pending clinical approval and is anticipated to be approved in the first half of 2014. The research on humanised monoclonal antibody against CD20 is continuing while the preclinical pharmaceutical and biological evaluations on the project were substantially finished, and application for clinical approval has been submitted. The Company introduced compound Her2 antibody in August 2013 and started preclinical research on it. During the Reporting Period, the Company introduced antibody-drug conjugates T-DM1 and CD30-DMI, which were still under R&D, by acquiring the entire equity interest in Shanghai Jiaolian Drug Development Co. Ltd to further enhance the Group’s R&D capabilities in bio-pharmaceuticals. The Company also entered into a co-operation agreement, “Translational Medicine Alliance”, with the People’s Liberation Army Second Military Medical University of China (“Second Military Medical University”), pursuant to which the Company planned to invest RMB10 million annually for conducting research projects such as innovation of new drugs with the Second Military Medical University, and 5 innovation co-operation projects have been preliminarily confirmed.

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

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

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

2. Pharmaceutical manufacturing

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

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

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

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

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

II. PHARMACEUTICAL SERVICES

1. Pharmaceutical distribution

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

During the Reporting Period, in the challenging environment of decelerated industry growth, less-than-optimal marketing atmosphere, fiercer competition and graver-than-expected impact of the flattening of the pipelines, the Company has promoted the culture of services, held the three notions of "expanding sales, reducing costs while optimizing efficiency, streamlining and strengthening coordination" close to its heart, innovated restlessly and spared no efforts in pushing forward with the trustee business as led by the pharmacy outsourcing service of the "5+3+1" hospitals in Shanghai. Currently, the Company is entrusted with 54 hospital pharmacies, and in 2014 the Company will continue paying attention to reforms in the pharmaceutical industry and further exploring for breakthroughs in hospital supply chain services. During the Reporting Period, the Company's ability to protect its logistics has been enhanced. With construction works completing at Keyuan Airport Logistics Center in Beijing (北京科園空港物流中心) and Modern Logistics Center of Shanghai Pharmaceutical Co., Ltd. and Ningbo

Pharmaceutical Co., Ltd. (上藥分銷控股寧波醫藥現代物流中心), close to 50,000 square meters of new warehousing area were added, supporting the growth of the Company's distribution of its own businesses. As at this stage, the Company has been granted 18 of the new version of the GSP certificates.

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

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

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

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

2. Pharmaceutical Retail

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

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

III. EXTERNAL MERGERS AND INTERNAL INTEGRATION

1. External mergers and acquisitions

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

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

2. Optimizing cash pooling to reduce financial fees

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

3. Implementing centralized procurement

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

4. Promoting the synergy between manufacturing and distribution segments

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

5. Embarking on “Lean Six Sigma” management

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

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

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

6. Pushing forward internal business integration

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

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

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

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

FINANCIAL INFORMATION

Prepared under Chinese Accounting Standards for Business Enterprises, and consolidated financial statements and notes attached.

Analysis of the Operation and Results during the Reporting Period

I. Principal business analysis

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

Unit: RMB

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

Unit: RMB

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

Unit: RMB

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

2. Revenue

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

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

(2) *Major customers*

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

3. Cost

(1) *Table of Analysis of Cost*

Unit: RMB10,000

By industry

By industry	Breakdown	For the Reporting Period	Percentage to the total cost of the Reporting Period (%)	For the corresponding period of last year	Percentage of the cost to the total cost of the corresponding period of last year (%)	Percentage change of the amount at the Reporting Period compared to that of the corresponding period of last year (%)
Industrial	Raw materials, ancillary materials and packaging materials	388,386.91	71.20%	376,884.30	72.18%	3.05%
	Utilities and power expenses	22,341.63	4.10%	21,388.84	4.10%	4.45%
	Depreciation charges	24,635.47	4.52%	23,332.71	4.47%	5.58%
	Salaries	48,616.46	8.91%	45,332.71	8.68%	7.24%
	Other manufacturing cost	61,532.97	11.28%	55,239.30	10.57%	11.39%
	Total industrial cost	545,513.44	100%	522,177.86	100%	4.47%
Commercial and others	Cost	6,640,421.48	100%	5,745,362.53	100%	15.58%
Offsetting total cost		-387,920.67		-388,280.30		
Total operating cost		6,798,014.25		5,879,260.09		

(2) *Major suppliers*

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

4. Expenses

(1) *Table of analysis of expenses*

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

Accounting statement items	Closing balance (or amount this year	Opening statement (or amount last year)	Percentage of change (%)	Reason for change
Financial assets held for trading	339,985.80	2,920,478.96	-88.36%	Sale of held-for-trading financial assets during the Reporting Period
Notes receivable	1,383,034,894.41	1,046,458,427.12	32.16%	Due to intensification of payment in bills during the Reporting Period
Interests receivable	8,721,596.24	15,333,869.26	-43.12%	Decrease in bank interests during the Reporting Period
Dividends receivable	9,544,624.19	21,027,811.90	-54.61%	Dividends from joint ventures and associated companies during the Reporting Period
Long-term receivables	118,680,121.16	–	100.00%	Increase in margin payment during the Reporting Period
Available-for-sale financial assets	73,589,989.23	19,812,137.59	271.44%	Transfer from re-categorization of long-term shareholding investment during the Reporting Period

Accounting statement items	Closing balance (or amount this year)	Opening statement (or amount last year)	Percentage of change (%)	Reason for change
Construction in progress	905,322,662.28	557,875,552.02	62.28%	Increase of the number of projects under construction during the Reporting Period
Construction materials	3,239,889.61	5,739,925.93	-43.56%	Increase of usage of the amount of construction materials during the Reporting Period
Long-term deferred expenses	168,827,013.47	123,233,213.48	37.00%	Increase of housing leases during the Reporting Period
Other non-current assets	171,933,770.36	105,364,369.43	63.18%	Increase in pre-paid construction costs during the Reporting Period
Dividends payable	91,331,161.21	58,928,069.75	54.99%	Increase in payable dividends to minority shareholders during the Reporting Period
Current portion of non-current liabilities due within one year	26,408,904.00	730,000.00	3,517.66%	Increase in long-term borrowings due within one year during the Reporting Period
Long-term borrowings	125,195,461.62	40,772,765.91	207.06%	Increase in long-term borrowings for projects during the Reporting Period
Other non-current liabilities	1,145,384,713.27	878,165,382.93	30.43%	Increase in relocation compensation during the Reporting Period
Asset impairment losses	143,970,272.20	62,399,504.76	130.72%	Increase in preparatory funds provided during the Reporting Period
Profit or loss arising from changes in fair value	(2,119,812.16)	261,714.96	-909.97%	Transfer of profit or loss from the changes in fair values of the sale of held-for-trading financial assets
Investment income	551,815,386.02	389,005,995.76	41.85%	Increase in revenue from investment on joint venture during the Reporting Period
Non-operating income	269,008,638.47	531,926,717.57	-49.43%	Decrease in income from handling expropriation compensation during the Reporting Period
Non-operating expenses	82,470,733.31	240,080,992.44	-65.65%	Decrease in expense from handling expropriation during the Reporting Period
Net cash flows from operating activities	973,449,693.95	1,150,774,970.90	-15.41%	Increase in demand for cash due to business growth during the Reporting Period
Net cash flows from investing activities	(892,799,680.30)	(174,475,084.37)	411.71%	Increase in acquisition expenses during the Reporting Period
Net cash flows from financing activities	(721,565,078.61)	(2,252,824,221.66)	-67.97%	Increase in amount of cash received from loans during the Reporting Period

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

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

(3) Tax relief and exemption:

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

5. *Research and development expenditure*

(1) Table of research and development expenditure

	<i>Unit: RMB10,000</i>
Expensed research and development expenditure for the period	45,471
Capitalised research and development expenditure for the period	–
Total research and development expenditure	45,471
Total research and development expenditure as a percentage of net assets (%)	1.56
Total research and development expenditure as percentage of operating income (%)	0.58

(2) Explanation

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

6. *Cash flows*

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

7. Others

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

There was no material change.

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

Please refer to Application of Funds Raised below.

- (3) Progress on development strategy and operational plan

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

II. Analysis of operation by industry, product or region

1. Principal business by industry and product

Unit: RMB

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

Note: For the above table, Gross profit margin = (Revenue – Cost of sales) / Operating income x 100%

2. Principal business by region

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

III. Analysis on assets and liabilities

1. Table of analysis on assets and liabilities

Name of item	Amount at end of Reporting Period	Amount at end of Reporting Period as a percentage of total assets (%)	Amount at end of previous period	Amount at end of previous period as a percentage of total assets (%)	Unit: RMB	Explanation
					Percentage change of amount at end of Reporting Period compared to that of previous period (%)	
Financial assets at fair value with changes recognised in current profit or loss	339,985.80	0.001	2,920,478.96	0.01	-88.36	Sale of tradable financial assets during the Reporting Period
Notes receivable	1,383,034,894.41	2.46	1,046,458,427.12	2.05	32.16	Increase in the amount of notes settlement during the Reporting Period
Interest receivables	8,721,596.24	0.02	15,333,869.26	0.03	-43.12	Decrease in interest receivable on bank deposits during the Reporting Period
Dividends receivable	9,544,624.19	0.02	21,027,811.90	0.04	-54.61	Recover dividends from joint ventures and associates during the Reporting Period
Other receivables	858,079,009.61	1.52	691,377,581.03	1.35	45.73	Increase in payment of security deposits and deposits during the Reporting Period
Non-current assets classified as held for sale and assets in the disposal group classified as held for sale	-	-	134,000,000.00	0.26	-	Decrease in assets held for sale during the Reporting Period
Available-for-sale financial assets	73,589,989.23	0.13	19,812,137.59	0.04	271.44	Transfer from reclassification of long- term equity investment during the Reporting Period
Construction in progress	905,322,662.28	1.61	557,875,552.02	1.09	62.28	Increase in construction-in-progress projects during the Reporting Period
Construction materials	3,239,889.61	0.01	5,739,925.93	0.01	-43.56	Increase in requisition of construction materials during the Reporting Period
Long-term deferred expenses	168,827,013.47	0.30	123,233,213.48	0.24	37.00	Increase in real estate leasing during the Reporting Period

