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

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

2019 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Shanghai Pharmaceuticals Holding Co., Ltd. (the “**Company**”) is pleased to announce the results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2019. These annual results are prepared in accordance with the Hong Kong Financial Reporting Standards and audited by PricewaterhouseCoopers. The Audit Committee of the Board has reviewed these annual results.

The full content of the Company’s annual report of 2019 is attached to this announcement. The formal annual report will be dispatched to the shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sphchina.com) at an appropriate time.

By Order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
ZHOU Jun
Chairman

Shanghai, the PRC, 28 March 2020

As at the date of this announcement, the executive Directors are Mr. CHO Man, Mr. LI Yongzhong and Mr. SHEN Bo; the non-executive Directors are Mr. ZHOU Jun, Mr. GE Dawei and Ms. LI An; and the independent non-executive Directors are Mr. CAI Jiangnan, Mr. HONG Liang, Mr. GU Zhaoyang and Mr. Manson FOK.

* For identification purpose only

OUR VISION

Become a respectful manufacturer with leading brand medicine and a service provider in healthcare field with industry reputation

OUR MISSION

Perseverance, committed to enhancing people's healthy living quality

OUR CORE VALUES

Innovation, integrity, cooperation, tolerance, responsibility



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Definitions

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

Definitions of Common Terms

"the Group", "Group", "the Company", "Company" or "Shanghai Pharmaceuticals"	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shanghai Stock Exchange with stock code 601607, and on the Main Board of the Hong Kong Stock Exchange with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable
"Articles of Association" or "Articles"	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
"Reporting Period"	the 12-month period from 1 January 2019 to 31 December 2019
"YOY"	year-on-year
"Shares"	shares of Shanghai Pharmaceuticals with a nominal value of RMB1.00 each, comprising both A Shares and H Shares
"A Shares"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
"H Shares"	overseas shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"HK\$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"US\$"	US dollars, the lawful currency of the United States of America
"AUD"	Australian dollars, the lawful currency of Australia
"NZ\$"	New Zealand dollars, the lawful currency of New Zealand
"PRC" or "China"	the People's Republic of China; unless the context otherwise requires, references to the PRC or China in this report do not include Hong Kong, Macau or Taiwan
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
"SFO"	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong, as amended from time to time
"Controlling Shareholders"	unless otherwise stated, has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group)
"WHO"	World Health Organization
"FDA"	Food and Drug Administration of the United States
"MOF"	Ministry of Finance of the People's Republic of China
"NMPA"	National Medical Products Administration of the People's Republic of China (中華人民共和國國家藥品監督管理局)
"NHSA"	National Healthcare Security Administration of the People's Republic of China (中華人民共和國國家醫療保障局)
"CDE"	Center For Drug Evaluation of NMPA (中華人民共和國國家藥品監督管理局藥品評審中心)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"NHC"	National Health Commission of the People's Republic of China (中華人民共和國國家衛生健康委員會)

Definitions

"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
"Shanghai Shangshi"	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
"Shanghai Pharmaceutical (Group)"	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
"Shanghai Guosheng"	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司)
"Shanghai Shengrui"	Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)
"Shenergy Group"	Shenergy (Group) Co., Ltd. (申能(集團)有限公司)
"HISUN"	Zhejiang Hisun Pharmaceutical Co., Ltd.
"NCPC"	North China Pharmaceutical Company Ltd
"HPGC"	Harbin Pharmaceutical Group Co., Ltd.
"MediTrust Health"	Shanghai MediTrust Health Co., Ltd. (上海鎂信健康科技有限公司)
"Cardinal Health"	Cardinal Health (Shanghai) Pharmaceutical Co., Ltd. (上藥康得樂(上海)醫藥有限公司)
"Liaoning Foreign Trading"	Liaoning Medical Foreign Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)
"Sichuan Guojia"	Sichuan Guojia Pharmaceutical Science & Technology Co., Ltd. (四川省國嘉醫藥科技有限責任公司)
"China Isotope & Radiation"	China Isotope & Radiation Corporation (中國同輻股份有限公司)
"Hansoh Pharmaceutical"	Hansoh Pharmaceutical Group Company Limited (翰森製藥集團)
"Lumosa Therapeutics"	Lumosa Therapeutics Co., Ltd. (順天醫藥生技股份有限公司)
"Takeda China"	Takeda (China) International Trading Co., Ltd. (武田(中國)國際貿易有限公司)
"Astellas"	Astellas Pharmaceuticals (China) Co., Ltd. (阿斯泰來製藥(中國)有限公司)
"Adia"	Adia (Shanghai) Pharmaceuticals Co., Ltd. (埃地亞(上海)醫藥有限公司)
"Alembic"	Alembic Pharma, an Indian pharmaceutical company
"Oncternal"	Oncternal Therapeutics Inc, a medical group from the United States

"BIOCAD"	BIOCAD, a biopharmaceutical company from Russia
"4+7"	the 11 pilot cities in which the state organized the centralized procurement of drugs with target quantity
"Alliance Region(s)"	provincial administrative regions participating the centralized procurement of drugs with target quantity organized by the state
"Double Hundred Action"	the "Double Hundred Action" work plan for state-owned enterprise reform
"DTP"	Direct To Patient
"MES"	Manufacturing Execution System
"LIMS"	Laboratory Information Management System
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice
"ANDA"	the Abbreviated New Drug Application
"BE"	bioequivalence
"IND"	investigational new drug
"DMF"	Drug master file
"DRGs"	(disease) diagnosis related groups
"license-in"	introduction of drug license
"first-in-class"	first new drug target or mechanism of action discovered
"best-in-class"	best in class in comparison to its peers
"BD"	expanded introduction of new drugs
"PBM"	pharmacy benefit management

Corporate Information

DIRECTOR

Executive Directors

Mr. CHO Man (*President*)
Mr. LI Yongzhong (*Vice President*)
Mr. SHEN Bo (*Vice President and Chief Financial Officer*)

Non-executive Directors

Mr. ZHOU Jun (*Chairman*)
Mr. GE Dawei (*Vice Chairman*)
Ms. LI An

Independent non-executive Directors

Mr. CAI Jiangnan
Mr. HONG Liang
Mr. GU Zhaoyang
Mr. Manson FOK

SUPERVISORS

Mr. Xu Youli
Mr. HUAN Jianchun
Mr. Xin Keng

JOINT COMPANY SECRETARIES

Ms. CHEN Jinzhu
Ms. Leung Suet Wing

AUTHORISED REPRESENTATIVES

Mr. CHO Man
Ms. CHEN Jinzhu

STRATEGY COMMITTEE

Mr. ZHOU Jun (*Convener*)
Mr. CAI Jiangnan
Mr. Manson FOK

AUDIT COMMITTEE

Mr. GU Zhaoyang (*Convener*)
Mr. Manson FOK
Mr. HONG Liang

NOMINATION COMMITTEE

Mr. CAI Jiangman (*Convener*)
Mr. CHO Man
Mr. HONG Liang

REMUNERATION AND ASSESSMENT COMMITTEE

Mr. HONG Liang (*Convener*)
Mr. GE Dawei
Mr. Gu Zhaoyang

COMPANY NAME

Shanghai Pharmaceuticals Holding Co., Ltd.

STOCK ABBREVIATION

SH PHARMA

REGISTERED ADDRESS

No. 92 Zhangjiang Road, Pilot Free Trade Zone,
China (Shanghai)
Postal Code: 201203

STOCK EXCHANGE ON WHICH SHARES ARE LISTED

A Shares: Shanghai Stock Exchange

Stock Code: 601607

H Shares: The Stock Exchange of Hong Kong Limited

Stock Code: 02607

HEADQUARTERS IN CHINA

Shanghai Pharmaceutical Building, No. 200 Taicang
Road, Shanghai, the PRC

A SHARE REGISTRAR

China Securities Depository and Clearing Corporation
Limited, Shanghai Branch

36/F, China Insurance Building, No. 166 Lujiazui East
Road, Pudong New Area, Shanghai, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square, 1 Matheson Street,
Causeway Bay, Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

Freshfields Bruckhaus Deringer LLP

COMPANY WEBSITE

<http://www.sphchina.com>

LEGAL ADVISOR AS TO PRC LAW

Grandall Law Firm (Shanghai)

CONTACT METHODS

AUDITOR

PricewaterhouseCoopers

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PRINCIPAL BANKS

Bank of Communications
Industrial and Commercial Bank of China
Bank of China

China Merchants Bank

Citi Bank

The Hongkong and Shanghai Banking Corporation
Limited

Financial Highlights

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

Unit: RMB'000

Operating Results	For the year ended 31 December				
	2015	2016	2017	2018	2019
Revenue	105,516,587	120,764,660	130,847,179	159,084,397	186,565,796
Profit before income tax	4,171,854	4,638,996	5,204,808	5,343,378	6,262,467
Income tax expenses	(807,486)	(809,284)	(1,147,029)	(887,117)	(1,431,725)
Profit for the year	3,364,368	3,829,712	4,057,779	4,456,261	4,830,742
Attributable to:					
Owners of the Company	2,876,989	3,196,394	3,520,644	3,881,063	4,080,994
Non-controlling interest	487,379	633,318	537,135	575,198	749,748

Unit: RMB'000

Assets and Liabilities	For the year ended 31 December				
	2015	2016	2017	2018	2019
Total assets	74,344,211	82,742,717	94,344,475	126,879,332	137,026,396
Total liabilities	40,536,172	45,908,252	54,668,627	80,446,061	87,640,468
Total equity	33,808,039	36,834,465	39,675,848	46,433,271	49,385,928
Attributable to:					
Owners of the Company	29,930,314	31,622,557	34,030,843	39,013,575	41,659,059
Non-controlling interests	3,877,725	5,211,908	5,645,005	7,419,696	7,726,869

DISCREPANCIES IN ACCOUNTING DATA UNDER THE DOMESTIC AND INTERNATIONAL ACCOUNTING STANDARDS

Discrepancies in the net profit and net assets attributed to shareholders of listing corporation disclosed in the financial reports prepared under both the International Financial Reporting Standards and the Chinese Accounting Standards for Business Enterprises

☐ Applicable ☒ Not applicable

Discrepancies in the net profit and net assets attributed to shareholders of listing corporation disclosed in the financial reports prepared under both the Foreign Accounting Standards and the Chinese Accounting Standards for Business Enterprises

☐ Applicable ☒ Not applicable

Note on Discrepancies under the Domestic and International Accounting Standards

☐ Applicable ☒ Not applicable

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



Mr. Zhou Jun
Chairman

Dear shareholders,

I am pleased to report to you the results of the Company for 2019.

2019 witnessed sustained changes in the healthcare system. The policy on centralized procurement of drugs was quickly implemented, emphasis was placed on both quality improvement and price control of drugs, and import substitution was accelerated. During the Reporting Period, the Company focused on improving cultural connotation, made concerted efforts for development, promoted the implementation of major projects and further optimized industrial product mix. Meanwhile, it continued to diversify innovative product pipelines, sped up the distribution of commercial network nationwide, solidly advanced international business and delivered a satisfactory result in achieving annual operation objectives and key tasks.

CONTINUOUS AND RAPID GROWTH IN RESULTS

During the Reporting Period, the business revenue of the Company amounted to RMB186.566 billion, (a year-on-year increase of 17.27%). Among them, the revenue of pharmaceutical manufacturing amounted to RMB23.49 billion (a year-on-year increase of 20.70%), exceeding the growth rate of 20% for 11 consecutive quarters. The revenue in pharmaceutical service amounted to RMB163.076 billion (a year-on-year increase of 16.80%).

Chairman's Statement

The Company recorded RMB4.081 billion of net profits attributable to shareholders of the listed company, representing a year-on-year increase of 5.15%, RMB3.461 billion of net profits attributable to shareholders of listed Company net of non-recurring profit and loss, representing a year-on-year increase of 30.49%. Main business of pharmaceutical manufacturing contributed profits of RMB2.075 billion, representing a year-on-year increase of 24.50%; main business of pharmaceutical service contributed profits of RMB2.225 billion, representing a year-on-year increase of 26.75%. All main businesses maintained rapid growth. Shareholding enterprises contributed profits of RMB765 million, representing a year-on-year increase of 18.14%.

The operating net cash inflow amounted to RMB6.022 billion, representing a year-on-year increase of 92.09%. Among them, operating net cash inflow of pharmaceutical manufacturing amounted to RMB3.456 billion and operating cash net inflow of pharmaceutical service amounted to RMB3.065 billion.

FURTHER IMPLEMENTATION OF STRATEGIC MEASURES

During the Reporting Period, the Company continued to focus on four strategies of “innovation, intensification, internalization and combination of industry and finance”, boosted transformation and development, consolidated and promoted core competitiveness and strove to build pharmaceutical industrial group with international competitiveness and influence.

Innovation-driven development: the Company achieved long-term progress in innovation-driven development from several perspectives through continuously increasing R&D innovation investment, innovating and introducing market-based mechanism, promoting open and diversified innovation modes, constructing domestic and foreign innovation platform and speeding up innovation and foreign cooperation.

- **Continuously increased R&D and innovation investment:** during the Reporting Period, the R&D investment of the Company reached RMB1.509 billion, including RMB1.350 billion of R&D expenditure, representing a year-on-year increase of 27.22%. As of the end of the Reporting Period, innovative drugs projects of 15 products (16 indications) were in clinical research and clinical test application stages. The generic drugs of 8 varieties (9 specifications) passed consistency evaluation, ranking top nationwide.
- **Continuously extended innovation platform network:** during the Reporting Period, the Company entered into agreements with seven colleges and universities, hospitals and research institutions in several fields such as APIs, traditional Chinese medicine, development of new products and new processes, cell therapy, and conversion of innovations.
- **Continuously explored business model innovation:** the Company actively promoted the supply chain extension projects of pharmaceutical institutions and had over 1,000 professional pharmacists; the innovation service of SPH Health Commerce and MediTrust Health developed quickly.

- **Continuously improved market-based mechanism and performance-based culture:** in 2019, the Company changed the performance assessment standard of subordinate enterprises from budget completion to market benchmarking, thus greatly promoting the degree of marketization of performance assessment and incentive pay system.
- **Implemented innovation measures of medium-and-long-term incentive mechanism:** during the Reporting Period, the first share option incentive scheme of the Company was officially passed, which was a major move for the Company as the pilot enterprise of "Double Hundred Action" of state-owned enterprises reform and contributed to the market-oriented reform of system and mechanism of Shanghai Pharmaceuticals.

Intensive development: during the Reporting Period, the Company strengthened group control in the manufacturing and service segments to optimize allocation of resources and improve operating efficiency, with gradually manifest synergy effect of the Group.

- **Manufacturing segment:** continuously improved the development of intensive, efficient and coordinated centers specialized in marketing, manufacturing and R&D respectively and established the technical center under the Manufacturing Management Center during the Reporting Period, promoted breakthroughs in major technology topics, promoted subordinate companies to lower cost, enhance efficiency and share experience, expanded centralized purchasing scope of raw materials and packaging materials. Meanwhile, the Company continued to develop industrial products plan at group level, based on which, it comprehensively improved the linkage mechanism of sales-production-research lines, promoted decomposition and implementation, increasing the number of varieties with sales exceeding RMB100 million from 31 in 2018 to 35, of which, the number of varieties with sales exceeding RMB500 million reached 9.
- **Service segment:** steadily promoted the integration of Cardinal Health and Liaoning Foreign Trade and completed integration of logistic system, achieved comprehensive switch of information-based system and successfully achieved stated objective of giving play to scale effect and rapidly promoting profitability.

International development: the Company strengthened international team building internally and carried out international cooperation externally in a variety of forms to promote the depth and width of internationalization.

- **Established department team and explored emerging market:** during the Reporting Period, the Company established international business division which led the business expansion in emerging market and undertook products, technologies and investment output by virtue of successful experience of overseas factories.

Chairman's Statement

- **Expanded partners worldwide and gathered regional advantageous resources:** during the Reporting Period, the Company cooperated with BIOCAD, the leading bio-pharmaceutical enterprise in Russia, to establish the joint venture SPH-BIOCAD. As the only platform of BIOCAD in Greater China, it continued to introduce cutting-edge bio-pharmaceutical products and biotechnology and launched R&D registration in China as to the six bio-pharmaceutical products in the first-time cooperation. The Company entered into strategic cooperation agreement with Indian companies Alembic and Adia, set an example for China-India pharmaceutical enterprises to explore new cooperation mode; through license-in, it introduced LT3001, the first-in-class new medicine for stroke of Lumosa Therapeutics in Taiwan and further expanded BD pipeline.
- **Achieved substantial progress in products internationalization:** during the Reporting Period, the newly-added 2 products of the Company obtained approval from ANDA of the United States and obtained approval for several API in overseas market, solidly promoting internationalization of products.
- **Established equity cooperation with excellent overseas listed companies:** in 2019, the Company became the cornerstone investor of Hansoh Pharmaceutical, completed the reverse consolidation by merger of the shareholding company, Oncternal and debut on the NASDAQ. By virtue of equity, the Company established long-term and stable cooperation with excellent R&D-based bio-pharmaceutical enterprise.

Development with combination between finance and industry: during the Reporting Period, the Company adhered to the co-development of financing and investment, thus underpinning the accelerated development of future combination of industry and finance.

- **Finance:** completed application for additional issuance of 180 million shares of H Share and obtained approval of CSRC in September 2019.
- **Manufacturing segment:** Shanghai Traditional Chinese Medicine acquired Chongqing Huiyuan Pharmaceutical Co., Ltd., further expanding the traditional Chinese medicine decoction pieces business in Southwest China.
- **Service segment:** completed acquisition of Sichuan Guojia Pharmaceutical Technology Co., Ltd., built provincial platforms, extended and spread network to Jiangsu, Heilongjiang and Jilin, acquired minority interest of companies in Hubei, Sichuan and Tianjin, continued to expand presence, enhance network layout and increase market influence by utilizing capitals.

MARKET RECOGNITION

In the past few years, as the Company continued to expand its business and scale, its industrial status continued to rise.

- It ranked 122nd among 2019 Top 500 Enterprises in China, 43rd among Top 500 Manufacturing Enterprises in China and made its way into the 2019 Top 100 Sustainable Businesses in China released by China Association of Enterprises and China Entrepreneur Association;
- It ranked 3rd among Top 10 Enterprise Groups in Pharmaceutical Industry in 2019 Industrial List and 2nd among Top 100 Enterprises with Comprehensive Strength in Chemical Pharmaceutical Industry in China, 3rd among Excellent Enterprise Brands that Integrate IT Application with Industrialization in China's Chemical Pharmaceutical Industry and 6th among Excellent API Export-oriented Enterprise Brands in China's Chemical Pharmaceutical Industry released by China Pharmaceutical Industry Association, China Association of Pharmaceutical Commerce, China Non-prescription Medicines Association, Chinese Pharmaceutical Enterprise Development Promotion Association;
- It ranked 6th among Top 100 Enterprises of China Pharmaceutical Industrial Enterprises in 2018, the 5th among Top 25 of Best Industrial Enterprises of R&D Product Line of Medicines in China in 2019 released by China National Pharmaceutical Industry Information Center;
- It ranked 11th among Top 100 Shanghai Enterprises in 2019 and 4th among Top 100 Manufacturers in Shanghai released by Shanghai Enterprise Confederation, Shanghai Entrepreneur Association and Shanghai Federation of Economic Organizations;
- It ranked 941st among Forbes Global 2000 in 2019 released by Forbes;
- It ranked 61st among 2019 Fortune China 500 released by Fortune (Chinese version).

FUTURE PROSPECT: THE CHANGED AND THE UNCHANGED

The trade war plagued the whole year of 2019. At the beginning of 2020, with the outbreak of COVID-19 epidemic, the global market turned upside-down. The crude oil price war contributed to the slump of the market and the U.S. stock market triggered the circuit breaker for 4 times within 10 days. Many countries declared a state of emergency and even had cities or the whole country locked down. In May 2018, we foresaw **the end of the peaceful era and the dawn of the turbulent era**. However, unexpectedly, we were confronted with such a terrifying situation in a flash, which went beyond just changes and turned out to be indeed a turbulent situation.

We have been through many turbulent times. Fortunately, or unfortunately, our industry has remained relatively stable as we went with the flow and grew steadily. However, driven by quality improvement and fees control, China's pharmaceuticals industry took the lead in rushing out the established channels and entered the deep-water zone of reform years ago. The R&D in bio-pharmaceutical field has been intensely competitive.

Chairman's Statement

We stay firm and steady in the face of the turbulent times and volatile market. **We keep our strategies unchanged, stay true to our mission, serve the people and satisfy the fundamental demands on medicines from the masses, which remains our eternal objective.** In the pharmaceutical industry that traverses cycles, in the context of drastic changes, we have to remain stable and stride forward along our chosen routes strategically. And yet, we have to remain highly flexible to avoid dangers tactically.

Innovation-driven development remains unchanged. Innovation is not just about the expansion of R&D lines, but more of the iteration and upgrade of business model. Our on-going researches focus on the ways to strike a balance between flexibility and tenacity, to ensure enough driving force from fault-tolerant mechanism and minimize costs for trials and errors and reduce the loss on time and materials.

Intensiveness remains unchanged. In the hardship, the coverage of all aspects burns us out. We need to have focused direction, strategies, resources and pool the wisdom and strength of the Group to create specific core advantages to tide over the crisis.

Internationalization remains unchanged. In the era of global competition, the anti-globalization may emerge at times, but the fate of community with shared future for mankind remains unshakable. We have to make best use of advantages and bypass the disadvantages through communication, coordination and cooperation.

Combination of industry and finance remains unchanged. We will be more closely bound with the capital market and have more efficient interaction with investors. By virtue of capitals, we will always be one step ahead. In a sense, our Company is built on M&A, industrial integration and grows with the capital market. In 2019, our Company declared to participate in the establishment of Shanghai Bio-pharmaceutical Foundation to speed up the combination between industry and finance and innovation development. At the end of the year, the first share option incentive plan of the Company was officially implemented. It takes the unremitting efforts of whole management and employees to satisfy exercise conditions.

The environment underwent drastic changes, along with the changes in competition system, stadiums and players. The only thing constant is the change itself. We are full of confidence for the final victory.

Mr. Zhou Jun
Chairman

27 March 2020

OPERATING HIGHLIGHTS OF THE COMPANY IN 2019

Pharmaceutical manufacturing

During the Reporting Period, the Company's sales revenue from pharmaceutical manufacturing was RMB23.490 billion (a year-on-year growth of 20.70%); its gross profit margin was 57.52% (a year-on-year decrease of 0.11 percentage point). The Company's manufacturing segment strengthened lean and intensive management and control for both marketing and manufacturing, and replicated the superior experience and practices across the Group, achieving satisfactory results:

Marketing and promotion

The Company continued to accelerate the construction of a first-class marketing system and improve the structure of the Marketing Center and the establishment of its departments and operating entities. During the Reporting Period, the Company set up the Marketing and Medical Promotion Department in the Marketing Center to further explore the medical value of the marketed products, participate in phase III clinical design of the newly marketed products, and obtain, propose and transfer the results of evidence-based medical experiments.

With a further streamlined and enhanced marketing system, the Company was able to fully implement the marketing strategy of "one strategy for one product". Through research and evaluation of policy impacts and industry trends, the Company has formulated precise marketing strategies, continuously adjusted marketing approach, optimized marketing resources allocation, and accelerated the creation of key major product groups. As a result, the number of products with sales of over RMB100 million increased from 31 in 2018 to 35. The number of varieties with sales of over RMB500 million increased to 9, mainly in the fields of cardiovascular, immune regulation, systemic anti-infection, and blood and hematopoietic organs.

The Company has always focused on specialized fields, enhanced academic promotion capabilities, endeavored to build an excellent marketing team, and conducted promotion activities for various products in a professional and compliant manner.

As a key product of the Company, the sales revenue of Funle (Hydroxychloroquine Sulfate Tablets) continued to increase steadily during the Reporting Period. There were more than 600 activities organized by rheumatism field-related forums, 565 activities organized by the Company, over 700 department meetings and patient education meetings, totaling approximately 2,000 activities. As a result, the product has established a sound brand influence in the field of rheumatology.

On 24 March 2019, the seminar on multi-center clinical research protocol for treatment of renal anemia with Hongyuanda (Polysaccharide Iron Complex Capsules) was held in Shanghai, where multiple authoritative experts and scholars in the field of nephrology discussed the clinical research protocol for treatment of maintenance hemodialysis patients with corrected anemia with Hongyuanda. In addition, a total of 30 satellite conferences with more than 500 attendances were held for the product throughout the year, establishing its brand image in the field of blood supplements. As a result, its sales steadily increased.

The Company also adopts refined management for business solicitation agents. We used the established marketing channels of agents for other superior varieties to open up horizontal communication channels of agents, thereby speeding up product coverage in untapped areas. The Company also established a tracking mechanism for terminal sales, whereby through monthly analysis meetings, we broke down changes in sales of each region, agent, and terminal, so as to quickly “identify problems-analyze causes-formulate a response plan”, truly achieving “self-management” of business solicitation agents.

The Company also achieved a number of breakthroughs in the international market development of manufacturing products, further expanding the international product portfolio of Active Pharmaceutical Ingredients (APIs) and preparations. We have obtained U.S. ANDA approval for Doxycycline Hydrochloride Tablets and Doxycycline Hydrochloride Capsules. A number of APIs including Valacyclovir Hydrochloride Hydrate, Valsartan, Ciclopirox and Acyclovir have been approved in overseas markets. The sales of Rosuvastatin Calcium Tablets in the United States achieved rapid growth, further opening the overseas market for the Company’s cardiovascular products. At the same time, the application for Rosuvastatin preparations in China also received priority review qualification.

Process improvement

During the Reporting Period, with “manufacturing excellence” as its objective, the Company comprehensively carried out key tasks in production and manufacturing, improved quality management system, enhanced supply chain management, effected cost reduction and efficiency improvement.

During the Reporting Period, the Company set up the Technology Center at group level and established several technology sub-centers based in subsidiaries that carry key technologies, so as to centrally optimize and manage the Group’s technology system, carry out the secondary development of existing products, process innovation, intelligent manufacturing, consistency evaluation and other key tasks, solve technical problems in the application level during the manufacturing process, convert and industrialize the results of research on new processes, new technologies, new equipments, and new materials (Four News), and liaise with the R&D Management Center to facilitate rapid industrialization of new products.

The Company closely followed internationally cutting-edge technologies, promoted the application of the continuous flow technology in production, and developed continuous flow of process for pilot products. We started technological research of the continuous flow of process on 6 products including Rabeprazole, reducing the cost of raw materials by over 30% while significantly improving the safety factor of production. The Company has applied for a patent for this technology.