Name of item	Amount at end of Reporting Period	Amount at end of Reporting Period as a percentage of total assets (%)	Amount at end of previous period	Amount at end of previous period as a percentage of total assets (%)	Percentage change of amount at end of Reporting Period compared to that of previous period (%)	Explanation
Other non-current assets	171,933,770.36	0.31	105,364,369.43	0.21	63.18	Increase in prepaid construction cost during the Reporting Period
Dividends payable	91,331,161.21	0.16	58,928,069.75	0.12	54.99	Increase in Dividends payable to minority shareholders during the Reporting Period
Non-current liabilities due within one year	26,408,904.00	0.05	730,000.00	0.001	3,517.66	Increase in long-term borrowings due within one year during the Reporting Period
Long-term borrowings	125,195,461.62	0.22	40,772,765.91	0.08	207.06	Increase in long-term borrowing for projects during the Reporting Period
Other non-current liabilities	1,145,384,713.27	2.03	878,165,382.93	1.72	30.43	Increase in relocation compensation during the Reporting Period

(1) Capital structure

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

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

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

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

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

3. *Explanation on other matters*

(1) Information on loans and borrowings

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

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

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

As at 31 December 2013, the balance of the Company's accounts payable and notes payable was RMB16.876 billion (31 December 2012: RMB14.575 billion), representing a YOY increase of 15.94%. The increase in accounts payable was mainly attributed to the increase in the scale of operation.

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

(2) Property, Plant and Equipment and Investment Properties

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

(3) Properties (at fair value)

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

(4) Contingent liabilities

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

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

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

(5) Pledge of assets

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

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

IV. Core Competence Analysis

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

V. Analysis of Investments by the Company

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

Unit: RMB10,000

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

Particulars of major invested company

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

(1) Securities Investment

Number	Securities type	Stock code	Securities short name	Initial investment amount (RMB)	Number of shares held (share)	Book value at the end of the period (RMB)	Percentage in total securities investment at the end of the period (%)	Profit or loss during the Reporting Period (RMB)
1	Share	600618	Chlor-Alkali Chemical	186,500	50,820	339,985.80	100	-73,689.20
Total				186,500	/	339,985.80	100	-73,689.20

(2) Equity interests in other listed companies

Unit: RMB

Security code	Securities short name	Initial investment cost	Book value at the end of the period	Profit or loss during the Reporting Period	Change in equity holders' interest during the Reporting Period	Accounting item	Source of shares
600377	Jiangsu Expressway	1,754,000.00	6,863,400.00	360,000.00	455,100.00	Available-for-sale financial assets	Purchase
600329	Zhongxin Pharmaceuticals	91,473.00	1,154,376.64	9,147.20	184,773.44	Available-for-sale financial assets	Debt set-off
000931	Centek	99,300.00	146,160.00		5,292.00	Available-for-sale financial assets	Purchase
600675	China Enterprise	390,000.00	4,532,421.02	78,710.64	1,062,593.64	Available-for-sale financial assets	Purchase
601328	Bank of Communications	5,895,157.00	6,064,335.36	461,820.96	-1,737,179.40	Available-for-sale financial assets	Purchase
000048	Kondarl	134,547.00	1,682,176.21		660,151.96	Available-for-sale financial assets	Transferred by absorption and combination
06881(HK)	China Galaxy	50,000,000.00	53,147,120.00		3,147,120.00	Available-for-sale financial assets	Company transformation
08231(HK)	Fudan-Zhangjiang	31,955,101.23	122,641,006.25	55,190,610.77		Long-term equity investment	Purchase
Total		90,319,578.23	196,230,995.48	56,100,289.57	3,777,851.64	/	/

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

Name	Initial investment amount (RMB)	Number of shares held (shares)	Shareholding percentage in the company (%)	Book value at the end of the period (RMB)	Profit or loss during the Reporting Period(RMB)	Change in equity holders' interest during the Reporting Period(RMB)	Accounting item	Source of shares
Shenyin & Wanguo Securities Co. Ltd.	1,250,000.00	1,760,000	<1	1,250,000.00	0	0	Long-term equity investment	Subscription of legal persons shares
Total	1,250,000.00		/	1,250,000.00	0	0	/	/

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

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

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

(1) Asset management mandates

The Company has no asset management mandate during the year

(2) Entrusted loans

The Company has no external entrusted loan during the year.

3. *Use of proceeds*

(1) A Shares

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

(2) H Shares

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

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

Unit: HKD10,000

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

Unit: HKD10,000

Year of fund raising	Method of fund raising	Total proceeds		Accumulative proceeds used	Remaining unused proceeds	Use and whereabouts of unused proceeds
		Total net amount of proceeds	used during the Reporting Period			
2011	Initial Public Offering	1,549,230	300,263	1,202,675	346,555	Deposited in offshore wholly-owned subsidiaries by means of shareholder loans for the purpose of capital preservation and appreciation.

Unit: HKD10,000

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

4. Analysis on major subsidiaries and invested companies

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

Name of company	Nature of business	Shareholding	Unit: RMB10,000				
			Registered capital	Scale of assets	Owners' equity	Operating income	Net profit
Shanghai Pharmaceutical Distribution Co., Ltd.	Sale of pharmaceuticals	100%	339,312.78	2,130,247.76	593,539.58	4,792,029.94	88,312.26
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceuticals	100%	50,000.00	834,801.32	170,177.19	1,449,412.21	26,492.20
Shanghai Sine Pharmaceutical Laboratories Co., Ltd.	Production and sale of pharmaceuticals	100%	84,161.13	213,678.54	125,317.43	248,696.39	12,066.35
Shanghai No. 1 Biochemical and Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	22,500.00	121,092.29	93,020.88	103,379.99	30,723.57
Shanghai New Asiatic Pharmaceuticals Co., Ltd.	Production and sale of pharmaceuticals	96.90%	105,242.91	189,246.47	115,030.78	179,726.50	4,077.67
Shanghai Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	100%	46,369.00	306,474.88	94,740.22	373,111.15	6,432.36
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75%	12,850.00	143,310.83	99,112.17	117,214.25	17,326.57
Changzhou Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	75.89%	7,879.03	260,046.65	134,837.04	441,738.26	16,074.33
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100%	54,580.00	251,716.99	140,970.01	139,643.31	23,280.91
Qingdao Growful Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	67.52%	9,300.00	87,664.42	49,619.16	67,695.41	-1,387.80
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	51.01%	5,316.00	55,941.24	26,533.20	35,980.85	1,964.82
Xiamen Traditional Chinese Medicine Co., Ltd.	Production and sale of pharmaceuticals	61.00%	8,403.00	33,611.52	24,200.77	28,219.23	2,912.40
Liaoning Herbapex Pharmaceutical (group) Co., Ltd.	Production and sale of pharmaceuticals	55.00%	5,100.00	36,812.52	20,796.60	40,443.86	2,433.67
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sale of pharmaceuticals	100.00%	9,364.18	29,586.74	17,687.42	26,980.79	2,792.39
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.	Wholesale of chemical APIs	100.00%	7,139.00	12,223.13	9,346.21	21,773.36	604.88
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical devices	100.00%	12,700.00	56,096.55	39,135.49	38,293.23	3,828.48
Dongying (Jiangsu) Pharmaceuticals Co., Limited	Production and sale of pharmaceuticals	79.00%	US\$5,000,000	12,865.76	11,058.64	4,539.92	2,026.59

5. *Projects financed by non-raised capital*

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

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

Details are set out in the section headed “Material Acquisition and Disposal”.

VI. *Particulars of the special purpose entities controlled by the Company*

Nil

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

i. *Competitive landscape and development trend of the industry*

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

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

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

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

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

ii. Development strategy of the Company

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

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

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

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

iii. Business plan

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

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

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

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

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

vi. Possible risks

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

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

MATERIAL ACQUISITION AND DISPOSAL

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

Overview and type of matters

Shanghai Pharmaceuticals acquiring 79% of the shares of Dongying (Jiangsu) Pharmaceuticals Co., Ltd

Query Index

Company announcement Lin No. 2013-020. Unless otherwise specified hereafter, such announcement has been published in the Shanghai Securities News, Securities Times and on the website of the Shanghai Stock Exchange www.sse.com.cn. Relevant information is also published on the website of the Hong Kong Stock Exchange <http://www.hkexnews.hk> and the Company's website.

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

1. Asset acquisitions

During the Reporting Period, the Company did not have any major asset acquisitions.

2. Disposal of assets

Unit: RMB Ten Thousand

Counter party(ies)	Asset disposed of	Disposal Date	Transaction consideration	Net profit contribution to the listed Company from the beginning of the period up to the disposal date	Effect on the Company of disposal	Connected transaction or not (If yes, please specify pricing basis)	Pricing basis of asset disposal	Relevant asset title transferred or not	Relevant liability transferred or not	Ratio of the net profit contribution to the listed Company of disposal of assets over total net profit (%)	Affiliated Relations
Heze Peony Investment Development Co., Ltd (荷澤市牡丹投資發展有限公司)	42% equity interest in Shangdong Puiying Pioneer Pharmaceutical Co., Ltd	31 January 2013	13,400	0	0	No	Appraised value	Yes	No	0	No

CONTINGENT LIABILITIES AND MATERIAL LITIGATIONS

For the year ended 31 December 2013, the Company had no major contingent liabilities or any material litigation.

HUMAN RESOURCES

For the year ended 31 December 2013, the Company (including its subsidiaries) had a total of 39,646 employees.

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

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

DIVIDEND

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

About withholding of tax for non-PRC resident shareholders:

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

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

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The audit committee under the board of directors of the Company consists of three directors, namely Mr. Wan Kam To, acting as its convener/chairman, Mr. Chen Naiwei and Mr. Tse Cho Che, Edward. The audit committee is a special body established under the Board, mainly responsible for communication, supervision and review of the internal and external audit of the Company. The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2013.

THE SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Group's overseas auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2013. The work carried out by PricewaterhouseCoopers did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, PricewaterhouseCoopers did not issue any assurance on the preliminary results announcement.

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

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

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

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

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

INFORMATION DISCLOSURE

The annual report of the Company for 2013 will be despatched to the shareholders of the Company in due course, and will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company's website (<http://www.sphchina.com>).

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

Shanghai, the PRC, 29 March 2014

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

* *For identification purpose only*

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2013

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 117, which comprise the consolidated and Company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

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

Independent Auditor's Report
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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2014

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEET

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEET (CONTINUED)

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

The notes on pages 12 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 117 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf.

Director

Director

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY BALANCE SHEET

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY BALANCE SHEET (CONTINUED)

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

The notes on pages 12 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 3 to 117 were approved by the Board of Directors on 28 March 2014 and were signed on its behalf.

Director

Director

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED INCOME STATEMENT

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

The notes on pages 12 to 117 are an integral part of these consolidated financial statements.

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

The notes on pages 12 to 117 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	Total	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012		2,688,910	14,396,727	796,573	5,196,261	23,078,471	25,981,465
Comprehensive income							
Profit for the year		-	-	-	2,052,872	2,052,872	2,460,588
Other comprehensive income							
Available-for-sale financial assets							
- Gross	14	-	-	1,430	-	1,430	1,342
- Tax	26	-	-	(357)	-	(357)	(335)
Currency translation differences, net	22	-	-	(5,745)	-	(5,745)	(11,288)
Total other comprehensive income		-	-	(4,672)	-	(4,672)	(10,281)
Total comprehensive income		-	-	(4,672)	2,052,872	2,048,200	2,450,307
Transactions with owners							
Capital injections from non-controlling interests		-	-	-	-	-	55,062
Acquisitions of subsidiaries		-	-	-	-	-	127,355
Disposal of a subsidiary		-	-	-	-	-	(8,835)
Changes in ownership interests in subsidiaries without change of control		-	-	(50,960)	(247)	(51,207)	(164,820)
Dividends		-	-	-	(430,226)	(430,226)	(231,062)
Appropriation to statutory reserves	22, 23	-	-	88,798	(88,798)	-	-
Others		-	-	5,656	(11,595)	(5,939)	(21,226)
Total transaction with owners		-	-	43,494	(530,866)	(487,372)	(730,898)
Balance at 31 December 2012		2,688,910	14,396,727	835,395	6,718,267	24,639,299	27,700,874

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

The notes on pages 12 to 117 are an integral part of these consolidated financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2013	2012
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations	39(i)	1,421,017	1,490,692
Interest paid		(410,058)	(461,000)
Income tax paid		(696,285)	(659,679)
Net cash generated from operating activities		314,674	370,013
Cash flows from investing activities			
Cash paid in respect of acquisition of subsidiaries	43	(582,884)	(214,731)
Cash injection in an associate		(6,283)	(52,010)
Purchases of property, plant and equipment ("PP&E") and investment properties		(887,939)	(629,926)
Proceeds from disposal of PP&E and investment properties	39(ii)	35,833	20,067
Purchases of land use rights and intangible assets		(17,120)	(78,983)
Repayment of loan receivables from non-controlling interests		-	30,244
Interest received		248,718	319,762
Dividends received		247,710	179,609
Proceeds from disposal of available-for-sale financial assets	39(iv)	14,256	51,260
Proceeds from disposal of financial assets at fair value through profit or loss		3,263	-
Proceeds from disposal of subsidiaries and associates	39(v)	119,653	28,041
Proceeds from government grant of plant relocation, net		168,568	542,006
Other cash flows generated from/ (used in) investing activities		12,143	(50,052)
Net cash (used in)/generated from investing activities		(644,082)	145,287
Cash flows from financing activities			
Cash injection from non-controlling interests		35,475	55,062
Cash paid in respect of expenses related to issuance of new shares		-	(40,105)
Proceeds from borrowings		11,641,631	8,085,497
Repayments of borrowings		(10,550,241)	(8,897,811)
Dividends paid by the Group		(873,921)	(696,235)
Acquisitions of non-controlling interests		(586,451)	(226,796)
Other cash flows generated from/ (used in) financing activities		22,000	(71,436)
Net cash used in from financing activities		(311,507)	(1,791,824)
Net decrease in cash and cash equivalents		(640,915)	(1,276,524)
Cash and cash equivalents at beginning of year		13,300,901	14,554,709
Exchange (losses)/gains on cash and cash equivalents		(14,619)	22,716
Cash and cash equivalents at end of year		12,645,367	13,300,901

The notes on pages 12 to 117 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 2012 and 2013, the Company totally had 765,893,920 H Shares and 1,923,016,618 A Shares respectively.

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

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

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

2. Principal activities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of significant accounting policies

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

3.1 Basis of preparation

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

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

3.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

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

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

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

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The guidance in HKAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015.
- HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group intends to adopt HK(IFRIC) 21 no later than the accounting period beginning on or after 1 January 2014.
- Amendment to HKAS 32 "Financial instruments: Presentation" on asset and liability offsetting, clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group intends to adopt amendment to HKAS 32 no later than the accounting period beginning on or after 1 January 2014.
- Amendment to HKAS 36 'Impairment of assets' "Recoverable amount disclosure for non-financial assets", addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group intends to adopt amendment to HKAS 36 no later than the accounting period beginning on or after 1 January 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Changes in accounting policies and disclosures (continued)

- Amendments to HKFRS 10 and HKFRS12 and HKAS 27 “Consolidation for investment entities”, mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make. The Group intends to adopt amendments to HKFRS 10 and HKFRS12 and HKAS 27 no later than the accounting period beginning on or after 1 January 2014.

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

3.3 Subsidiaries, jointly controlled entities and associates

(a) Consolidation

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

(i) Business combination under common control

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

(ii) Business combination not under common control

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

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(a) Consolidation (continued)

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

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

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

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

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

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

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

(iv) Disposal of subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(b) Separate financial statements

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

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

(c) Jointly controlled entities and associates

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

(c) Jointly controlled entities and associates (continued)

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.5 Foreign currency translation (continued)

(c) Group companies

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

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

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

3.6 Property, plant and equipment

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment (continued)

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

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

3.7 Investment properties

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

3.8 Land use rights

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

3.9 Intangible assets

(a) Goodwill

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

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

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

(b) Business network

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

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 included in 'trade and other receivables and other current assets' and 'cash and cash equivalents' in the balance sheet (Notes 3.15 and 3.16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.11 Financial assets (continued)

(a) Classification (continued)

(iii) Available-for-sale financial assets

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

(b) Recognition and measurement

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

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

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

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

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

3.12 Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available for sale

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.14 Inventories

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

3.15 Trade and other receivables

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

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

3.16 Cash and cash equivalents

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

3.17 Share capital

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

3.18 Trade payables

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

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

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.

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

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

3.20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.21 Current and deferred income tax (continued)

(b) Deferred income tax

(i) Inside basis differences

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

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

(ii) Outside basis differences

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

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

(c) Offsetting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.22 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.25 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 or directors when appropriate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management

4.1 Financial risk factors

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

(a) Foreign exchange risk

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

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

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

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

(b) Cash flow and fair value interest rate risk

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Credit risk

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

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

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

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

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

(d) Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(d) Liquidity risk (continued)

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

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

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

4.2 Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Capital management (continued)

The gearing ratios are as follows:

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

4.3 Fair value estimation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

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

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

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

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

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

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

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

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) Impairment of receivables

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

(f) Income taxes

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

6 Segment information

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

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

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

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 2013

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

For the year ended 31 December 2012

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information (continued)

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

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Investment in jointly controlled entities	207,307	133,372	-	-	-	340,679
Investment in associates	2,035,659	320,162	-	-	-	2,355,821
Other assets	15,544,487	34,925,655	982,697	21,943,883	199,806	73,596,528
Elimination						(19,981,506)
Total assets						<u>56,311,522</u>
Segment liabilities	5,826,595	23,677,865	610,139	2,880,670	491,444	33,486,713
Elimination						(6,176,171)
Total liabilities						<u>27,310,542</u>

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

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

The segment assets and liabilities as at 31 December 2012 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	191,006	118,014	-	-	-	309,020
Investment in associates	1,939,503	296,785	-	-	-	2,236,288
Other assets	13,071,728	28,449,115	922,042	24,394,268	191,744	67,028,897
Elimination						(18,505,167)
Total assets						<u>51,069,038</u>
Segment liabilities	5,198,668	20,176,242	569,624	2,145,064	520,099	28,609,697
Elimination						(5,241,533)
Total liabilities						<u>23,368,164</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	50,877,294	22,848,065
Unallocated:		
Current income tax liabilities	-	237,750
Deferred tax assets/liabilities – net	191,744	282,349
Total	<u>51,069,038</u>	<u>23,368,164</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	
	2013 RMB'000	2012 RMB'000
Opening net book amount	905,359	818,338
Additions	26,865	87,244
Transfer from PP&E (Note 9)	-	7,864
Transfer from investment properties (Note 8)	21,415	-
Acquisition of subsidiaries	20,644	31,181
Amortisation charge (Note 32)	(29,293)	(27,231)
Disposal of subsidiaries	-	(12,037)
Closing net book amount	<u>944,990</u>	<u>905,359</u>

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Cost of sales	1,631	666
Distribution and selling expenses	2,223	2,450
General and administrative expenses	25,439	24,115
	<u>29,293</u>	<u>27,231</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	
	2013 RMB'000	2012 RMB'000
Land use rights, secured	<u>56,428</u>	<u>65,792</u>

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

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	
	2013 RMB'000	2012 RMB'000
Opening net book amount	24,498	25,138
Amortisation charge	(640)	(640)
Closing net book amount	<u>23,858</u>	<u>24,498</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	
	2013 RMB'000	2012 RMB'000
Cost	420,447	444,785
Accumulated depreciation	(143,443)	(132,045)
Net book amount	<u>277,004</u>	<u>312,740</u>
Opening net book amount	312,740	384,548
Transfer from owner-occupied PP&E (Note 9)	571	6,113
Transfer to owner-occupied PP&E (Note 9)	(1,187)	-
Transfer to land use rights (Note 7)	(21,415)	-
Addition	-	4,792
Depreciation (Note 32)	(13,705)	(14,734)
Disposal in respect of plant relocation	-	(44,775)
Disposal of a subsidiary	-	(23,204)
Closing net book amount	<u>277,004</u>	<u>312,740</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Investment properties (continued)