R&D and innovation

During the Reporting Period, the Company invested a total of RMB1.509 billion in R&D (including capitalized investment in construction at progress and fixed assets). The R&D expense was RMB1.350 billion (a year-on-year growth of 27.22%), which was 5.74% of manufacturing revenue. Among the R&D expenses, expense in innovative drugs R&D was 34.13%, generics R&D was 23.96% and secondary improvement of existing products was 24.79% of total expense. The remaining 17.12% went towards evaluation of consistency between quality and therapeutic effects of generic drugs.

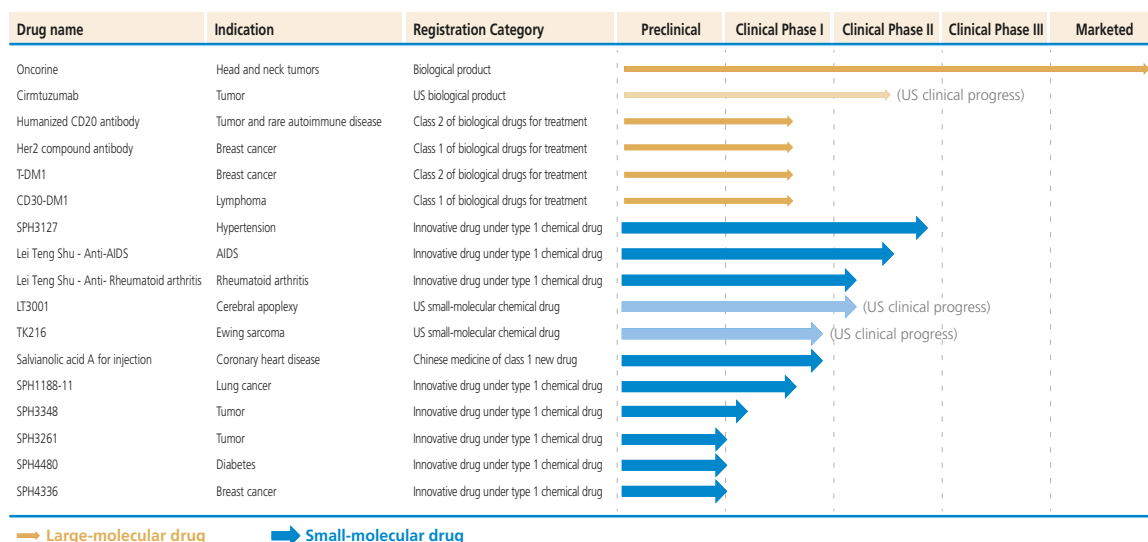
During the Reporting Period, the number of the Company's patents reached 223 on a cumulative basis, including 137 invention patent applications, 65 invention patent authorizations, and 21 utility model authorizations. The "Innovation and Application of Property Theory of Traditional Chinese Medicine Based on Original Thinking of Traditional Chinese Medicine" project of Qingdao Guofeng Pharmaceutical Co., Ltd., a subsidiary of the Company, won the second prize of 2019 State Science and Technology Improvement Award.

1. Development of R&D of innovative drug pipeline

During the Reporting Period, the Company's innovative drug pipeline made many progresses in different phases.

The Phase II clinical trial of the effectiveness and safety of SPH3127 in the treatment of primary mild and moderate hypertension – a randomized, double-blind, dose-finding, placebo-parallel control study completed recruitment of subjects (a total of 120 patients). Exploration and study of two new indications were conducted at the same time.

Treatment of rheumatoid arthritis indications using Lei Teng Shu has received clinical acquiescence; treatment of AIDS indications using Lei Teng Shu has initiated phase II clinical trial, and has completed recruitment of the first subject. Class 1 biological product "Recombinant Anti-HER2 Humanized Monoclonal Antibody Composition" started phase I clinical trial; pre-IND applications have been submitted for SPH4336 and SPH3261, of which the clinical application for SPH3261 has been accepted.



2. Accelerate new product introduction

In addition to the rapid advancement of our own pipelines, the Company has made breakthroughs in business expansion and product introduction. The two engines accelerate innovation and transformation, improving our pipeline development.

On 17 September 2019, the Company entered into a joint venture agreement with Russia's leading bio-pharmaceutical company BIOCAD to officially establish a joint venture company and introduce the perpetual and exclusive R&D, production, sales and other commercialization rights of the first batch of six bio-pharmaceutical products in Greater China (including Mainland China, Hong Kong, Macao and Taiwan). The 6 bio-pharmaceutical products include 3 biosimilars and 3 innovative biopharmaceuticals. The 3 biosimilars, including an anti-tumor drug and a rheumatoid arthritis drug, have been marketed in Russia. Two of them have been approved for marketing in many countries outside Russia. The 3 innovative biopharmaceuticals are an IL-17 antibody product for psoriasis and ankylosing spondylitis, a PD-1 antibody product, and a GITR antibody product. The first product has been launched in Russia in 2019, and the second product is in the process of application for approval. The joint venture company will also serve as BIOCAD's sole platform in Greater China, continue to introduce cutting-edge bio-pharmaceutical products and biotechnology, and develop and expand bio-innovative product pipelines.

On 6 November 2019, the Company entered into a Cooperation Agreement with Lumosa Therapeutics (6535.TW), a Taiwanese company, under which, the Company will invest RMB260 million to obtain the exclusive rights of the LT3001 project for development, production and sales in Mainland China. LT3001 is a new first-in-class small-molecular drug for the treatment of cerebral arterial thrombosis with the potential to significantly expand the time window of treatment. Currently, clinical phase II trial for the drug has started in the United States and Taiwan, and pre-IND application was submitted to CDE in December 2019. Mainland China will be added to the international multi-center clinical trials. Preclinical data shows that LT3001 is expected to greatly extend the time window for treatment of cerebral stroke thrombolysis, and is very safe. If it is marketed, it will form a strong combination with the Company's existing cardiovascular products.

- ### 3. Consistency evaluation of generic drugs goes hand in hand with application for production of new drugs
- During the Reporting Period, under the leadership of the Group's Manufacturing Management Center, the Company made a number of substantial progresses in the consistency evaluation of generic drugs. A total of 4 varieties, including Metformin Hydrochloride Tablets, Cefalexin Capsules, Ibuprofen Sustained Release Capsules, and Enalapril Maleate Tablets, passed the consistency evaluation during the Reporting Period, increasing the number of products with approved consistency evaluation to 8 varieties (9 specifications). In addition, the Company has completed BE tests for solid preparations of 20 varieties (23 specifications) and injections of 4 varieties (6 specifications), and has submitted the consistency evaluation application to CDE.

During the Reporting Period, the Company obtained production approvals for two new generic drugs, Azazatron Injection and Beclometasone Propionate Aerosol, and applied for production of Lenalidomide Capsules, Rivaroxaban Tablets, and Mometasone Furoate Fumarate Formoterol Acid Aerosol.

4. Improve internal R&D system and enhance the construction of innovation platforms

During the Reporting Period, the Company preliminarily completed the restructuring of the R&D system by continuously exploring the mechanism and model of new drug development. The Company reorganized the Science and Technology Innovation Council, and established it as a scientific consulting agency for Shanghai Pharmaceuticals' innovative development planning and management of R&D projects for innovative drugs, which provides professional advice during the establishment and introduction of innovative projects. On 22 May 2019, the SPH Registration Clinical Department (Beijing Branch) was officially opened to help the Company better coordinate the superior resources in Beijing and Shanghai to improve the efficiency of clinical research on innovative drugs. The Company's BD team was also further expanded during the Reporting Period to scout new cutting-edge drugs throughout the world and accelerate product introduction.

The Company carried out extensive high-level innovation cooperation on innovative drugs, high-end generic drugs, Traditional Chinese Medicine, and synthetic technology to combine a wide variety of superior resources, and continued to establish and promote cooperation with universities, hospitals and research institutes on various aspects including research on new product, development of new process, trial of new therapies, discipline construction and talent training.

- Established the National Precision Medicine Industry Innovation Center (國家精準醫學產業創新中心) with West China Hospital of Sichuan University (四川大學華西醫院) and invested in the foundation of the Chengdu West China Precision Medicine Industry Innovation Center Co., Ltd. (成都華西精準醫學產業創新中心有限公司)
- Established the Huaxi-SPH West Research and Achievement Conversion Center (“華西—上藥”西部科研及成果轉化中心) with West China Hospital of Sichuan University to cooperate on projects in the fields of clinical research on new drugs, conversion of innovative results of the industry-university-institute collaboration, preparations and testing platform, and in-hospital cooperative development of preparations, so as to jointly promote industrialized conversion
- Established the “Tianzhong-SPH” Traditional Chinese Medicine Innovation Research Institute (“天中—上藥”中醫藥創新聯合研究院) in collaboration with Tianjin University of Traditional Chinese Medicine (天津中醫藥大學) to carry out close cooperation on development of classic famous prescription, secondary development of major varieties, and smart pharmaceuticals to achieve a seamless connection between basic research and industrial conversion
- Established strategic cooperation with Shanghai University of Traditional Chinese Medicine (上海中醫藥大學) to establish a “Shanghai Traditional Chinese Medicine-SPH” Joint Research Institute of Traditional Chinese Medicine Innovation (“上中醫—上藥”中醫藥創新聯合研究院) and carry out comprehensive and in-depth cooperation on the secondary development of major varieties of Traditional Chinese Medicine, development of new Traditional Chinese Medicine, and in-hospital development of preparations
- Cooperated with China Alliance for Rare Disease (中國罕見病聯盟) to jointly promote the establishment and implementation of major national rare diseases projects

- The “Shanghai Pharmaceuticals-East China University of Science and Technology Green Pharmaceutical Innovation and Conversion Center” (上海醫藥－華東理工大學綠色製藥創新轉化中心) jointly established with East China University of Science and Technology was formally signed and unveiled to carry out cooperation on drug development, key technology and platform construction, industrialization capabilities and platform construction, and talent training
- The Cell Therapy Center for Cancer (癌症細胞治療中心) jointly invested in with the Tenth People’s Hospital of Tongji University officially commenced construction; the center was established to jointly build an open cell therapy cooperation platform and a new cell therapy standard platform

In addition, the Company continued to build overseas R&D platforms to expand international R&D cooperation and project introduction. The San Diego R&D Center was officially opened in the U.S. to carry out collaboration on and introduction of oncolytic virus and antibody projects. The Philadelphia Laboratory and its subsidiaries actively carried out cooperation on generic drugs that were applied for registration in both China and the U.S. The Hong Kong Biotherapy Centre actively explored new technologies for cell therapy for tumor.

Pharmaceutical services

During the Reporting Period, the Company’s sales revenue from pharmaceutical distribution business was RMB162.390 billion (a year-on-year growth of 16.45%); its gross profit margin was 6.87% (a year-on-year increase of 0.02 percentage point).

Continued to expand business network and increase regional market share

In early 2019, the state’s policy of “procurement with target quantity” was officially implemented. At the end of the year, the national centralized procurement of the second batch of drugs was initiated, indicating that procurement with target quantity had become a norm. In the future, with the continuous expansion of the impact and coverage of the policy, the requirements on the business coverage and core competitiveness of pharmaceutical distribution service providers will be higher.

The Company actively participated in the selection of distributors for varieties under procurement with target quantity. In the first batch of 11 pilot cities, the market share of bid-winning generic drugs increased significantly. At the same time, the Company actively seeks opportunities in distribution after the nationwide expansion of procurement with target quantity and provides value-added services such as market access, inventory storage and project promotion for successful bidders in the second batch of cities. We will endeavor to improve our service quality and brand influence to establish long-term and stable cooperative relationships with industrial enterprises with high-quality services. The Company also accelerated the coverage of its domestic distribution network through mergers and acquisitions. It completed the acquisition of the controlling interest in Sichuan Guojia, which increased its influence in Southwest China, and completed construction of provincial platforms and extension of network coverage in Jiangsu, Heilongjiang, Jilin and other provinces, which further consolidated its advantages of the national business presence.

Consolidated the leading position in import agency sales and improved service capabilities

The Company took full advantage of the policy of accelerated approval of innovative drugs to expand its differentiated competitive advantage in import agency sales and create a one-stop diversified import service from customs declaration to distribution, improving the stickiness of existing customers while attracting new customers. During the Reporting Period, the Company obtained the exclusive agency rights in China for 17 major varieties of imported new drugs, including Dacotinib, Cefotiam Hydrochloride, Belizumab, Pecilizumab, and Aliximab.

In October 2019, the Company established strategic cooperation with Takeda China in relation to imported new products Vedolizumab and Brentuximab Vedotin. In November 2019, the Company established a strategic cooperation with Sanofi on the import and distribution of five new products and specifications for rare diseases that were about to be marketed, bringing hope to the patients with rare diseases in China. In December 2019, the Company established strategic cooperation with Astellas on the marketing and sales of Enzalutamide in China. Enzalutamide is a standard treatment for male patients with metastatic castration-resistant prostate cancer, expected to reduce the risk of disease progression and mortality rate for tens of thousands of Chinese prostate cancer patients.

During the Reporting Period, the Company's imported vaccine business maintained the growth momentum. In 2019, revenue from the vaccine distribution business was RMB3.14 billion, a year-on-year increase of 103.9%. During the Period, the Company established import cooperation with GlaxoSmithKline on Hepatitis B Vaccine and Herpes Zoster Vaccine, further consolidating the Company's strategic position as the largest imported vaccine service provider in China. Considering the important strategic position of vaccines for people's health and safety, the Company has always maintained a rigorous and aggressive attitude towards product quality and business development, carefully selected partners and products, and ensured traceability throughout the distribution and delivery process.

Enriched service content to transform and upgrade from product provider to service provider

The Company continued to promote the layout of the medical and health industry, extended the medical payment service industry chain, and has created a number of industry-first cases such as patient finance, curative effect insurance, and special drug insurance, creating a closed ecosystem for medical services. During the Reporting Period, the Company continued to consolidate the level of patient service in professional pharmacies, taking patients as the center and drugs as the carrier, opening up professional services such as patient medication services, drug distribution, customer file management, patient education, and patient follow-up, and providing patients with entire life cycle health management through online and offline cooperation. The Company has provided supply chain extension (SPD) services for 248 hospitals nationwide. According to the individual needs of each hospital, it provides lean logistics services in the closed loop of the entire supply chain, and continuously optimizes information systems and Internet of Things technologies to improve operational efficiency. The Company's DTP pharmacies have established chronic disease patient files, which records the basic patient information, disease history, medication history, and drug purchase records in detail to provide a basis for subsequent patient management. MediTrust Health, the joint stake company, has joined hands with Taikang Online and Tencent Micro Insurance to launch financial innovation models such as medical installment, patient welfare, and efficacy insurance for major diseases such as tumors, serving nearly 200,000 patients.

Market-oriented reform

On 18 December 2019, the extraordinary general meeting of Shanghai Pharmaceuticals reviewed and approved the proposal on the share option incentive scheme. This is the first time that Shanghai Pharmaceuticals has implemented a share option incentive scheme, marking that the Company's market-oriented incentive mechanism reform has achieved a leap from 0 to 1. It is also the first important initiative of the Company after it was listed as a "Double Hundred Action" pilot enterprise in state-owned enterprise reform since August 2019.

So far, the participants under the share option incentive scheme adopted this time include 9 senior management and 201 middle-level management and core backbones of the Company. A total of 28,340,900 stock options are planned to be granted, accounting for 1% of the Company's total share capital, and the exercise price is RMB18.41 per A Share. The exercise conditions of the incentive scheme set clear requirements for a number of key indicators for the next three years (2020-2022).

The performance appraisal indicators set in this incentive scheme put forward high requirements for the Company's management and core backbones. The benchmarking companies includes a number of industrial and commercial leading enterprises, which highlights the Company's efforts to benchmark first-class companies, find gaps and strive to move forward and write a new chapter. The comprehensive exercise conditions will also motivate all Shanghai Pharmaceuticals people to pay extra efforts to achieve the leap-forward development goals. The wind is strong, and we shall set sail; the road is long, and we shall quicken our pace.

MAJOR OPERATIONS DURING THE REPORTING PERIOD

Analysis of principal business

Analysis on changes in relevant items of statement of profit and statement of cash flow

Unit: RMB

Item	Amount for the Reporting Period	Amount for the same period of last year	Change (%)	Reasons for changes
Operating income	186,565,796,464.05	159,084,396,948.33	17.27	Increase of sales revenue during the Reporting Period
Operating cost	159,751,669,602.13	136,521,468,592.50	17.02	Increase of sales scale during the Reporting Period
Costs of sales	12,855,723,141.99	11,058,098,694.96	16.26	Increase of sales scale during the Reporting Period
Management expense	4,651,573,400.28	4,075,107,540.44	14.15	Increase of management expense resulting from the increase in the scale of operation during the Reporting Period
R&D expenditure	1,349,504,051.12	1,060,770,940.43	27.22	Increase of investment in R&D during the Reporting Period
Finance costs	1,258,772,206.26	1,032,086,893.41	21.96	Increase of interest expense during the Reporting Period
Losses from impaired assets	1,093,122,105.55	995,517,496.85	9.80	Increase of loss resulting from the provision for impairment of goodwill during the Reporting Period
Credit impairment loss	211,071,663.93	84,638,827.30	149.38	Increase of Impairment losses on provision for receivables during the Reporting Period
Other income	517,063,508.97	376,738,968.06	37.25	Increase of government grants during the Reporting Period
Investment income	653,782,285.09	1,064,718,777.54	-38.60	Decrease of gain on deemed disposal of investments in an associate during the Reporting Period
Gains arising from changes in fair value	122,162,503.68	15,893,744.98	668.62	Increase of fair value of financial assets measured at fair value during the Reporting Period
Gains on assets disposal	71,336,463.10	3,299,747.59	2,061.88	Increase of gain on disposal of intangible assets during the Reporting Period
Non-operating income	152,850,639.14	258,856,056.08	-40.95	Decrease of relocation compensation during the Reporting Period
Non-operating expenses	104,330,648.69	123,810,501.94	-15.73	Decrease of loss on accrued liabilities during the Reporting Period
Net cash flow generated from operating activities	6,022,385,613.17	3,135,113,763.53	92.09	Increase in collection of loans during the Reporting Period
Net cash flow generated from investing activities	-4,584,277,541.25	-7,692,739,980.40	40.41	Decrease of receipt of cash paid by subsidiaries during the Reporting Period
Net cash flow generated from financing activities	-2,325,798,531.53	7,526,320,902.67	/	Decrease of cash receipt from borrowings during the Reporting Period

Management Discussion and Analysis

Income and cost analysis

Principal business by industry

Unit: RMB

By industry	Operating Income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income year-on-year (%)	Increase/decrease in operating cost year-on-year (%)	Increase/decrease in gross profit margin year-on-year (%)
Manufacturing	23,490,480,141.34	9,737,163,397.46	58.55	20.70	21.64	-0.32 percentage point
Distribution	162,389,757,831.94	150,974,468,065.35	7.03	16.45	16.43	+0.02 percentage point
Retail	8,339,668,692.34	7,130,218,955.78	14.50	15.80	16.67	-0.64 percentage point
Others	303,162,594.07	208,915,629.08	31.09	6.43	-5.30	+8.54 percentage points
Offsetting	-8,559,593,841.84	-8,491,074,878.74	/	/	/	/

Principal business by region

Unit: RMB

By region	Operating Income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income year-on-year (%)	Increase/decrease in operating cost year-on-year (%)	Increase/decrease in gross profit margin year-on-year (%)
Domestic	183,508,651,752.57	157,829,836,437.34	13.99	17.33	17.12	+0.16 percentage point
Overseas	2,454,823,665.28	1,729,854,731.59	29.53	14.67	17.70	-1.82 percentage points

Principal business by product

Unit: RMB0'000

Main therapeutic area	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income year-on-year (%)	Increase/decrease in operating cost year-on-year (%)	Increase/decrease in gross profit margin year-on-year (%)	Gross profit margin of the products in the same industry and field
Cardiovascular system	561,483	153,105	72.73	16.43	1.91	3.89	58.90%
Digestive and metabolism	188,130	76,140	59.53	-3.83	-5.09	0.53	38.94%
Systemic anti-infection	261,206	140,927	46.05	28.82	62.92	-11.29	29.69%
Neurological system	95,392	28,139	70.50	12.52	20.10	-1.86	75.91%
Antineoplastic drug and immunomodulator	124,443	23,018	81.50	13.87	5.91	1.39	52.59%
Musculoskeletal system	101,215	22,014	78.25	6.96	-1.57	1.89	/
Respiratory system	159,542	46,749	70.70	39.46	8.82	8.25	/
Others	857,636	483,626	43.61	29.47	29.65	-0.08	/
Total	2,349,048	973,716	58.55	20.70	21.64	-0.32	/

The description of principal business by industry, region and product is as follows:

1. Gross profit margin in the above table = (operating income – operating cost)/operating income *100%;
2. The data of gross profit margin of the same product in the same industry and field of cardiovascular system was sourced from the gross profit margin of “cardiovascular system” products in 2018 annual report of HISUN;
3. The data of gross profit margin of the same product in the same industry and field of the digestive tract and metabolism, systemic anti-infective, anti-tumour and immunomodulatory agents was sourced from the gross profit margin of “digestive system”, “anti-infective” and “anti-tumour” products in the 2018 Annual Report of HPGC;
4. The data of gross profit margin of the same product in the same industry and field of the central nervous system was sourced from the gross profit rate of “nervous, circulatory system drugs” products in the 2018 Annual Report of NCPC;
5. The data of gross profit margin of the same product in the same industry or field of musculoskeletal system and the respiratory system cannot be obtained from the data of the comparable companies which have published in annual reports.

Management Discussion and Analysis

Table of analysis of cost

Unit: RMB0'000

		By industry				Change ratio of the amount of the Reporting Period compared to that of the corresponding period of last year (%)	Explanation
By industry	Cost composition	Amount for the Reporting Period	Proportion of the cost to the total cost of the Reporting Period (%)	Amount for the corresponding period of last year	Proportion of the cost to the total cost of the corresponding period of last year (%)		
Manufacturing	Raw materials, ancillary materials and packaging materials	711,292.48	73.05	580,229.49	72.48	22.59	/
	Power expenses	32,692.18	3.36	29,429.39	3.68	11.09	/
	Depreciation expense	52,713.99	5.41	44,338.04	5.54	18.89	/
	Salaries	78,199.44	8.03	70,135.07	8.76	11.50	/
	Other manufacturing cost	98,818.25	10.15	76,346.24	9.54	29.43	/
	Total manufacturing cost	973,716.34	100.00	800,478.22	100.00	21.64	/
Service and others	Cost	15,865,998.52	/	13,643,481.04	/	16.29	/
Offsetting total cost		-864,547.90	/	-791,812.40	/	9.19	/
Total operating cost		15,975,166.96	/	13,652,146.86	/	17.02	/

Expenses

See "Analysis of principal business – analysis on changes in relevant items of statement of profit and statement of cash flow" of this chapter for reasons of changes by more than 30% in financial data such as sales expenses, management expenses, financial expenses, income taxes, etc. during the Reporting Period.

R&D investment

Table of R&D investment

Unit: RMB0'000

Expensed R&D investment for the current period	134,950.41
Capitalized R&D investment for the current period	15,926.22
Total investment in R&D	150,876.63
Proportion of the total amount of R&D investment to operation income (%)	6.42
Number of R&D personnel of the Company	1,200
Proportion of the number of R&D personnel to the total number of personnel of the Company (%)	2.51
Proportion of capitalized R&D investment (%)	10.56

Note: Proportion of R&D investment represents that to the manufacturing operating income.

R&D investment in major drugs (products)

Unit: RMB0'000

Drug (products)	R&D Investment amount	Expensed R&D Investment amount	Capitalized R&D investment amount	Proportion of R&D investment in the operation income (%)	Proportion of R&D investment in operation costs (%)	The year-on- year percentage of the current amount (%)	Explanation
Sodium tanshinone IIA silate injection	449.00	449.00	0	0.19	0.28	209.66	New contract payment
Tianpuluonan (ulinastatin for injection)	2,641.14	2,641.14	0	2.87	11.00	12.26	/
Hydroxychloroquine sulfate tablets	1,389.01	35.24	1,353.77	1.66	4.12	277.15	Contract payment for formal BE test for consistency evaluation
Calcium dibutyladenosine cyclophosphate for injection	160.00	160.00	0	0.07	0.10	0	/
Cefotiam hydrochloride for injection	837.00	592.00	245.00	0.37	0.93	123.80	Completed the consistency evaluation for injection in 2019

Note: Operating income and operating costs were the corresponding operating income and operating cost of that product during the Reporting Period, respectively.

Management Discussion and Analysis

Major R&D projects

Unit: RMB0'000

No.	R&D project	Basic information of drug (product)	Phase of R&D (Registration)	Progress status	Cumulative R&D investment	Number of manufacturers that have applied	Number of approved domestic generic drug manufacturers	Work in 2020
1	SPH3127	Class 1 of chemical drugs, indications: hypertension.	Clinical	Phase II	11,806.94	0	0	Continue clinical phase II studies
2	SPH1188	Class 1 of chemical drugs, indications: non-small-cell lung cancer.	Clinical	Phase I	3,934.35	0	0	Continue clinical phase I studies
3	Recombinant anti-CD20 humanized monoclonal antibody injection	Class 2 of biological drugs, indications: CD20 positive non-Hodgkin's lymphoma.	Clinical	Phase I	11,210.17	0	0	Continue clinical phase I studies
4	Lei Teng Shu	Class 1.1 of chemical drugs, indications: rheumatoid arthritis.	Clinical	Under the application for clinical phase II/III	4,329.44	0	0	Commence clinical phase II studies
5	Recombinant anti-HER2 humanized monoclonal antibody composition for injection	Class 1 of biological drugs, indications: Her2-positive breast cancer.	Clinical	Phase I	11,967.19	0	0	Continue clinical phase I studies
6	Salvianolic acid A for injection	Class 1 of Traditional Chinese Medicine: Main function: cardiovascular and vascular system drug.	Clinical	Phase I	7,565.50	0	0	Complete clinical phase I studies
7	T-DM1	Class 2 of biological drugs; indications: breast cancer.	Clinical	Phase I	7,818.93	0	0	Continue clinical phase I studies

Note: The data of "Number of manufacturers that have applied" and "Number of approved domestic generic drug manufacturers" were from the new drug CPM database and PDB drug comprehensive database of the China Pharmaceutical Industry Information Center.

Cash flow

The net cash flow from operating activities of Shanghai Pharmaceuticals was RMB6,022 million during the Reporting Period, representing a year-on-year increase of 92.09%, providing a better cash inflow from the operating activities; the net cash flow from investing activities was RMB-4,584 million; and the net cash flow from financing activities was RMB-2,326 million. The net cash flow from operating activities accounted for 124.67% of net profit, representing an increase of 54.31 percentage points over the same period of last year.