The Group

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

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

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

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

The Company

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment

The Group

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

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	
	2013 RMB'000	2012 RMB'000
Cost of sales (Note 32)	230,264	236,447
Distribution and selling expenses (Note 32)	37,468	33,771
General and administrative expenses (Note 32)	215,046	204,248
Other losses	-	4,407
	<u>482,778</u>	<u>478,873</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	
	2013 RMB'000	2012 RMB'000
Property, plant and equipment, pledged	<u>204,796</u>	<u>166,277</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment (continued)

The Company

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets

The Group

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets (continued)

The Group

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

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

- (b) Impairment test for goodwill

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets (continued)**The Company**

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

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

11 Investments in subsidiaries**The Company**

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Investments, at cost		
- Unlisted shares	<u>13,638,554</u>	<u>12,580,257</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Investments in subsidiaries (continued)

The Group

(a) Material non-controlling interests

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

Year ended 31 December 2013

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

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

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Investments in subsidiaries (continued)

The Group

(a) Material non-controlling interests (continued)

Year ended 31 December 2012

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Investments in jointly controlled entities

The Group

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

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

13 Investments in associates

The Group

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

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

(a) Shanghai Roche Pharmaceutical Co., Ltd. (上海罗氏制药有限公司)

Summarised balance sheet

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

Summarised statement of comprehensive income

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

Reconciliation of summarised financial information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Group

(b) TECHPOOL Bio-Pharma Co., Ltd. (广东天普生化医药股份有限公司)

Summarised balance sheet

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

Summarised statement of comprehensive income

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

Reconciliation of summarised financial information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Investments in associates (continued)

The Company

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Investment, at cost		
- Listed shares	19,148	19,148
- Unlisted shares	430,593	430,593
Provision for impairment	(62,814)	(62,814)
	<u>386,927</u>	<u>386,927</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	
	2013 RMB'000	2012 RMB'000
Listed equity investment, at fair value	<u>73,590</u>	<u>19,812</u>
Unlisted equity investment, cost	135,192	189,690
Provision for impairment of unlisted equity investment	<u>(59,034)</u>	<u>(60,445)</u>
Unlisted equity investment, net	<u>76,158</u>	<u>129,245</u>
	<u>149,748</u>	<u>149,057</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Available-for-sale financial assets (continued)

The Group

	As at 31 December	
	2013 RMB'000	2012 RMB'000
At 1 January	149,057	182,792
Additions	300	795
Fair value change recognised in equity	3,778	1,342
Disposals	(3,387)	(31,575)
Provision for impairment (Note 30)	-	(4,297)
End of the year	<u>149,748</u>	<u>149,057</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 of the Company consider the fair values cannot be reliably measured as the range of reasonable fair value estimate is so significant and the probabilities of the various estimates cannot be reasonably assessed.

The Company

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Other non-current prepayments

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

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

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

Note:

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

17 Inventories**The Group**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables and other current assets

The Group

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

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 2013 and 2012, prepayments are in connection with:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group

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

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

- (d) As of 31 December 2013, trade receivables of approximately RMB697,523,000 and notes receivable of approximately RMB18,563,000 (2012: RMB638,563,000) have been pledged by the Group for securing borrowings of approximately RMB701,615,000 (2012: RMB627,502,000) (Note 25).
- (e) Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing businesses, a credit period up to certain months is granted to the customers. Ageing analysis of gross trade receivables due from third parties (accounts receivable and notes receivable) at 31 December 2013 and 2012 are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Company

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

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Cash and cash equivalents and restricted cash

The Group

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Cash and cash equivalents and restricted cash (continued)

The Group

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

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

The Company

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Financial instruments by category and credit quality of financial assets

(a) Financial instruments by category

The Group

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Financial instruments by category and credit quality of financial assets (continued)

(a) Financial instruments by category (continued)

The Company

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

(b) Credit quality of financial assets

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

(i) Trade receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves

The Group

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Company

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share premium and other reserves (continued)

The Group and the Company

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

23 Retained earnings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Trade and other payables and other current liabilities

The Group

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

- (a) As at 31 December 2013 and 2012, ageing analysis of the accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Less than 3 months	11,257,395	9,270,386
3 months to 6 months	4,465,571	3,987,437
6 months to 12 months	441,342	479,805
1 year to 2 years	161,167	285,116
Over 2 years	166,839	152,940
	<u>16,492,314</u>	<u>14,175,684</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
RMB	19,257,613	15,942,518
USD	228,582	809,966
EUR	39,822	44,146
HKD	42,950	162,848
Other currencies	2,926	59
	<u>19,571,893</u>	<u>16,959,537</u>

The Company

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Accounts payable	9,538	11,639
Amounts due to related parties	2,411,390	1,775,546
Advances from customers	4,207	4,207
Tax liabilities other than income tax	5,793	6,857
Staff welfare and salary payables	15,091	14,320
Others	59,125	140,747
	<u>2,505,144</u>	<u>1,953,316</u>

Note:

Amounts due to related parties represented other payables due to the Company's subsidiaries. All the amounts due are interest-free.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Borrowings

The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
- guaranteed (Note a)	2,890	3,620
- secured (Note b)	91,829	16,177
- unsecured	26,043	16,543
Other borrowings	4,433	4,433
	<u>125,195</u>	<u>40,773</u>
Current		
Short-term bank borrowings		
- guaranteed (Note a)	52,700	141,100
- secured (Note b)	1,079,805	1,012,592
- unsecured	4,656,658	3,578,440
Other borrowings	108,798	167,911
	<u>5,897,961</u>	<u>4,900,043</u>
Current portion of long-term bank borrowings		
- guaranteed (Note a)	730	730
- secured (Note b)	25,679	-
	<u>5,924,370</u>	<u>4,900,773</u>
Total borrowings	<u><u>6,049,565</u></u>	<u><u>4,941,546</u></u>

- (a) As at 31 December 2013, the bank borrowings as guaranteed by the Group's non-controlling interests amounted to approximately RMB52,700,000 (2012: RMB141,100,000).

As at 31 December 2013, the bank borrowings as guaranteed by a related party amounted to approximately RMB3,620,000 (2012: RMB4,350,000) (Note 44(d)).

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Secured by:		
- PP&E and land use rights (Notes 7, 9)	495,698	401,267
- Trade receivables (Note 18)	701,615	627,502
	<u>1,197,313</u>	<u>1,028,769</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	
	2013 RMB'000	2012 RMB'000
RMB	5,968,300	4,903,069
USD	38,770	38,477
HKD	42,495	-
	<u>6,049,565</u>	<u>4,941,546</u>

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Bank borrowings		
- RMB	5.56%	5.86%
- USD	3.02%	2.82%
- HKD	3.34%	-
	<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	
	2013 RMB'000	2012 RMB'000
Within 1 year	5,924,370	4,900,773
Between 1 and 2 years	21,320	120
Between 2 and 5 years	88,210	21,200
	<u>6,033,900</u>	<u>4,922,093</u>
Wholly repayable within 5 years	15,665	19,453
Over 5 years	<u>6,049,565</u>	<u>4,941,546</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	
	2013 RMB'000	2012 RMB'000
Within 6 months	1,737,318	1,406,311
Between 6 and 12 months	4,312,247	3,535,235
	<u>6,049,565</u>	<u>4,941,546</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	
	2013 RMB'000	2012 RMB'000
Carrying amounts	125,195	40,773
Fair value	<u>124,875</u>	<u>38,544</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	
	2013 RMB'000	2012 RMB'000
Current		
Short-term borrowings		
- unsecured	<u>400,000</u>	<u>400,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income tax

The Group

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

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Deferred income tax assets		
- To be recovered after more than 12 months	6,386	7,132
- To be recovered within 12 months	193,420	184,612
	<u>199,806</u>	<u>191,744</u>
Deferred income tax liabilities		
- To be recovered after more than 12 months	267,210	262,264
- To be recovered within 12 months	21,602	20,085
	<u>288,812</u>	<u>282,349</u>
Deferred income tax liabilities - net	<u>(89,006)</u>	<u>(90,605)</u>

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
At 1 January	(90,605)	(87,659)
Recognised in the consolidated income statements (Note 35)	26,563	25,299
Disposal of subsidiaries	-	(1,670)
Acquisition of subsidiaries	(24,020)	(26,240)
Recognised in equity	(944)	(335)
Deferred income tax liabilities - net	<u>(89,006)</u>	<u>(90,605)</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 2012	96,647	9,564	37,449	34,969	178,629
Acquisition of subsidiaries	13	-	437	-	450
Disposal of subsidiaries	(1,670)	-	-	-	(1,670)
Internal transfer	4,658	1,929	(4,417)	(2,170)	-
Recognised in the consolidated income statements	11,382	903	(4,548)	6,598	14,335
At 31 December 2012	111,030	12,396	28,921	39,397	191,744
Acquisition of subsidiaries	237	-	-	550	787
Recognised in the consolidated income statements	(1,238)	(4,599)	8,789	4,323	7,275
At 31 December 2013	110,029	7,797	37,710	44,270	199,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Deferred income tax (continued)

The Group

Deferred income tax liabilities

	Fair value of intangible assets RMB'000	Deemed disposal RMB'000	Fair value gains from available-for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012	102,704	142,048	1,850	19,686	266,288
Acquisition of subsidiaries	25,718	-	-	972	26,690
Internal transfer	20,695	203	124	(21,022)	-
Recognised in the consolidated income statements	(13,522)	(3,485)	-	6,043	(10,964)
Recognised in equity	-	-	335	-	335
At 31 December 2012	135,595	138,766	2,309	5,679	282,349
Acquisition of subsidiaries	24,807	-	-	-	24,807
Recognised in the consolidated income statements	(17,064)	(3,485)	-	1,261	(19,288)
Recognised in equity	-	-	944	-	944
At 31 December 2013	143,338	135,281	3,253	6,940	288,812

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately RMB208,384,000 (2012: RMB123,470,000) in respect of tax losses amounting to approximately RMB833,537,000 (2012: RMB493,879,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB51,317,000, RMB26,850,000, RMB88,432,000, RMB141,953,000 and RMB524,985,000 will expire in 2014, 2015, 2016, 2017 and 2018, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Other non-current liabilities

The Group

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Medical reserve funds (Note a)	67,442	73,516
Project development funds (Note b)	203,051	136,902
Office and plant relocation funds (Note c)	835,366	624,445
Others	52,704	59,766
	<u>1,158,563</u>	<u>894,629</u>

- (a) During the years ended 31 December 2013 and 2012, certain medical reserve funds were received by the Group from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group will sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency. Such transactions will be priced at cost and relevant trade receivables from specific customers will be offset with the balance of the fund upon approval from the relevant PRC government authorities. The funds used to offset trade receivables during the years ended 31 December 2013 and 2012 were not significant. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

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

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

The Company

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Project development funds	<u>66,983</u>	<u>26,686</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Termination benefit obligations

The Group

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Termination benefit	39,077	52,353

The Group had made offers to certain employees for encouraging them to accept voluntary redundancy before their normal retirement date (the "Early Retired Employees").