Analysis on Assets and Liabilities

Assets and liabilities

Unit: RMB

Items	Current Ending Amount	Proportion of Ending Amount to Total Assets (%)	Last Ending Amount	Proportion of Last Ending Amount to Total Assets (%)	Change ratio of Current Ending Amount to Last Ending Amount (%)	Description
Derivative financial assets	3,027,011.42	0.002	5,189,819.94	0.004	-41.67	Decrease of fair value of financial assets measured at fair value during the Reporting Period
Receivables financing	2,187,059,525.49	1.60	1,532,865,502.29	1.21	42.68	Increase of bank acceptance bills held during the Reporting Period
Assets classified as held for sale	/	/	6,304,430.07	0.005	/	Decrease of assets held for sale during the Reporting Period
Non-current assets due within one year	23,257,721.60	0.02	211,804,183.86	0.17	-89.02	Decrease of long term receivables due within one year during the Reporting Period
Other non-current financial assets	384,398,172.73	0.28	119,649,126.36	0.09	221.27	Increase of fair value of financial assets measured at fair value during the Reporting Period
Right-of-use assets	1,622,096,400.05	1.18	/	/	/	New leasing standard adopted during the Reporting Period
Other non-current assets	3,267,487,855.84	2.38	657,078,690.44	0.52	397.27	Increase of prepaid investment payment during the Reporting Period
Derivative financial liabilities	1,724,460.87	0.001	458,319.61	0.0004	276.26	Increase of fair value of financial liabilities measured at fair value during the Reporting Period
Non-current liability due within one year	1,188,602,322.14	0.87	2,794,417,843.45	2.20	-57.47	Decrease of debentures payable due within one year during the Reporting Period
Leasing liabilities	1,155,638,865.78	0.84	/	/	/	New leasing standard adopted during the Reporting Period
Deferred gains	1,278,726,271.79	0.93	503,332,200.12	0.40	154.05	Increase of relocation compensation during the Reporting Period

Analysis on Investment Conditions

Overall analysis on external equity investments

Unit: RMB0'000

Amount of investment during the Reporting Period	123,595.05
Increase or decrease in amount of investment	-593,456.45
Amount of investment in the same period of last year	717,051.50
Percentage of increase or decrease in amount of investments (%)	-82.76

Major equity investment

Acquiree	Time of acquisition	Purchasing cost (RMB0'000)	Principal business activities	Percentage of shareholding	Capital source	Partner	Income of acquiree from acquisition date to the year end (RMB0'000)	Net profit of acquiree from acquisition date to the year end (RMB0'000)	Whether involved in litigation
Chongqing SPH Huiyuan Pharmaceutical Co., Ltd.	1 January 2019	46,780.52	Production and sales of drugs	83.50%	Own fund	Third parties	86,049.74	5,759.15	No

Analysis on companies under control or in which the company has shares

Unit: RMB100 million

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Size of Assets	Size of Assets	Operating Income	Net Profit
Shanghai Pharma Co., Ltd.	Sales of drugs	100%	50.00	531.33	122.15	946.33	15.27
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100%	13.00	253.44	57.03	427.19	8.05
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100%	11.92	50.32	24.78	53.74	4.80
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	2.25	24.07	12.74	30.13	2.50
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	20.28	12.11	25.68	1.22
Shanghai TCM Co., Ltd.	Production and sales of drugs	100%	14.76	74.51	37.33	60.47	4.23
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75%	1.29	27.30	15.56	12.03	0.86
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	0.79	39.22	22.14	54.65	2.91
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100%	5.46	33.22	27.93	10.30	5.89
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	11.33	7.24	13.43	1.02
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	6.96	5.17	5.07	0.44
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	0.84	4.06	3.34	4.12	0.80
Liaoning Herbex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	0.51	8.46	4.66	6.62	0.47
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	5.19	3.34	4.67	0.43
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	1.01	2.63	1.21	2.10	0.01
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical instruments	100.00%	1.27	6.10	3.36	2.86	0.61
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	1.41	5.76	3.99	3.52	0.56
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	7.69	1.84	10.70	0.39
Zeus Investment Limited	Production and sales of healthcare products	59.61%	AUD3.19	22.86	8.67	9.10	-0.48
TECHPOOL Bio-pharma Co., Ltd.	Production and sales of drugs	67.14%	1.00	18.26	12.63	12.60	1.14

CORE COMPETITIVENESS ANALYSIS

Advantages of full industrial chains (core competitiveness)

Shanghai Pharma is a leading integrated industrial group in China's industry and commerce industry. Its businesses cover pharmaceutical manufacturing, distribution and retail, which enables the Company to have unique business model with shared and mutual benefits. Therefore, it enables the Company to be continuously driven by major links of the value chain of the pharmaceutical industry. The Company is able to integrate resources to break through the industry development bottlenecks and continuously provide quality product, service and solution for patients, medical institutions and partners. Due to the industrial advantages of such integrated development, the Company is able to constantly create extra synergetic profits and value for its shareholders and the society and lower the risks and uncertainties of individual fields.

Product structure advantages

The Company has profound history. Over the years, it owns rich product resources. It produces nearly 700 varieties of drugs each year regularly. Its products mainly cover 7 major therapeutic fields, namely anti-tumor, heart and cerebral vessels, psychoneural, anti-infection, auto-immunity, digestive tract and metabolism, and respiratory system, which has formed the portfolio echelon of key products and basic and common drug products. The Company has product lines for producing a complete range of dosage forms of drugs both at home and abroad. The Company insists on comprehensive lean management. The Company has established production information management MES system and quality information management LIMS system for a lean optimization of all processes of drug production and manufacturing. The Company puts emphasis on improvement of its ability in technological innovation, industrialization and quality control, so as to keep its leading advantages in quality and cost and ensure that it is able to constantly and stably produce drugs that meet the intended purposes and the registration requirements. The Company seeks international development in products. It has passed the quality certifications of WHO, FDA, European Union and other developed countries as to several of its APIs. Following the marketing of Rosuvastatin Calcium Tablets in the United States market, Doxycycline Hydrochloride Capsules and Tablets have been granted the FDA's approval. The Company has also applied for US ANDA for several products.

R&D resources advantages

The Company attaches importance to R&D innovation. We continuously increase R&D investment, maintaining industry-leading R&D investment intensity. Driven by both independent development and BD, we have built a product chain that meets clinical needs and has technological advantages through organic integration of internal resources and external cooperation. Under the central management of the R&D Management Center, the Central Institute, R&D innovation platforms and R&D efforts of subsidiaries form an interactive and integrated R&D system. The Company insists on an open R&D mode. To accelerate product introduction and R&D cooperation and promote in-depth cooperation amongst the industry, colleges, and institutes, it has carried out R&D cooperation with Shanghai Institute of Materia Medica of Chinese Academy of Sciences, Fudan University, East China University of Science and Technology, Shenyang Pharmaceutical University, Tianjin University of Traditional Chinese Medicine, Shanghai University of Traditional Chinese Medicine, West China Hospital of Sichuan University, Shanghai Ruijin Hospital, Tenth People's Hospital of Tongji University, Shanghai Chest Hospital, etc. The Company continued to construct forward-looking innovative drug R&D product chains and improved innovative drug product chains with clinical values and technological features. The Company has been consecutively shortlisted for Top 20 Best Industrial Enterprises in China's Medical R&D Product Pipeline. Its R&D ability ranks in the first echelon of China's medical enterprise.

Business network advantages

The Company has an intensive and informational modern drug circulation system, forming a network with a direct coverage of 24 provinces and cities nationwide, thus, forming an effective, quick, and intelligent modern supply chain service channel. Therefore, the Company has a broad customer network. Meanwhile, our integrated shared and mutually beneficial business model serves to promote our own pharmaceutical business.

Service advantages

The Company insists on innovating drug distribution methods and keeps providing services for reform of public medical institutions. We have leading supply chain management, information technology and logistics technologies so as to meet the needs of the public and the medical institutions. We also keep increasing our service efficiency and improving customer experience. The Company is in a nationally leading position in terms of innovative business model, such as supply chain extension service within hospitals, the third-party logistics service, direct-delivery of drug service, one-stop service for imported drugs, information management of drug stocks, and clinical support service. The Company integrates its online and offline drug retail businesses, which is leading in China. By virtue of electronic prescription circulation platform, Zhuisu Cloud (追溯云) service platform, and over 2,000 branded offline retail chain pharmacies in 16 provinces, autonomous regions and municipalities across China, the Company is able to constantly provide efficient, professional and safe services for its customers.

Advantages of industrial and financial integration

The Company has a sound financial structure and good control of its asset to liability ratio. By virtue of A+H shares listing platform, international and domestic investment platform and all kinds of merger and acquisition funds, the Company has a relatively optimized capital operation ability, thus, it can fully combine industrial capital with financial capital to drive the industrial development.

Brand advantage

Building on a fine culture steeped in history, the Company upholds the fundamental principle of safety, reliability and innovation, and adheres to the main brand-driven development strategy. It owns a group of established brands with long history and rich connotation, which creates effective synergy with the main brand, “Shanghai Pharmaceuticals”.

DISCUSSIONS AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

Industry landscape and development trends

At the beginning of 2020, affected by the COVID-19 epidemic, delays in resumption of work and production, obstruction of transportation, and decline in non-epidemic-related prescriptions in hospitals pose a significant adverse impact on the industry. It is expected that the industry growth in the year of 2020 will be lower than expected. However, in the long run, driven by factors such as the aging population, rising living standards of the people, and increased public health awareness, the development momentum of the pharmaceutical industry in China is still promising. At the same time, under the super-imposed effects of a number of pharmaceutical industry reform policies on “speeding up fee control and structure adjustment, encouraging innovation and promoting transformation”, the development of China's pharmaceutical industry is still in a period of major changes. It is expected that the structural adjustment of the pharmaceutical market will be deepened, scientific and technological innovation will be accelerated, and the industry will speed up the reshuffling.

On 5 March 2020, the Central Committee of the Communist Party of China and the State Council issued the *Opinions on Deepening the Reform of the Medical Insurance System*. As the top-level design of the future medical insurance reform, it not only fully affirms and extends the established policy, but also proposes some new content and requirements, which are expected to have a profound impact on the pharmaceutical market. The followings are opinions which directly related to the Company:

Establish and improve the medical insurance benefit list system. All regions must ensure that the decree is unblocked. Policies which exceed the authorized scope of the list cannot be published without approval. The basic payment scope and standards must be strictly implemented. The dynamic adjustment mechanism of the medical insurance catalog should be further improved.		Continue and further clarify the requirements for the adjustment of the national medical insurance catalog in 2019, which means that the provincial supplementary medical insurance catalog will completely become the history. Industry competition will be more standardized and orderly, and the competitive position of national leading companies in the regional market is also expected to be improved.
Innovate the management of medical insurance agreements and support the development of new service models such as “Internet + medical treatment”. Raise the overall level of medical insurance from the county (city) level to the comprehensive prefecture-level. To meet the needs of the development of the direct settlement of medical treatment in different places, the “Internet + medical treatment” and the service model of medical institutions, explore the pilot project of cross-regional fund budgets. Speed up the improvement of direct settlement services for out-of-town medical treatment.		Although the specific impacts are yet to be detailed, the Opinions have clearly defined the policy direction of increasing the overall medical insurance coordination across the country. Combined with the “Opinions on the Improvement of Internet + Medical Service Prices and Medical Insurance Payments” issued by the National Medical Insurance Bureau in September 2019, affected by this novel coronavirus pneumonia, the supporting policies for “Internet +” medical services are expected to be gradually improved. The Company’s years of hard work in related fields are expected to accelerate into the harvest period. At the same time, Internet giants will also accelerate the pace of entering the medical industry. The industry’s competitive landscape is further complicated, and challenges and opportunities co-exist.
Promote the development of a multi-level medical security system. Improve the level of protection for severe and serious diseases and multiple medical needs. Accelerate the development of commercial health insurance. Explore the drug protection mechanism for rare diseases. Gradually incorporate outpatient medical expenses into the scope of payment of the basic medical insurance fund. By improving medical insurance payment standards and drug bidding and procurement mechanisms, support the development and use of high-quality generic drugs and promote the substitution of generic drugs.		The construction of a multi-level medical security system will comprehensively improve the accessibility of medical services and benefit the industry as a whole. The call for years of rare disease medication guarantee mechanism will also be promoted with policy benefits. The Company’s existing dozens of rare disease medications including Pyridostigmine, Penicillamine Tablets, Hydrocortisone Acetate Tablets, etc. A number of drugs are under research. The subsequent implementation of related policies shall be closely monitored. In addition, most of the Company’s outpatient medications have been included in the medical insurance catalog, and outpatient medical expenses are included in the scope of payment of the basic medical insurance fund, which will help sales of these products.

Development strategy of the Company

In the context of the reform and development of the domestic pharmaceutical industry, the Company will focus on the requirements of the new situation, new starting point, and new development, actively grasp national strategic opportunities, adopt on industrial changes, accelerate transformation and development, and deepen the four major transformations and developments (innovation-driven development, intensive development, international development and combination between industry and finance development) centered on scientific and technological innovation, so as to develop better development paths and models around the characteristics of various business segments, to promote the consolidation and improvement of the Company's core competitiveness, to ensure the leading position of the domestic pharmaceutical industry, and to build an internationally competitive and influential Chinese pharmaceutical industry group.

Focusing on "innovation-driven development". Taking meeting new clinical needs as the core, and with product planning as the starting point, the Company continues to strengthen R&D investment, accelerate the development of high-end generic drugs and innovative drugs through independent research and development, cooperative research and development, and external introduction, and improve the quality and quantity of R&D pipeline projects, and build a product chain that meets new clinical needs and with technological advantages; vigorously promote the construction of existing research and development platforms, accelerate the expansion of the international research and development landscape with a global perspective, and promote the construction and layout of domestic and foreign innovation platforms in an orderly manner; establish a high-quality R&D team, introduce market-oriented systems and mechanisms, optimize the development of R&D innovation system, accelerate the introduction of high-end leading talents, expand the medical affairs, clinical trial operation management, and drug registration talents to provide a strong support for continuous innovation and development. The Company will continue to focus on joint ventures, cooperation or technology transfer with well-known global pharmaceutical companies to open up the global innovation chain and value chain. At the same time, it will actively promote the establishment of open research and development platforms with domestic universities, research institutes, hospitals, etc., and continue to enrich its product line and increase technical ability levels. The Company will vigorously promote the innovation of pharmaceutical business service content and service model, further strengthen the development of advantageous businesses such as drug import services, medical institution supply chain, prescription extension services, and supplier value-added services, and actively use modern information technologies such as cloud computing and big data to continue to innovate business model. Apart from that, the Company will conduct further study on how to deepen the internal mixed reform, incubation and introduction of external investment of state-owned enterprises, establish a new business platform for joint ventures and cooperation in a timely manner, and innovate development paths, models and mechanisms.

Rooted in “intensive development”. In the pharmaceutical manufacturing segment, the Company will gradually transform and upgrade to an R&D pharmaceutical company driven by technological innovation. To realize that, the Company will continue to improve the management system for efficient and close collaboration in marketing, manufacturing, research and development, and investment, strengthen the professional capacity building of vertical integration management within the Group, enhance the competitiveness of the product portfolio market in the focused fields, and form a cross-organization product development collaboration mechanism based on the therapeutic field. Also, it will vigorously promote the construction of a first-class marketing system, further tap the potential of the Group’s exclusive products, specialty products, scarce medicines, traditional Chinese medicine, and rare disease medicines, and promote the platform development of rare disease medicines. In the pharmaceutical services sector, the Company will actively adapt to industrial changes, accelerate the commercial network layout and internal resource integration, vigorously promote the construction of provincial platforms, accelerate the downward extension of terminal service networks, actively expand featured businesses, strengthen regional leading advantages, and conduct sound management in key provinces guided by “one province, one strategy”, further improve the construction of the logistics system, orderly promote the storage and logistics upgrade project, strengthen business process optimization and resource sharing, promote the transition from traditional supply chain services to technology-based health services based on “technology + services”, and gradually transform into a service-driven and technology-driven modern health service provider.

Focusing on “international development”, the Company will accelerate the pace of international development, actively participate in international competition, and strengthen the systemic ability of Shanghai pharmaceuticals’ preparation products in international registration and sales by exporting preparations passing the certification of European and the U.S.A. and reaching the internationally advanced level. The Company will carry out the global multi-center clinical trial for innovative drugs in an orderly manner, continue to strengthen overseas R&D cooperation with a global perspective, monitor overseas M&A projects with major markets, and seek opportunities for pharmaceutical investment and export in countries along the “Belt and Road”.

Guaranteed by “advanced manufacturing”, the Company will closely focus on the quality control of drugs, promote the construction of superior manufacturing systems of Shanghai Pharmaceuticals and improve the quality management process of the entire life cycle; accelerate the construction of two major technical sub-centers of APIs and preparations, and promote the matching of preparations and drug materials; promote the optimization of production base layout and production resources, promote the completion of a number of major projects in accordance with the planned schedule, and steadily promote the integration of production capacity; accelerate the promotion of a new round of refined factory transformation and upgrades, integrate software and hardware with international advanced levels, and continue to strengthen lean management and production safety management.

With the help of “combination between industry and finance”, the Company will deepen the operation of integrated production and financing, expand various financing channels and investment methods, ensure that the Company maintains a good capital structure, and improve investment and financing efficiency.

Business Plan

In 2020, the Company will continue to adhere to the operating policy of “adapting to industry changes, accelerating transformation and development, and striving to be the industry leader”. In the pharmaceutical manufacturing sector, the Company will deepen the construction of three central systems of research, production and sales, strengthen group management and control, focus on core strategies, and optimize resource allocation. In the pharmaceutical services sector, it will accelerate the network layout and internal resource integration, further improve the construction of the logistics system, and expand innovative businesses, so as to achieve stable development of the Company’s operations and businesses, minimize the impact of the epidemic, and ensure sound operating quality.

Medical R&D

With product planning as the core, the Company will make every effort to create an efficient R&D system, accelerate the implementation of innovation cooperation platform projects, vigorously improve research and development efficiency, accelerate the self-research and introduction of major new drugs, and improve the quantity and quality of innovative drug products.

- **Improve the R&D system construction:** streamline the organizational structure of the R&D Management Center, effectively implement the Group’s science and technology innovation council system, and accelerate the progress of clinical stage projects; focus on strengthening the construction of R&D initiation departments, clinical medicine and registration departments, business development department (BD department) and departments on operational functions, focus on expanding the medical affairs, experimental operation management, and registered talent teams, accelerate the introduction of high-end leading talents, and construct high-quality R&D teams; benchmark advanced companies’ innovative management models, further promote the performance culture, and improve the R&D evaluation incentive mechanism, implement the medium and long-term R&D incentive mechanism; optimize R&D project and management processes, strengthen project progress management, benchmark industry leaders in all aspects, find differences and shortcomings, effectively improve R&D efficiency and reduce cycle time.
- **Build an R&D platform in an orderly manner to accelerate R&D and innovation cooperation:** formulate overseas R&D resources expansion plans, prepare for the establishment of R&D institutions (locations) in Japan and Europe; focus on the follow-up cooperation with the West China Precision Medicine Industry Innovation Center; accelerate the registration of the Company’s first batch of imported drugs of the joint venture of BIOCAD; accelerated the cooperation with Ruijin Hospital to build a national translational medical center project.

- **Accelerate the progress of R&D pipeline, and expand the number of projects with two drivers:** accelerate the clinical advancement of existing innovative drugs, and increase the number of new projects entering the clinical and pre-IND application phase during the year; increase the BD introduction of new drugs (including biosimilars), focus on clinical phases II and III; increase the development of generic drugs, and make new breakthroughs in the domestic approval of new generic drug varieties, domestic application for production, and ANDA application/approval; make every effort to build the Group's traditional Chinese medicine research and development platform taking a traditional Chinese medicine research institute as the core, expand the depth and scope of strategic cooperation with Tianjin University of Traditional Chinese Medicine and Shanghai University of Traditional Chinese Medicine, and jointly carry out the cultivation of several large varieties of traditional Chinese medicine, the secondary development of potential varieties, and the innovative preparations of new traditional Chinese medicine, and launch the international registration of selected traditional Chinese medicine varieties.

Manufacturing product marketing

Deepen the construction of the marketing center system, make every effort to create a first-class marketing system, and further tap the potential of the Group's exclusive products, specialty products, scarce medicines, traditional Chinese medicine, and rare diseases medicines.

- **Deepen the construction of the marketing center system:** center on the big product focus strategy, and accelerate the completion of the transformation work and department function optimization of the marketing organizations in the marketing center.
- **Reorganize sales products:** determine screening standards and development strategies from the perspective of market competition, improve product value chain management, and tap the advantages and potentials of exclusive products, specialty products, scarce drugs, key traditional Chinese medicine products, and rare disease drugs; form a complete brand rejuvenation plan, fully explore the advantages of time-honored brands, and seek government support for products such as "Ley" and "Long Hu".
- **Construction of a rare disease drugs development platform:** reorganize existing rare disease treatment drugs, prepare for the establishment of a rare disease drugs division (platform), complete development strategies and plans, and simultaneously promote the development of new drugs for rare diseases.

Industrial manufacturing

Improve the organizational system of the manufacturing management center, accelerate the advancement of key tasks such as formulation and raw material matching, and generic drug consistency evaluation, further optimize the production base layout, complete major projects in accordance with planned progress, and vigorously promote the construction of the superior manufacturing system of Shanghai Pharmaceuticals.

- **Continue to improve the construction of the manufacturing management system:** improve the organizational structure, work functions, and management system of the manufacturing management center; accelerate the improvement of the manufacturing excellence evaluation system, promote the "Beacon Factory" project of subsidiaries, and further improve the level of manufacturing bases; further promote cost control, and reduce the cost rate of industrial enterprises.

- **Promote the supporting work of preparations and raw materials:** complete the supporting plans for APIs key products of raw materials; deepen and improve the core technology platform of APIs, strengthen the level of APIs technology sub-centers, and actively build core technical advantages; start and promote the Group's key product (including Cefotiam, Duloxetine, Ceftriaxone) supporting materials development and major construction projects involving secondary development of the product, process improvement and quality standard improvement work; complete the preparations technology sub-center renovation and transformation within the year, and put it into use.
- **Promote the completion of major production base projects on schedule:** continue to promote the optimization of production base layout and production resources, and complete the overall layout planning of production bases in Shanghai; start the project of Shanghai Pharmaceuticals Biomedicine R&D and Industrial Transformation Base (Phase 1) this year; complete the capping of the Northern Medicine Large-molecular Drug Pilot Base project (Phase II); finish the construction of the Xingling Pharmaceutical Chinese Medicine Smart Factory and start the equipment debugging; officially start Liaoning Green Raw Material Medicine Industrial Park project; and strive to start building the Baoshan Pharmaceutical Industry park of Shanghai Pharmaceuticals and establish an industry-benchmark super factory and distribution service center.

Pharmaceutical services

Under the new situation of industries such as procurement with target quantity, the Company will adapt to industrial changes, strengthen network layout, enrich service methods, consolidate the basic strength of logistics, promote the Group's retail business integration and external cooperation, choose opportunities to promote business mergers and acquisitions, and ensure business revenue growth and industry leadership.

- **Strengthen network layout:** continue to promote the policy of "one province, one policy", consolidate and enhance the core region's share and competitiveness, accelerate the vertical expansion of potential provinces, and complement the shortcomings of network layout; accelerate the integration of the Group's internal commercial resources, especially for post-investment intergration efforts for mergers and acquisitions projects to increase synergy in regional operations.
- **Innovative transformation and development:** in-depth extension of upstream and downstream customer services, business transformation and upgrading, mining of new innovation models, formation of pilot and project promotion plans during the year, and acceleration of new businesses such as Cloud Health (雲健康) electronic prescription business and PBM.
- **Further improve the construction of the logistics system:** speed up the overall logistics warehousing network layout planning, accelerate the construction of key logistics projects and logistics informatization, implement fixed asset investment projects in multiple provinces, and strive to start the construction of Shanghai Logistics Center.
- **Promote business mergers and acquisitions:** continue to focus on industry mergers and acquisitions opportunities, and choose opportunities to develop mergers and acquisitions projects that have significant synergy with existing businesses in terms of regions, customers, channels, and varieties.

Potential risk factors

1. Risks of the COVID-19 epidemic. Due to factors such as the regulatory lock-down, voluntary quarantine of people, and delayed resumption of work and production as a result of the epidemic, the operations of the Company and its subsidiaries are limited to varying extent, and the duration and degree of impact are uncertain;
2. Risks of industry policies, mostly from the continuous deepening of the national medical reform. Fees control because of medical insurance, drug price reductions brought by the new round of bidding, new drug review policies, and generic drug consistency evaluation. Some drugs are also facing a new round of bidding price cuts and bid losing. The price of medicines may be further reduced, which squeezes the Company's gross profit margin;
3. The long cycle and large investment of R&D projects. There is a certain degree of uncertainty in related progress, approval results and time. Risks that the project's R&D progress or clinical trial results are worser than expected are still existing;
4. The fluctuations in prices of medicinal materials in bulk have brought significant impact on the cost of the Company's traditional Chinese medicine products;
5. Exchange risk may arise from the settlement currency used in overseas purchase of drugs;
6. Risk of fluctuation in export prices of APIs;
7. Environmental Protection Risk: with the issuance of new environmental protection law and regulations, the environmental protection requirements will become stricter and the control of pollutants from the production of APIs will be strengthened, resulting in increase in expenses paid by the Company for production safety, compliance and environmental protection;
8. Impairment test for goodwill is based on the forecast of future cash flow and contains the management's relevant assumptions and professional judgments. Goodwill is exposed to certain risks of impairment.

In response to the said risks, the Company's management will keep an eye on the changes in the epidemic as well as industry policies, and ensure provision of anti-epidemic drugs and supplies for the prevention and control of the epidemic. We will plan ahead and make prompt tactic adjustments to properly carry out production management, safety management, and environmental protection, strengthen risk control systems, and accelerate the production and operation of the Company. For possible risks, the Company will actively propose solutions to lower their overall effect on the business of the Company.

Report of the Board of Directors

The board of Directors is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019. The annual report has been reviewed by the audit committee of the Company and approved at the tenth meeting of the seventh session of the Board of Directors. PricewaterhouseCoopers, Certified Public Accountants issued standard unqualified auditor's reports for the financial reports prepared by the Company based on the Hong Kong Financial Reporting Standards.