The Group recognises a liability for the present value of the obligations relating to the termination benefits payable to these Early Retired Employees.

The liability related to the benefit obligations for the Early Retired Employees existing at the respective balance sheet dates are calculated by the management using future cash flow discounting method.

Movements of the net liability recognised in the consolidated financial statements are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
At beginning of year	52,353	58,524
Interest expenses	380	-
Benefits paid	(13,656)	(6,171)
At end of year	39,077	52,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Other income

The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Government grants (Note a)	197,053	172,567
Subsidy for relocation (Note 27(c))	11,212	299,043
Dividend income from available-for-sale financial assets	4,824	4,452
	<u>213,089</u>	<u>476,062</u>

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

30 Other Gains – net

The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
(Loss)/Gain of financial assets at fair value through profit or loss, net	(2,120)	262
Gain on disposals of financial assets at fair value through profit or loss	2,802	-
Gain/(Loss) on disposals of PP&E	1,358	(13,906)
Gain on disposals of available-for-sale financial assets	10,869	19,685
Loss of disposal of intangible assets	-	(26)
Provision for impairment of PP&E (Note 9)	(14,285)	(3,558)
Provision for impairment of available-for-sale financial assets (Note 14)	-	(4,297)
Provision for impairment of investment in associates (Note 13)	-	(12,530)
Reversal for impairment of long-term receivables	-	7,462
Foreign exchange gains	7,508	16,408
Relocation costs (Note 27 (c))	(10,496)	(175,969)
Dilution gain in an associate (note (a))	35,207	-
Fixed return in an associate (note (b))	67,249	-
Others – net	(31,687)	(10,097)
	<u>66,405</u>	<u>(176,566)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Other Gains – net (continued)

Note:

- (a) In 2013, Shanghai Fudan Zhangjiang Bio-Pharmaceutical Co., Ltd. (“Fudan Zhangjiang”), one of the Group’s associates, issued new shares to certain investors (the “Capital Contribution”). After the Capital Contribution, the Group’s equity interest in Fudan Zhangjiang decreased from 29.6% to 22.77%. Accordingly, the Group recognised a dilution gain of approximately RMB35,207,000 in the consolidated income statements.
- (b) Pursuant to an agreement entered into between the Group and other shareholders of an associate, the Group is entitled to a fixed return from this associate.

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

	Year ended 31 December	
	2013 RMB’000	2012 RMB’000
Disposal of Shanghai Draeger Medical Instrument Co., Ltd. (“Shanghai Draeger”) (note (a))	38,910	-
Disposal of Ningbo Asia Pacific Biotechnology Co., Ltd.	-	19,578
Others	11,636	27,132
	<u>50,546</u>	<u>46,710</u>

Note:

- (a) On 22 August 2013, the Group disposed 22.5% equity interest in Shanghai Draeger, one of the Group’s associates, at a consideration of approximately RMB48,943,000.

	2013 RMB’000
Cash consideration of the 22.5% equity investment in Shanghai Draeger	48,943
Less: Carrying amount of net assets of Shanghai Draeger as on 22 August 2013	(10,033)
Gain on disposal of Shanghai Draeger	<u>38,910</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Expenses by nature

The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Raw materials, merchandise and consumables used	67,569,736	59,017,922
Changes in inventories of finished goods and work in progress	(990,509)	(1,434,719)
Employee benefit expenses (Note 33)	3,336,994	2,904,980
Travelling and meeting expenses	1,146,966	1,068,458
Promotion and advertising costs	937,348	847,964
Depreciation of PP&E (Note 9)	482,778	474,466
Transportation costs	301,362	286,878
Operating lease rentals	278,845	259,609
Real estate tax, stamp duties and other taxes	253,465	245,668
Office expenditures	238,343	201,853
Energy and utilities	197,805	179,121
Repair and maintenance fee	147,732	143,765
Amortisation of intangible assets (Note 10)	77,845	61,431
Provision for impairment of trade and other receivables (Note 18)	60,458	24,382
Write-down of inventories to net realisable value	39,573	9,360
Amortisation of land use rights (Note 7)	29,293	27,231
Auditor's remuneration	19,657	19,423
Depreciation of investment properties (Note 8)	13,705	14,734
Others	1,332,287	1,130,171
Total cost of sales, distribution and selling expenses and general and administrative expenses	75,473,683	65,482,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses

The Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Wages and salaries	2,425,484	2,117,789
Contributions to pension plans (Note (a))	341,744	298,030
Housing fund, medical insurance and other social insurance (Note (b))	347,201	308,560
Others	222,565	180,601
Total including directors' emoluments	3,336,994	2,904,980

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses (continued)

The Group

(c) Directors, supervisors and chief executives' emoluments

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

Name of director	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
Mr. Lou Dingbo (a)	-	-	-	-
Mr. Cho Man (also the CEO) (a)	575	-	-	575
Mr. Hu Fengxiang (a)	-	-	-	-
Mr. Zhou Jie	-	-	-	-
Mr. Zhang Jialin (b)	-	-	-	-
Mr. Lu Shen (b)	-	-	-	-
Mr. Xu Guoxiong (b) (the predecessor CEO)	446	1,535	42	2,023
Mr. Jiang Ming	-	-	-	-
Mr. Bai Huiliang (b)	75	-	-	75
Mr. Chen Naiwei	197	-	-	197
Mr. Wan Kam To (a)	146	-	-	146
Mr. Tse Cho Che (a)	134	-	-	134
Ms. Tommei Tong (b)	75	-	-	75
Mr. Li Zhenfu	179	-	-	179
<i>Supervisors</i>				
Mr. Zhang Zhenbei	-	-	-	-
Mr. Xin Keng (a)	-	-	-	-
Mrs. Chen Xin	-	-	-	-
Mr. Wu Junhao (b)	-	-	-	-
	<u>1,827</u>	<u>1,535</u>	<u>42</u>	<u>3,404</u>

(a) Appointed on 5 June 2013.

(b) Retired on 5 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses (continued)

The Group

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

The remuneration of every director, supervisor and the chief executive of the Company for the year ended 31 December 2012 is set out below:

Name of director	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
Mr. Zhou Jie	-	-	-	-
Mr. Zhang Jialin	-	-	-	-
Mr. Lu Shen	-	-	-	-
Mr. Xu Guoxiong (also the CEO)	450	2,683	78	3,211
Mr. Bai Huiliang	150	-	-	150
Mr. Chen Naiwei	150	-	-	150
Ms. Tommei Tong	150	-	-	150
Mr. Li Zhenfu	88	-	-	88
Mr. Jiang Ming	-	-	-	-
Mr. Lu Mingfang	-	-	-	-
Mr. Zeng yixin	38	-	-	38
<i>Supervisors</i>				
Mr. Zhang Zhenbei	-	-	-	-
Mrs. Chen Xin	-	-	-	-
Mr. Wu Junhao	-	-	-	-
	<u>1,026</u>	<u>2,683</u>	<u>78</u>	<u>3,787</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 services rendered to the immediate holding company and ultimate parent company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Employee benefit expenses (continued)

The Group

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year include one (2012: one) predecessor director whose emoluments during the year have been included in note (c) above. The emoluments payable to the five highest individuals during the year are as follows:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Salaries and fee	4,233	3,557
Bonuses	8,851	12,057
Employer's contribution to pension scheme and others	359	338
	<u>13,443</u>	<u>15,952</u>

The emoluments fell within the following bands:

	Year ended 31 December	
	2013 Number	2012 Number
Emolument bands (in HKD)		
HKD2,500,001 - HKD3,000,000	2	1
HKD3,000,001 - HKD3,500,000	1	1
HKD3,500,001 - HKD4,000,000	1	1
HKD4,000,001 - HKD4,500,000	-	1
HKD4,500,001 - HKD5,000,000	1	-
HKD5,000,001 - HKD5,500,000	-	1
	<u>-</u>	<u>1</u>

- (e) In 2013 and 2012, no emoluments have been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Finance income and costs

The Group

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Interest income on bank deposits	239,305	301,905
Others	2,801	2,544
Total finance income	242,106	304,449
Interest expenses on borrowings	(274,919)	(308,470)
Interest expenses on notes and receivables discounted	(140,307)	(163,911)
Other costs	(46,102)	(24,361)
Finance cost	(461,328)	(496,742)
Less: Amount capitalised on qualifying assets (note 9(c))	1,479	-
Total Finance costs	(459,849)	(496,742)
Net finance costs	(217,743)	(192,293)

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	
	2013	2012
	RMB'000	RMB'000
Current income tax, PRC enterprise income tax	660,791	652,438
Deferred income tax (Note 26)	(26,563)	(25,299)
	<u>634,228</u>	<u>627,139</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) Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries for the year ended 31 December 2013, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities.

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

- Shanghai New Asiatic Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Qingdao Growful Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Liaoning Herbapex Pharmaceutical (group) Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Shanghai LeiYunShang Pharmaceutical Co., Ltd., Shanghai HuaYu Pharmaceutical Co., Ltd., Shanghai Zhongxisunve Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Changzhou Pharmaceutical Factory Co., Ltd., Dongying (Jiangsu) Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd and Changzhou Kony Pharm Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise, and had enjoyed a preferential CIT rate of 15% for 2012 and 2013.

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	
	2013 RMB'000	2012 RMB'000
Profit before income tax	3,260,847	3,087,727
Tax calculated at the domestic CIT rate applicable	815,212	771,932
Income not subject to taxation	(177,838)	(110,005)
Cost not deductible for taxation purposes	75,069	71,569
Preferential tax rate of certain subsidiaries	(150,087)	(124,599)
Additional deduction on research and development expenses	(32,027)	(27,984)
Utilisation of tax losses for which no deferred income tax asset was recognised	(27,347)	(10,450)
Tax losses for which no deferred income tax asset was recognised	131,246	56,676
Income tax expenses	634,228	627,139
Effective tax rate	19.4%	20.3%

The tax (charge)/ credit relating to component of other comprehensive income is as follows:

	Year ended 31 December					
	2013 Before tax RMB'000	Tax charge RMB'000	After tax RMB'000	2012 Before tax RMB'000	Tax charge RMB'000	After tax RMB'000
Available-for-sale financial assets	3,778	(944)	2,834	1,342	(335)	1,007
Currency translation differences, net	(7,061)	-	(7,061)	(11,288)	-	(11,288)
	(3,283)	(944)	(4,227)	(9,946)	(335)	(10,281)
Current tax		-			-	
Deferred tax (note 26)		(944)			(335)	
		(944)			(335)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Taxation (continued)

The Group

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

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

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

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 6%, 13% or 17% of the selling prices pursuant to different circumstances. Input credit relating to input VAT paid on purchases can be used to offset the output VAT. The Group is also subject to CCT and ES based on 1% to 7% and 1% to 5% of the net VAT payable.

36 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year ended 31 December 2013 has been dealt with in the financial statements of the Company to the extent of approximately RMB496,084,000 (2012: RMB856,024,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 Earnings per share

For years ended 31 December 2013 and 2012, basic earnings per share are based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2013	2012
Profit attributable to equity holders of the Company (RMB'000)	2,242,926	2,052,872
Number of ordinary shares (thousands)	2,688,910	2,688,910
Basic earnings per share (RMB)	0.83	0.76

The diluted earnings per share is same as the basic earnings per share as there was no dilutive potential shares existed during the years presented.

38 Dividends

The dividends paid in 2013 and 2012 were approximately RMB645,339,000 (RMB 0.24 per share) and RMB430,226,000 (RMB0.16 per share) respectively. A dividend in respect of the year ended 31 December 2013 of RMB0.26 per share, amounting to a total dividend of RMB699,117,000, is proposed by the directors of the Company and subject to the shareholders' approval at the annual general meeting. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Proposed final dividend of RMB0.26 (2012:RMB0.24) per share	699,117	645,339

The aggregate amounts of the dividends proposed in respect of 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 Notes to the consolidated statements of cash flows

(i) Cash generated from operations

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Profit before income tax	3,260,847	3,087,727
Adjustments for:		
- Share of profit from associates	(313,072)	(267,720)
- Share of profit from jointly controlled entities	(86,344)	(70,673)
- Dilution gain on equity interest in Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. ("Fudan Zhangjiang")	(35,207)	-
- Fixed return on equity interest in a certain associate	(67,249)	-
- Depreciation of PP&E and investment properties	496,483	493,607
- Amortisation of land use rights and intangible assets	107,138	88,662
- Financial assets at fair value through profit or loss	(682)	(262)
- (Gain)/loss on disposals of		
- PP&E	(1,358)	13,906
- land use rights and intangible assets	-	26
- investment in subsidiaries and associates	(50,546)	(46,710)
- available-for-sale financial assets	(10,869)	(19,685)
- Reversal for impairment of long-term receivables	-	(7,462)
- Provisions for impairment of		
- trade and other receivables	60,458	24,382
- inventories	39,573	9,360
- investment in associate	-	12,530
- PP&E	14,285	3,558
- available-for-sale financial assets	-	4,297
- Dividend income on available-for-sale financial assets	(4,824)	(4,452)
- Financial cost - net	171,641	167,932
- Foreign exchange gain and loss - net	14,619	(22,717)
- Gain on relocation	(716)	(123,074)
- Other gains – others, net	22,023	10,097
	3,616,200	3,353,329
Changes in working capital:		
- Inventories	(1,150,066)	(1,466,409)
- Trade and other receivables and other current assets	(3,412,314)	(2,236,294)
- Trade and other payables and other current liabilities	2,475,818	1,768,917
- Restricted cash	(108,621)	71,149
Cash generated from operations	1,421,017	1,490,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (ii) In the cash flow statements, proceeds from disposals of PP&E and investment property comprise:

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Net book amount (Note 9)	43,743	25,499
Gain/(Loss) on disposal (Note 30)	1,358	(13,906)
	<u>45,101</u>	<u>11,593</u>
Net (increase)/decrease in receivables in respect of disposal of PP&E and investment property	(9,268)	8,474
Proceeds from disposal	<u>35,833</u>	<u>20,067</u>

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Net book amount	-	26
Loss on disposal (Note 30)	-	(26)
	<u>-</u>	<u>-</u>
Proceeds from disposal	<u>-</u>	<u>-</u>

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Net book amount (Note 14)	3,387	31,575
Gain on disposal (Note 30)	10,869	19,685
	<u>14,256</u>	<u>51,260</u>
Cash receipt in respect of disposal of available-for-sale financial assets in prior year	-	-
Proceeds from disposal	<u>14,256</u>	<u>51,260</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Net book amount	151,158	27,939
Gain on disposal	50,546	46,710
	<u>201,704</u>	<u>74,649</u>
Cash receipt in respect of disposal of associates in prior year	30,420	-
Cash and cash equivalents in subsidiaries disposed	(2,638)	(16,188)
Receivables in respect of disposal of subsidiaries	(99,600)	(30,420)
Offset other current liabilities	(10,233)	-
	<u>119,653</u>	<u>28,041</u>

40 Contingencies and guarantees

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Outstanding loan guarantees provided to related parties	<u>42,290</u>	<u>198,970</u>

As of 31 December 2013, outstanding loan guarantees of approximately RMB42,290,000 (2012: RMB198,970,000) provided by the Group to certain related parties of the Group (Note 44(d)).

The directors of the Company consider that these related parties have sufficient finance to settle their obligations and thus has not made any provision for the outstanding balance of the guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Commitments

(a) Capital commitments

(i) Constructions

Capital expenditure contracted for at the end of year but not yet incurred is as follows:

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
PP&E	106,869	17,827
Land use right	28,939	-
	<u>135,808</u>	<u>17,827</u>

(ii) Acquisition of equity interests

Pursuant to the agreement entered into between the Company and Shanghai Pharma Group in December 2013, the Group will acquire 100% equity interests in China International Pharmaceutical (Holding) Corporation Limited ("China International") from Shanghai Pharma Group at a cash consideration of approximately RMB45,372,000. As at 31 December 2013, the above-mentioned transaction was not completed.

Pursuant to the the agreement entered into between the Company, Vice-President of the Company and his spouse in December 2013, the Group will acquire 100% equity interest in Shanghai Jiaolian Medicine Research and Development Co., Ltd. (上海交联药物研发有限公司) at a fixed consideration of RMB10,000,000 with a floating consideration no more than RMB5,000,000. As at 31 December 2013, the above-mentioned transaction was not completed.

Pursuant to the agreement entered into between the Group and certain shareholders of Big Global Limited (Hong Kong) ("Big Global"), the Group will acquire additional 10% equity interest of Big Global at a consideration of RMB77,800,000 (the "Acquisition"), and make a capital contribution of RMB100,000,000 to Big Global subsequently. As at 31 December 2013, the above-mentioned transaction was not completed.

(b) Operating lease commitments

(i) The Group is the lessee:

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
No later than 1 year	171,332	90,515
Later than 1 year and no later than 2 years	139,603	80,336
Later than 2 years and no later than 5 years	137,479	128,506
Later than 5 years	121,070	84,216
	<u>569,484</u>	<u>383,573</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Commitments (continued)**(b) Operating lease commitments (continued)****(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	
	2013 RMB'000	2012 RMB'000
No later than 1 year	23,559	31,251
Later than 1 year and no later than 2 years	19,442	24,548
Later than 2 years and no later than 5 years	44,866	28,796
Later than 5 years	61,316	6,605
	<u>149,183</u>	<u>91,200</u>

(c) Other commitment

On 23 February 2011, the Company has entered into agreement (the "Agreement") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to the Agreement, the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. Up to 31 December 2013, the Company has already paid Fudan Zhangjiang research and development cost of approximately RMB90,243,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42 Significant transactions with non-controlling interests

(a) Significant acquisition of additional interests in the subsidiaries

(i) Transaction with non-controlling interests of Chiatai Qingchunbao Pharmaceuticals Co., Ltd. (正大青春宝药业有限公司, "Chiatai Qingchunbao")

On 26 April 2013, the Group acquired additional 20% equity interests of Chiatai Qingchunbao for a purchase consideration of approximately RMB444,400,000. The carrying amount of the non-controlling interests in Chiatai Qingchunbao on the date of acquisition was approximately RMB172,290,000. The Group recognised a decrease in non-controlling interests of approximately RMB172,290,000 and a decrease in equity attributable to owners of the Company of approximately RMB272,110,000. The effect of changes in the ownership interests of Chiatai Qingchunbao on the equity attributable to owners of the Company during the year is summarised as follows:

	2013 RMB'000
Carrying amount of non-controlling interests acquired	172,290
Consideration paid to non-controlling interests	(444,400)
Excess of consideration paid recognised within equity	(272,110)

(ii) Transaction with non-controlling interests of Shanghai Zhongxie Pharmaceutical Co., Ltd. (上海医药众协药业有限公司, "Zhongxie Pharmaceutical")