PRINCIPAL BUSINESS

Shanghai Pharma is the large-scale pharmaceutical industry group listed in Shanghai and Hong Kong, and it is the core enterprise subordinate to the massive health industry sector of its Controlling Shareholder, namely, SIIIC. Its principal business covers pharmaceutical industry, distribution and retail, and Shanghai Pharma possesses unique comprehensive advantages of industry chain, is capable of sharing the sustainable growth opportunity of China's healthcare and pharmaceutical industry, and furthermore, bringing synergy effect via resources sharing among business sectors.

Details of the principal business of the Group's main subsidiaries are set out in note 51 to the financial statements prepared in accordance with Hong Kong Financial Reporting Standards. During the Reporting Period, there were no significant changes in the nature of the Group's principal business.

BUSINESS REVIEW

For details, please refer to the section headed "Management Discussion and Analysis" above.

RESULTS AND DIVIDEND

The profit of the Group for the year ended 31 December 2019 and the financial position of the Group as at that date are set out in the financial statements and the notes thereto.

The Board recommends the following profit distribution plan for 2019: A proposed cash dividend of RMB4.40 (tax inclusive) for every ten Shares based on the total share capital of the Company as at the record date specified in the announcement regarding execution of profit distribution would be distributed to all shareholders, subject to approval at the annual general meeting of the Company for 2019.

Cash dividend of H Shares is expected to be paid before 30 August 2020. The Company will despatch a circular containing, among other things, the proposed final dividend and further information on the forthcoming annual general meeting to shareholders as soon as practicably possible.

RESERVE FUND AVAILABLE FOR DISTRIBUTION

In accordance with the PRC Company Law, the Company can only distribute dividends out of its annual profit available for distribution. Annual profit available for distribution refers to: the balance of the Company's profit after tax after deducting (i) accumulated loss in the previous years; and (ii) allocation to statutory surplus reserve, and (if any) allocation to discretionary surplus reserve (according to such priorities for allocations to those reserves). Calculated on the aforesaid basis, the Company's reserve fund available for distribution as at 31 December 2019 was RMB2,061,204,000 based on the financial statements prepared under the Hong Kong Financial Reporting Standards. In addition, details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2019 are set out in the Note 49 to the financial statements prepared under the Hong Kong Financial Reporting Standards.

DIVIDEND POLICY

Pursuant to the Articles of Association, the Company implements a consistent and stable profit distribution policy. The dividend may be distributed by the Company by way of cash, shares or the combination of both. The cumulative cash dividends of the Company for the latest three years shall not be less than 30% of the average annual distributable profit for the same three-year period. The detailed distribution plan will be determined by the shareholders' general meeting of the Company in accordance with the Company's actual operating results for the year.

TAX CONCESSION

For investors of the Hong Kong Stock Exchange investing in the A Shares of the Company listed on the Shanghai Stock Exchange (the "Northbound Trading of the Shanghai Stock Exchange"), the Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding pursuant to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation guidelines and the Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprise on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (國稅函[2008]897號) issued by the State Taxation Administration on 6 November 2008. For investors of Northbound Trading of the Shanghai Stock Exchange who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities of the Company for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

For investors of the Shanghai Stock Exchange investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the “Southbound Trading of the Hong Kong Stock Exchange”), the Company will withhold and pay individual income taxes at the rate of 20% for individual mainland investors pursuant to Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)). For securities investment funds from Mainland China, tax payable shall be the same as that for individual investors. For enterprise investors from Mainland China, the Company will not withhold and pay the income tax of dividends and such enterprise investors shall report and pay the relevant tax themselves.

For all investors investing the Shares of the Company through the Southbound Trading of Shenzhen Stock Exchange, tax on dividends shall be paid in accordance with tax policies under the Northbound Trading of Shanghai Stock Exchange and Southbound Trading of the Hong Kong Stock Exchange pursuant to the “Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect” (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)).

CHARITY AND OTHER DONATIONS

See the “2019 Environment, Social and Governance Report of Shanghai Pharmaceuticals Holding Co., Ltd.” disclosed by the Company for details.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

The aggregate sales to the five largest customers was RMB6,418.43 million, accounting for 3.45% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB2,284.20 million, accounting for 1.23% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB12,198.28 million, accounting for 7.64% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB2,354.30 million, accounting for 1.48% of the total purchase for the year.

None of the Directors, close associates of the Directors, or any shareholder (who to the knowledge of the Board own more than 5% of issued shares the listed issue) has any interest in the suppliers or customers disclosed above.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Please see the chapter headed “Directors, Supervisors and Senior Management” below.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has, pursuant to Rule 3.13 of the Hong Kong Listing Rules, received from each of the four independent non-executive Directors, namely Cai Jiangnan, Hong Liang, Gu Zhaoyang and Manson FOK an annual confirmation of his independence and still considers each of them to be independent.

INTEREST OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

As of 31 December 2019, no director or supervisor of the Company has interest in any business which competes or may compete, either directly or indirectly with any business of the Group.

SERVICE CONTRACTS

During the Reporting Period, none of directors or supervisors entered into the service contract with the Company which was not terminable by the Company within one year without payment of compensation other than statutory compensation except service contracts of management of the Company.

MATERIAL INTEREST OF DIRECTORS AND SUPERVISORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the Reporting Period, no director or supervisor (including any entity connected with a director or supervisor) of the Company had a material personal interest, whether directly or indirectly, in any transaction, arrangement or contract of significance of the Company (including its subsidiaries) except service contracts.

CONTRACTS OF MANAGEMENT

During the Reporting Period, the Company has not entered into any contract with any individual, company or corporation to manage or dispose all or any part of major business of Shanghai Pharma.

MATERIAL CONTRACTS

Save as disclosed in this annual report, during the Reporting Period, the Company or any of its subsidiaries had not entered into any material contract with the Controlling Shareholder (as defined under the Hong Kong Listing Rules) or any of its subsidiaries, nor had any material contract been entered into for the services provided by the Controlling Shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

TOP 10 SHAREHOLDERS AND THEIR SHAREHOLDINGS AT THE END OF THE REPORTING PERIOD

Unit: Share

Name of shareholder (in full)	Increase/ decrease during the Reporting Period	Number of Shares held at the end of the Reporting Period	Shareholding percentage (%)	Number of trade restricted Shares held	Pledged or frozen	Nature of shareholders
HKSCC NOMINEES LIMITED ^{note 1}	-41,337,300	841,915,324	29.623	0	Unknown	Foreign shareholder
Shanghai Pharmaceutical (Group)	0	716,516,039	25.211	0	Nil	State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	41,360,100	279,946,298	9.850	0	Unknown	State-owned legal person and foreign shareholders
China Securities Finance Corporation Limited	0	85,333,703	3.002	0	Nil	Unknown
Hong Kong Securities Clearing Company Limited ^{note 2}	12,696,320	48,144,457	1.694	0	Unknown	Unknown
Shanghai Guosheng and Shanghai Shengrui	0	43,100,900	1.517	0	Unknown	Unknown
Central Huijin Investment Ltd.	0	24,891,300	0.876	0	Nil	Unknown
NSSF 604 Combination	-2,396,900	24,486,006	0.862	0	Nil	Unknown
Yinhua Fund-Agricultural Bank – Yinhua China Securities and Financial Assets Management Program	0	11,964,367	0.421	0	Nil	Unknown
NSSF 412 Combination	/	11,645,618	0.410	0	Nil	Unknown

Note1: Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 57,644,500 H Shares held by SIIC and its wholly-owned subsidiaries and 18,515,100 H Shares held by Shanghai Guosheng and Shanghai Shengrui through Southbound Trading. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen;

Note2: Hong Kong Securities Clearing Company Limited is the nominee holder of the RMB ordinary shares under Shanghai-Hong Kong Stock Connect.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE, SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2019, according to the information available to the Company and to the knowledge of the Directors, the following shareholders had interests or short positions in the Shares or underlying Shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the general meetings of the Company. Interests and short positions of Directors and Chief Executive are set out “Chapter 7 Directors, Supervisors and Senior Management”.

Name of shareholder	Class of shares	Nature of interests in shares	Number of shares	Percentage of H shares/A shares held as at the end of the Reporting Period to the entire issued H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group ^{Note 1 (1)}	A shares/ H shares	Interests of controlled corporation	996,462,337(L)	48.82(A shares)/ 6.27(H shares)	35.06
Shanghai Shangshi Group ^{Note 1 (2)}	A shares	Beneficial owner/ Interests of controlled corporation	938,317,837(L)	48.79	33.02
Shanghai Pharmaceutical (Group)	A shares	Beneficial owner	716,516,039(L)	37.26	25.21
National Council for Social Security Fund	H shares	Beneficial owner	69,629,220(L)	7.58	2.45
BlackRock, Inc.	H shares	Interests of controlled corporation	62,756,181(L) 172,600(S)	6.83 0.02	2.21 0.01
Citigroup Inc.	H shares	Person having a security interest in shares/interests of controlled corporation/ approved lending agent	54,284,127(L) 4,638,796(S) 47,891,712(P)	5.91 0.50 5.21	1.91 0.16 1.69
Morgan Stanley	H shares	Interests of controlled corporation	49,915,708(L) 16,315,824(S) 0(P)	5.43 1.78 0.00	1.76 0.57 0.00
LSV ASSET MANAGEMENT	H shares	Investment manager/ other	46,026,070(L)	5.01	1.62

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

- Note 1:
- (1) SIIC is a wholly-owned subsidiary of Shanghai SASAC. SIIC group refers to SIIC and its wholly owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate the State-owned Assets of Shanghai Overseas Companies, its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] No. 6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC group held 996,462,337 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 57,644,500 H Shares were directly held by SIIC group, and 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi Group;
 - (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi Group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,317,837 A Shares held by Shanghai Shangshi Group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi Group, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).
- Note 2:
- (1) Figures disclosed above are based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk);
 - (2) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file a disclosure of interests form when certain conditions are fulfilled. When a shareholding in the Company changes, it is not necessary for the Shareholder to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, therefore a shareholder's latest shareholding in the Company may be different from the shareholding filed with the Hong Kong Stock Exchange;
 - (3) Save as disclosed above, as at 31 December 2019, the Company was not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

OPTION INCENTIVE SCHEME

On 18 December 2019, the Company's 2019 share option incentive scheme (the "Option Incentive Scheme") was approved by the shareholders of the Company at the 2019 first extraordinary general meeting, the 2019 second H-share class meeting, and the 2019 second A-share class meeting (the "General Meetings") and adopted by the Company. On 19 December 2019 (the "Grant Date"), pursuant to shareholders' authorization, the Board approved the grant of 25,680,000 share options to 211 participants.

1. Purpose of the Option Incentive Scheme

To further optimize the corporate governance structure of the Company, create long-term incentive and restrictions on the senior management, mid-level management and key technical and business staff of the Company, fully encourage their initiative and creativity, effectively align their interests with the Company's long term development, prevent the loss of talents, and achieve sustainable development of the Company, as proposed by the Remuneration and Assessment Committee of the Board, Shanghai Pharmaceuticals formulated the Option Incentive Scheme in accordance with relevant laws, regulations and regulatory documents, and the Articles of Associations.

2. Determination of and distribution to participants under the Option Incentive Scheme

There are 211 participants under the Option Incentive Scheme, comprising the senior management, mid-level management and key technical and business staff of the Company. The participants do not include non-executive Directors, independent non-executive Directors, members of the Remuneration and Assessment Committee, Supervisors, and any substantial shareholders or actual controller individually or jointly holding more than 5% of the Shares of the Company and their respective spouse, parents and children. All participants are employed by the Company or its holding subsidiaries and branches, and have entered into labour contracts with and received remuneration from the Company or its holding subsidiaries.

The distribution of the share options to participants is as follows:

Name	Position(s)	Number of the share options proposed to be granted (in 10,000 A Shares)	Percentage to total number of the share options granted (%)	Percentage to total issued share capital of the Company as of the Grant Date (%)
Cho Man	Executive Director, president	48.00	1.69%	0.017%
Li Yongzhong	Executive Director, vice president	39.00	1.37%	0.014%
Shen Bo	Executive Director, vice president, chief financial officer	39.00	1.37%	0.014%
Zhao Yong	Vice President	33.00	1.16%	0.012%
Mao Jianyi	Vice President	33.00	1.16%	0.012%
Gu Haoliang	Vice President	33.00	1.16%	0.012%
Liu Dawei	Vice President	33.00	1.16%	0.012%
Zhang Yaohua	Vice President	33.00	1.16%	0.012%
Chen Jinzhu	Secretary to the Board, joint company secretary	33.00	1.16%	0.012%
Middle level management and core employees of the Company (202 persons in total)		2,244.00	78.96%	0.790%
Reserved shares		274.09	9.64%	0.096%
Total		2,842.09	100.00%	1.000%

3. Number of share options proposed to be granted under the Option Incentive Scheme

The number of A-share share options proposed to be granted under the Option Incentive Scheme is 28,420,900, representing not more than approximately 1.00% of the total number of Shares of the Company in issue as of the date of this report.

4. Maximum number of share options granted to each participant under the Option Incentive Scheme

The total number of Shares to be granted to the participants under the Option Incentive Scheme which are still in the Validity Period of the Option Incentive Scheme shall not exceed 1% of the Company's total share capital at the time of the approval by the General Meetings (being 18 December 2019) on a cumulative basis.

5. Vesting period

The vesting period shall be the period commencing from the registration date of the grant of share options to the first exercise date. The vesting period for the Option Incentive Scheme shall be 24 months.