In January 2013, the Group acquired additional 28.44% equity interests of Zhongxie Pharmaceutical in total for a purchase consideration of approximately RMB82,476,000. The carrying amount of the non-controlling interests in Zhongxie Pharmaceutical of acquisition was up to approximately RMB67,714,000. The Group recognised a decrease in non-controlling interests of approximately RMB67,714,000 and a decrease in equity attributable to owners of the Company of approximately RMB14,762,000. The effect of changes in the ownership interests of Zhongxie Pharmaceutical on the equity attributable to owners of the Company during the year is summarised as follows:

	2013 RMB'000
Carrying amount of non-controlling interests acquired	67,714
Consideration paid to non-controlling interests	(82,476)
Excess of consideration paid recognised within equity	(14,762)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42 Significant transactions with non-controlling interests (continued)

(a) Significant acquisition of additional interests in the subsidiaries (continued)

(iii) Transaction with non-controlling interests of Changzhou Kony Pharm Co., Ltd. (常州康丽制药有限公司, "Changzhou Kony")

On 12 November 2013, the Group acquired additional 10% equity interests of Changzhou Kony for a purchase consideration of approximately RMB34,459,000. The carrying amount of the non-controlling interests in Changzhou Kony on the date of acquisition was approximately RMB14,854,000. The Group recognised a decrease in non-controlling interests of approximately RMB14,854,000 and a decrease in equity attributable to owners of the Company of approximately RMB19,605,000. The effect of changes in the ownership interests of Changzhou Kony on the equity attributable to owners of the Company during the year is summarised as follows:

	2013 RMB'000
Carrying amount of non-controlling interests acquired	14,854
Consideration paid to non-controlling interests	(34,459)
Excess of consideration paid recognised within equity	(19,605)

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2013.

	2013 RMB'000
Changes in equity attributable to owners of the company arising from:	
- Acquisition of additional interests in subsidiaries	(309,576)
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	(309,576)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination

Significant business combinations not under common control

In 2013, the Group acquired 79% equity interests in Big Global Limited (Hong Kong) ("Big Global") from an independent third party for a cash consideration of approximately RMB612,361,000. The acquisition was completed on 30 June 2013, on which the Group effectively obtained the right to control Big Global.

As a result of the acquisition, the Group is expected to increase its presence in these markets. The goodwill of RMB445,109,000 arising from the acquisition is attributable to the acquired non-contractual customer relationships and economies of scale expected from combining the operations of the Group and Big Global. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs have been charged to administrative expenses in the consolidated income statements for the year ended 31 December 2013.

Big Global contributed revenue and profit of approximately RMB45,399,000 and RMB20,266,000 to the Group for the period from the respective acquisition dates to 31 December 2013.

If the acquisitions had occurred on 1 January 2013, the Group's revenue would have been increased by approximately RMB39,110,000 and profit for the year would have been decreased by approximately RMB5,328,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the acquirees to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2013, together with the consequential tax effects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Business combination (continued)

Significant business combinations not under common control (continued)

The following table summarizes the consideration paid for acquisition of approximately RMB211,711,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

Acquisition consideration - cash	612,361
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	67,723
PP&E	28,646
Intangible assets	146,831
Deferred income tax assets	709
Inventories	14,449
Trade and other receivables	37,158
Trade and other payables	(62,383)
Deferred income tax liabilities	(21,422)
Total identifiable net assets	211,711
Non-controlling interests	(44,459)
Goodwill	445,109
	612,361

The following table summarized the cash outflows from the acquisitions for the year ended 31 December 2013:

	RMB'000
Total cash consideration	612,361
Deposits paid to the subsidiary before acquisition	50,000
Less: cash and cash equivalents in the subsidiary acquired	(67,723)
consideration payable in respect of acquisition of the subsidiary	(20,000)
Cash outflows from the acquisitions	574,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

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

Name of related party	Nature of relationship
Shanghai Pharmaceutical (Group) Co., Ltd. (上海医药(集团)有限公司)	Immediate holding company
Shanghai Pharmaceutical Advertisement Co., Ltd. (上海医药广告有限公司)	Controlled by Shanghai Pharma Group
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先锋药业有限公司)	Controlled by Shanghai Pharma Group
Shanghai Antibiotics Pioneer Pharmaceutical Co., Ltd. (上海安替比奥先锋制药有限公司)	Controlled by Shanghai Industrial Group
Shanghai Indu-Land Property Co., Ltd. (上海英达莱物业有限公司)	Controlled by Shanghai Industrial Group
Shanghai HuaJiu Material Supply and Marketing Co., Ltd. (上海华久物资供销有限公司)	Controlled by Shanghai Industrial Group
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
Jiangxi Nanhua Medicines Co., Ltd. (江西南华医药有限公司)	Jointly controlled entity
Shanghai Baohua Industrial Co., Ltd. (上海保华实业公司)	Associate
Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海信谊博莱科药业有限公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信谊百路达药业有限公司)	Associate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

Name of related party	Nature of relationship
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.(上海复旦张江生物医药股份有限公司)	Associate
Shanghai Deyi Pharmaceutical Co., Ltd.(上海得一医药有限公司)	Associate
Shanghai Draeger Medical Instrument Co., Ltd.(上海德 尔格医疗器械有限公司) (Note)	Associate
Shanghai Ivyuan Pharmacy Co., Ltd.(上海绿苑药房有限 公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海罗氏制 药有限公司)	Associate
Shanghai Luoda Pharmaceutical Co., Ltd.(上海罗达医 药有限公司)	Associate
Shanghai Beisiou Pharmaceutical Co., Ltd.(上海贝斯欧 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
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施贵宝制药有限公司)	Associate
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.(北京信海丰园生物医药科技发展有限公司)	Associate
TECHPOOL Bio-Pharma Co., Ltd. (广东天普生化医药股 份有限公司)	Associate
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.(杭州胡庆余堂国药号有限公司)	Associate
Huanren Manchu Municipality Grain Packaging Co., Ltd.(桓仁满族自治县格瑞恩包装有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重庆医药上海药品销售有限公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山远东制药机械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co.,Ltd. (上海华仁医 药有限公司)	Associate
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.(北京信海 康医药有限公司)	Subsidiary of associate
Henan Kangxin Pharmaceutical Co., Ltd.(河南省康信医 药有限公司)	Subsidiary of associate

Note:

The Group disposed all the equity interests held in Shanghai Draeger Medical Instrument Co., Ltd. (“Draeger”) in 2013 (the “Disposal”). After the Disposal, Draeger was not considered to be related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

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

In 2013 and 2012, the Group had the following significant transactions entered into in the ordinary course of business between the Group and its related parties.

	Year end 31 December	
	2013 RMB'000	2012 RMB'000
Sales of goods and render of services		
Jiangxi Nanhua Medicines Co., Ltd.	489,117	338,265
Henan Kangxin Pharmaceutical Co., Ltd.	122,038	126,532
Shanghai Hutchison Pharmaceutical Co., Ltd.	67,892	57,415
Shanghai Deyi Pharmaceutical Co., Ltd.	64,379	66,257
Shanghai Luoda Pharmaceutical Co., Ltd.	63,256	60,298
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	54,688	46,825
Shanghai Iyuan Pharmacy Co., Ltd.	31,061	28,914
Shanghai Huaren Pharmaceutical Co., Ltd.	12,618	14,666
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	8,079	22,211
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	7,007	2,430
Shanghai Jianer Pharmacy Co., Ltd.	4,194	3,770
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	4,157	4,314
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	2,715	3,232
Shanghai Roche Pharmaceutical Co., Ltd.	2,350	12,168
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	-	17,786
Others	4,240	2,617
	<u>937,791</u>	<u>807,700</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	Year end 31 December	
	2013 RMB'000	2012 RMB'000
Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	2,150,640	1,866,566
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	692,553	730,655
Shanghai Hutchison Pharmaceutical Co., Ltd.	151,818	143,369
TECHPOOL BIO-PHARMA CO., LTD.	122,258	176,851
Beijing XnHai FengYuan Biomedical Development Co., Ltd.	43,253	32,099
Shanghai Bracco Sine Pharmaceutical Corp. Ltd.	35,574	24,510
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	24,300	32,942
Shanghai Luoda Pharmaceutical Co., Ltd.	21,588	27,618
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	13,726	12,303
Shanghai Deyi Pharmaceutical Co., Ltd.	9,541	8,217
Shanghai Huajiu Material supply and marketing Co., Ltd.	4,639	-
Huanren Manchu Municipality Grain Packaging Co., Ltd.	2,989	2,178
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	2,854	150,221
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	2,606	1,996
Shanghai Huaren Pharmaceutical Co., Ltd.	1,237	4,741
Others	3,686	15,478
	<u>3,283,262</u>	<u>3,229,744</u>

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	10,114	10,114
Shanghai Hutchison Pharmaceutical Co., Ltd.	1,186	-
	<u>11,300</u>	<u>10,114</u>

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Rental expense		
Shanghai Pharmaceutical (Group) Co., Ltd.	26,921	26,921
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	25,912	12,756
Beijing XnHai FengYuan Biomedical Development Co., Ltd.	4,247	3,144
Shanghai Indu-Land Property Co., Ltd.	4,392	-
	<u>61,472</u>	<u>42,821</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	
	2013	2012
	RMB'000	RMB'000
R&D expenditure		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	26,653	28,525

On 23 February 2011, the Company has entered into certain agreements (the "Agreements") with Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (Fudan Zhangjiang), pursuant to which the Company would pay approximately RMB180,000,000 to Fudan Zhangjiang to conduct research and development on certain medicine project. In 2013, the Company has paid Fudan Zhangjiang research and development cost of approximately RMB26,653,000.00. Up to 31 December 2013, the Group has cumulatively paid approximately RMB90,242,500.00 to Fudan Zhangjiang with respect to the Agreements.

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest income		
Beijing XinHai Fengyuan Biomedical Development Co., Ltd.	2,801	1,953

Pursuant to the agreement entered into by the Group and Shanghai Pharma Group for acquisition of 96.9% equity interests of Shanghai New Asiatic Pharmaceuticals Co., Ltd. and 100% equity interests of Shanghai Asia Pioneer Huakang Pharmaceutical Co., Ltd. (collectively, the "Anti-biotic Businesses") from Shanghai Pharma Group, if the profit attributable to owners of the Anti-biotic Businesses for the year from 2011 to 2013 cannot achieve pre-determined target, Shanghai Pharma Group will pay the Group the shortage in cash with a ceiling of approximately RMB120,000,000. According to the results of the Anti-biotic Businesses from 2011 to 2013, Shanghai Pharma Group shall pay the Group RMB120,000,000.

In 2013, the Group acquired 10.99% equity interest of Mergen Biotech Limited from Excellent Hope Holdings Inc., which is controlled by Shanghai Industrial Group, at a consideration of approximately RMB1,075,000. (the "Acquisition") Upon the completion of the Acquisition, the Group holds 81.4% equity interest in Mergen Biotech Limited.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

(b) Key management compensation

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
Salaries	5,003	1,844
Bonuses	6,367	9,766
Pensions and others	566	425
	<u>11,936</u>	<u>12,035</u>

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

Amount due from related parties:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Trade receivables	160,749	154,105
Other receivables	49,740	58,336
Prepayments	11,341	8,026
Dividends receivables	9,545	21,028
	<u>231,375</u>	<u>241,495</u>

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Trade receivables due from		
Jiangxi Nanhua Medicines Co., Ltd.	59,956	66,384
Henan Kangxin Pharmaceutical Co., Ltd.	21,907	16,044
Shanghai Hutchison Pharmaceutical Co., Ltd.	20,435	14,649
Shanghai Luoda Pharmaceutical Co., Ltd.	13,095	14,774
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	11,865	9,533
Shanghai Deyi Pharmaceutical Co., Ltd.	9,708	9,928
Beijing Xin Hai Kang Pharmaceutical Co., Ltd.	5,762	7,140
Shanghai Iyuan Pharmacy Co., Ltd.	4,894	2,823
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	4,007	2,985
Shanghai Huaren Pharmaceutical Co., Ltd.	2,791	3,491
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	417	1,658
Others	5,912	4,696
	<u>160,749</u>	<u>154,105</u>
Less: Provision for impairment	<u>(5,591)</u>	<u>(4,500)</u>
	<u>155,158</u>	<u>149,605</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	
	2013	2012
	RMB'000	RMB'000
Other receivables due from		
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	35,740	34,704
Shanghai Beisiou Pharmaceutical Co., Ltd.	5,800	5,800
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	4,949	9,949
Shanghai Huaren Pharmaceutical Co., Ltd.	1,500	1,500
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	1,113	3,458
Shanghai Antibioticos Pioneer Pharmaceutical Co., Ltd.	-	2,284
Others	638	641
	49,740	58,336
Less: Provision for impairment	(5,817)	(8,821)
	43,923	49,515

Other receivables are non-trade receivables mainly represented loan to or assets sold to related parties and will be settled upon demand of the Group.

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	142,610	134,866
3 months to 6 months	9,454	25,354
6 months to 12 months	2,215	20,377
1 year to 2 years	33,419	20,031
Over 2 years	22,791	11,813
	210,489	212,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Prepayments due from		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	10,010	678
Shanghai Pharmaceutical Advertisement Co., Ltd.	-	7,000
Others	1,331	348
	<u>11,341</u>	<u>8,026</u>

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Dividends receivable		
Hangzhou Huqingyutang Guohao Pharmaceutical Co., Ltd.	5,684	5,684
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	2,370	1,000
Shanghai Luoda Pharmaceutical Co., Ltd.	1,256	1,556
Shanghai Draeger Medical Instrument Co., Ltd.	-	12,600
Others	235	188
	<u>9,545</u>	<u>21,028</u>

Amount due to related parties:

	As at 31 December	
	2013 RMB'000	2012 RMB'000
Trade Payables	383,533	399,232
Other Payables	21,526	25,623
Advances	2,496	2,280
Dividends Payable	8,079	11,131
	<u>415,634</u>	<u>438,266</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	
	2013	2012
	RMB'000	RMB'000
Trade payables due to		
Shanghai Roche Pharmaceutical Co., Ltd.	263,648	265,678
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	72,729	58,064
TECHPOOL BIO-PHARMA CO., LTD.	13,402	41,901
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	10,291	14,076
Shanghai Hutchison Pharmaceutical Co., Ltd.	5,424	5,410
Shanghai Deyi Pharmaceutical Co., Ltd.	3,496	1,848
Shanghai Huajiu Material supply and marketing Co., Ltd	3,242	-
Beijing Xin Hai Feng Yuan Biomedical Development Co., Ltd.	3,097	2,101
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	1,812	1,867
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,714	2,693
Shanghai Luoda Pharmaceutical Co., Ltd.	425	2,743
Others	4,253	2,851
	<u>383,533</u>	<u>399,232</u>

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Other payables due to		
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,066	9,066
Shanghai Pharmaceutical (Group) Co., Ltd.	8,829	14,404
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	2,289	-
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	-	1,535
Others	1,342	618
	<u>21,526</u>	<u>25,623</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44 Significant related parties transactions (continued)

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

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

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Less than 3 months	380,236	384,782
3 months to 6 months	2,008	14,222
6 months to 12 months	9,498	572
1 year to 2 years	2,989	22,113
Over 2 years	10,328	3,166
	<u>405,059</u>	<u>424,855</u>

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Advances due to		
Shanghai Baohua Industrial Co., Ltd.	2,064	2,064
Others	432	216
	<u>2,496</u>	<u>2,280</u>

	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Dividends payable		
Shanghai Pharmaceutical (Group) Co., Ltd.	8,000	11,052
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	<u>8,079</u>	<u>11,131</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	
	2013	2012
	RMB'000	RMB'000
Outstanding loan guarantees provided by the Group to		
Shandong Ruiying Pioneer Pharmaceutical Co., Ltd.	-	115,000
Beijing XinHai Feng Yuan Biomedical Development Co., Ltd.	20,000	45,000
Jiangxi Nanhua Medicines Co., Ltd.	-	15,000
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	13,290	14,970
Shanghai Luoda Pharmaceutical Co., Ltd.	9,000	9,000
	<u>42,290</u>	<u>198,970</u>
	As at 31 December	
	2013	2012
	RMB'000	RMB'000
Outstanding loan guarantees given to the Group by		
Shanghai Pharma Group	<u>3,620</u>	<u>4,350</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries and associates

As at 31 December 2013, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

<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	3,393,128	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	841,611	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai No.1 Biochemical and Pharmaceutical Co., Ltd. (上海第一生化药业有限公司)	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	20	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	75.89	-	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	34.87	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	93,642	100	-	Medicine manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries 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 %	
	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 New Asiatic Pharmaceutical Co., Ltd. (上海新亚药业有限公司)	PRC, 11 August 1993	1,052,429	96.9	-	Medicine manufacture and trading in the PRC
	SIIC Medical Science and Technology (Group) Limited (上海实业医药科技(集团)有限公司)	Cayman Islands, 17 September 1999	HKD4,250,893,000	100	-	Investment holding practices in the PRC
	Ningbo Pharmaceutical Co., Ltd. (宁波医药股份有限公司)	PRC, 5 July 1994	250,000	-	63.61	Distribution of pharmaceutical products in the PRC
	Shanghai Suzuken Chinese Medicine Co., Ltd. (上海铃谦沪中医药有限公司) (Note)	PRC, 10 November 1999	84,460	-	50	Distribution of pharmaceutical products in the PRC

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries 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 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
	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
	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 Pharmaceutical Qingdao Huashi Growful Pharmaceutical Co., Ltd. (青岛上药国风医药有限责任公司)	PRC, 27 September 2003	76,667	-	100	Distribution of pharmaceutical products in the PRC
	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上药科园信海医药有限公司)	PRC, 14 June 1993	500,000	-	100	Distribution of pharmaceutical products in the PRC
	Beijing Xinhai Keyuan Pharmacy Co., Ltd (北京科园信海医药经营有限公司)	PRC, 8 March 1999	333,070	-	100	Pharmaceutical products trading in the PRC
	Keyuan Xinhai(Beijing) Medical Products Trade Co.,Ltd (科园信海(北京)医疗用品贸易有限公司)	PRC, 4 January 2009	30,000	-	100	Pharmaceutical products trading in the PRC
	Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (广州中山医医药有限公司)	PRC, 8 January 1998	76,880	-	51	Pharmaceutical products trading in the PRC
	Taizhou Pharmaceutical Co., Ltd. (台州上药医药有限公司)	PRC, 31 December 2010	65,000	-	60	Pharmaceutical products trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Principal subsidiaries 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 %	
	Beijing Aixin Weiyi Medicine Co., Ltd. (北京上药爱心伟业医药有限公司)	PRC, 29 November 2010	100,000	-	52.24	Pharmaceutical products trading in the PRC
	Shanghai Shanhe Wuxi Pharmaceutical Co., Ltd. (上药山禾无锡医药股份有限公司)	PRC, 1 July 2011	62,720	-	80	Pharmaceutical products trading in the PRC
	Changzhou Kony Pharmaceutical Co., Ltd. (常州康丽制药有限公司)	PRC, 3 January 2000	14,946	-	80	Pharmaceutical products manufacture and trading in the PRC
	SPH Zhongxie Pharmaceutical Co., Ltd. (上海医药众协药业有限公司)	PRC, 11 January 2011	82,000	-	78.44	Pharmaceutical products trading in the PRC
	Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (东英(江苏)药业有限公司)	PRC, 1 January 1975	USD5,000,000	-	79	Pharmaceutical products manufacture and trading in the PRC

Principal associates

As at 31 December 2013, the Company has direct and indirect interests in the following principal associates:

	<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.	PRC, 6 May 1994	USD134,697,142	-	30	Pharmaceutical products manufacture and trading in the PRC
	TECHPOOL Bio-Pharma Co., Ltd.	PRC, 25 March 1993	100,000	39.28	1.52	Development, manufacture and distribution of chemical medicine in the PRC