6. Exercise Period and Exercise Date

The share options granted to the participants can be exercised after the vesting period. The exercise date must be a trading day and shall not fall into the following periods:

- (i) the period commencing on 30 days prior to the announcements of periodic reports of the Company, or in the event of postponement in publishing the periodic reports for special reasons, 30 days prior to the original announcement date and end on one day prior to the actual announcement date;
- (ii) the period commencing on 10 days prior to the announcements of results forecast and preliminary results of the Company;
- (iii) the period commencing on the date of the occurrence of material events that may have significant impacts on price of Shares and derivatives of the Company, or the date of entering into the decision-making process, and end on two business days after such events have been lawful disclosed; and
- (iv) other periods prescribed by the CSRC and the Shanghai Stock Exchange.

During the exercise period, the participants are able to exercise the options according to the following exercising arrangement upon the fulfillment of the exercise conditions under the Option Incentive Scheme. The exercise period of the share options and timetable for each exercise are set out below:

Exercise Period	Time Arrangement	Proportion of Exercisable Share
First exercise period	Commencing from the first trading day upon the expiry of 24 months from the Grant Date to the last trading day upon the expiry of 36 months from the Grant Date	33%
Second exercise period	Commencing from the first trading day upon the expiry of 36 months from the Grant Date to the last trading day upon the expiry of 48 months from the Grant Date	33%
Third exercise period	Commencing from the first trading day upon the expiry of 48 months from the Grant Date to the last trading day upon the expiry of 60 months from the Grant Date	34%

The participants shall exercise the share options during the exercise period. If the exercise conditions are not fulfilled, such share options shall not be exercised. If the exercise conditions are fulfilled nevertheless not all of the relevant share options have been exercised during the above period, such share options shall be cancelled by the Company.

7. Exercise price and determination method

The exercise price of the share options under the Option Incentive Scheme is RMB18.41 per A Share for the initial grant, i.e. upon the fulfillment of the exercise conditions, the participants are able to purchase the A Shares issued by the Company to the participants at the price of RMB18.41 per A Share. In cases of capitalization of capital reserves, bonus issue and shares subdivision, rights issue, and share consolidation, exercise price shall be adjusted accordingly.

The exercise price of the share options for the initial grant under the Option Incentive Scheme shall not be less than the nominal value of the A Shares and shall not be lower than the higher of:

- (i) the average trading price of the A Shares on the trading day immediately preceding the date of the announcement in relation to the Option Incentive Scheme, being RMB18.20 per A Share;
- (ii) the average trading price of the A Shares for 60 trading days immediately preceding the date of the announcement in relation to the Option Incentive Scheme, being RMB18.41 per A Share.

The share options for the reserved grant shall be approved by the meetings of the Board before each grant, among whom, the directors who are proposed to be participants or directors in relation thereto shall abstain from voting. The exercise price shall be not be less than the nominal value of the A Shares and determined with reference to the higher of:

- (i) the average trading price of the A Shares on the trading day immediately preceding the date of the announcement of the Board's resolution of granting the reserved share options;
- (ii) the average trading price of the A Shares for 20, 60 or 120 trading days immediately preceding the date of the announcement of the Board's resolution of granting the reserved share options.

8. Validity period

(1) *Validity period of the Option Incentive Scheme*

The Option Incentive Scheme will take effect after it has been considered and approved by the General Meetings, and will expire on the date on which the share options granted under the Option Incentive Scheme have been exercised or cancelled.

(2) *Validity period of the share options*

The validity period of the share options granted under the Option Incentive Scheme commences from the registration date of the grant, which shall not exceed 60 months.

9. Changes in options granted under the Option Incentive Scheme

Details of changes in options granted under the Option Incentive Scheme for the year ended 31 December 2019 are as follows:

Name	Position(s)	Number of options outstanding at the beginning of the Reporting Period	Number of options granted during the Reporting Period (in 10,000 A Shares)	Number of exercisable options during the Reporting Period (in 10,000 A Shares)	Number of options exercised during the Reporting Period (in 10,000 A Shares)	Number of options cancelled during the Reporting Period (in 10,000 A Shares)	Number of options lapsed during the Reporting Period (in 10,000 A Shares)	Number of options outstanding at the end of the Reporting Period (in 10,000 A Shares)
Cho Man	Executive Director, president	–	48.00	0	0	0	0	48.00
Li Yongzhong	Executive Director, vice president	–	39.00	0	0	0	0	39.00
Shen Bo	Executive Director, vice president, chief financial officer	–	39.00	0	0	0	0	39.00
Zhao Yong	Vice President	–	33.00	0	0	0	0	33.00
Mao Jianyi	Vice President	–	33.00	0	0	0	0	33.00
Gu Haoliang	Vice President	–	33.00	0	0	0	0	33.00
Liu Dawei	Vice President	–	33.00	0	0	0	0	33.00
Zhang Yaohua	Vice President	–	33.00	0	0	0	0	33.00
Chen Jinzhu	Secretary to the Board, joint company secretary	–	33.00	0	0	0	0	33.00
Middle level management and core employees of the Company (202 persons in total)		–	2,244.00	0	0	0	0	2,244.00
Reserved shares		–	274.09	0	0	0	0	274.09
Total		–	2,842.09	0	0	0	0	2,842.09

Note: Immediately prior to the Grant Date of the options (18 December 2019), the closing price of the Company's A Shares was RMB18.07 per A Share.

According to the Option Incentive Scheme, please refer to the paragraphs above for the Grant Date, validity period, vesting period, exercise period, and exercise price of the above share options.

Due to the departure of one scheme participant, his qualification under the Share Option Scheme has been cancelled. The number of the scheme participants under the Share Option Scheme has been adjusted from 211 to 210, and the number of the Share Options has been adjusted from 25.68 million to 25.6 million. For details, please refer to the Company's overseas regulatory announcement dated 11 February 2020.

10. Value of share options and accounting policies in relation thereto

(1) Value of share options

According to the relevant requirements of the Accounting Standards for Business Enterprises No.11 – Share-based Payments and Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments issued by the Ministry of Finance, the Company elected the Black-Scholes model (B-S model) for the calculation of the fair value of shares options, and estimated the fair value of shares options initially granted using this model on 19 December 2019 (Grant Date). Particulars are as follows:

The 25.68 million options granted by Shanghai Pharmaceuticals on 19 December 2019 were vested in three batches. The fair values per share of the first, second and third batch of vested options are RMB3.21 per A Share, RMB3.53 per A Share, and RMB5.04 per A Share, respectively.

Based on various data on 19 December 2019, the values and descriptions of the parameters of the valuation model are as follows:

- (i) Market price of underlying shares: RMB18.08 per A Share (the closing price of the Company's Shares on the Grant Date is RMB18.08 per A Share)
- (ii) Exercise price: RMB18.41 per A Share
- (iii) Validity period: 2.5 years, 3.5 years, and 4.5 years (depending on the weighted average exercise period of options vested in each period)
- (iv) Volatility rate: 29.14%, 26.86%, and 34.76% (using the Company's volatility rate in the past 2.5 years, 3.5 years, and 4.5 years)
- (v) Risk-free interest rates: 2.76%, 2.86%, and 2.96% (using the 2.5-year, 3.5-year, and 4.5-year benchmark deposit interest rate of government bonds)
- (vi) Expected dividend yield: 1.72% (using the Company's average dividend yield in the past three years)

(2) Accounting policies in relation to share options

According to the Accounting Standards for Business Enterprises No.11 – Share-based Payments, the Company will measure and account for the cost of the Company's Option Incentive Scheme as per the following accounting methods:

(i) Grant Date

As share options are not exercisable on the Grant Date, accounting treatment is not required. The Company shall determine the fair value of the share options on the Grant Date.

(ii) Vesting period

On each balance sheet date during the vesting period, the services obtained in the current period shall, based on the best estimate of the number of the share options, be included in cost of the relevant assets or expenses and the other capital reserves in capital reserves at the fair value of the share options on the Grant Date.

(iii) Exercise period

No adjustment shall be made to the relevant costs or expense, and the total amount of the owner's equities, which have been recognized.

(iv) Exercise date

Share capital and share premium shall be recognized with reference to the actual exercise of the share options, and upon which, the amount recognized as "Capital Reserves – Other capital reserves" during the vesting period shall be transferred to "Capital Reserves – Capital premium".

RIGHTS OF DIRECTORS AND SUPERVISORS TO SUBSCRIBE FOR SHARES OF THE COMPANY

The Company does not grant any right to any director, supervisor or his/her spouse or children of less than 18 years old to subscribe for any share or bonds of the Company (including its affiliates). Save as disclosed above, for the year ended on 31 December 2019, the Company has not entered into any equity-linked agreement.

PERMITTED INDEMNITY PROVISIONS APPROVED FOR DIRECTORS AND SUPERVISORS

The Company has appropriate insurance arrangement for proceedings against Directors, Supervisors and senior management due to corporate activities in accordance with code provision A.1.8 of the Corporate Governance Code. As of the end of Reporting Period, the insurance provision remains effective.

PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2019, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under Articles of Association or the applicable laws of the PRC in which the Company was incorporated.

DISCLOSEABLE CONTINUING CONNECTED TRANSACTION UNDER THE HONG KONG LISTING RULES

Continuing Connected transactions between the Group and SIIC (Controlling Shareholder) and its subsidiaries, Shanghai Shangshi and its subsidiaries (including Shanghai Pharmaceutical (Group) and its subsidiaries)

The Company approved the Proposal on Entering into Property Leasing Framework Agreement and Daily Related Transactions/Continuing Connected Transactions at the 11th meeting of the sixth session of the Board of Directors held on 30 October 2017. On the same day, the Company and Shanghai Pharmaceutical (Group) entered into the Property Leasing Framework Agreement: Shanghai Pharmaceutical (Group) and its subsidiaries provide property, equipment leasing and premises services to the Company and its subsidiaries. The agreement with a term of three years commencing from 1 January 2018 and ending on 31 December 2020. The annual caps of continuing connected transactions for 2018, 2019 and 2020 under this agreement were RMB100 million, respectively.

In 2019, the actual amount of the continuing connected transaction between the Group and Shanghai Pharmaceutical (Group) and its subsidiaries under the Property Leasing Framework Agreement did not exceed the above-mentioned maximum amount approved by the Board of Directors, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction shall be subject to the reporting, annual review and announcement requirements and is exempt from the approval of the independent shareholders (as defined under Chapter 14A of the Hong Kong Listing Rules, the same below). Details are as follows:

Unit: RMB0'000

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2019 connected transaction	Annual cap for the 2019 connected transaction
During the period from January to December 2019	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	Property and machinery leasing service	4,745.70	10,000.00

Note: Please refer to Company's announcements Lin No. 2017-037 and Lin No. 2020-015. As Shanghai Pharmaceutical (Group) is the Controlling Shareholder of the Company, Shanghai Pharmaceutical (Group) and its subsidiaries are connected persons of the Company, and the transaction constitutes a continuing connected transaction (as defined under Chapter 14A of the Hong Kong Listing Rules, the same as below).

Financial Services Agreement renewed between the Group and Shanghai Shangshi Group Finance Co., Ltd. (the “Finance Company”)

In order to further expand its financing channels, improve its deposit income and lower financing costs, the Company approved the Proposal regarding the Renewal of Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Daily Related Transactions/Continuing Connected Transactions at the 2018 annual general meeting held on 27 June 2019. The agreement is effective from the date of the 2018 annual general meeting to the date of the 2021 annual general meeting of the Company. During the term of the agreement, the maximum daily balance of deposits of the Group with the Finance Company shall not exceed RMB3.0 billion, and the maximum outstanding balance of comprehensive credit facilities provided to the Group by the Finance Company shall not exceed RMB4.0 billion.

In 2019, the actual amount of continuing connected transactions between the Group and the Finance Company under the Financial Services Agreement did not exceed the above-mentioned maximum amount approved by the annual general meeting, and the highest applicable percentage ratio corresponding the actual amount was higher than 5%. Therefore, the transaction shall be subject to reporting, annual review, announcement and independent shareholders’ approval requirements. Actual loan services were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for such loan services; the highest applicable percentage ratio for actual settlement and financial services provided by connected company, calculated on an annual basis, were less than 0.1%. Details are as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2019 connected transaction	Annual cap for the 2019 connected transaction
During the period from 1 January to 26 June 2019	Finance Company	Deposit service provided by connected company	Deposit service (daily cap)	18.90	20.00
During the period From 27 June to 31 December 2019	Finance Company	Deposit service provided by connected company	Deposit service (daily cap)	22.19	30.00

Note: For details, please refer to Company’s announcements Lin No. 2019-021, Lin No. 2019-054; as the Company currently holds 30% of the equity interests in the Finance Company, and the shareholding in Finance Company by Shanghai Shangshi, the Controlling Shareholder of the Company, is more than 10%, the Financial Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

Commercial Factoring Services Framework Agreement renewed between the Group and Shangshi Commercial Factoring Co., Ltd. (the “Factoring Company”)

In order to optimize Company’s asset structure and enhance the efficiency of capital utilization, as well as expand its financing channels and lower financing costs. On 23 March 2018, the fourteenth meeting of the sixth session of the Board of Directors convened by the Company considered and approved the Proposal on Renewal of the Commercial Factoring Service Framework Agreement with Shangshi Commercial Factoring Co., Ltd. and Daily Related Transactions/Continuing Connected Transactions. The Factoring Company will provide factoring services for the Company. The agreement is effective from the date of the 2017 annual general meeting of the Company (at which it was approved) to 31 December 2020, the total amount of comprehensive credit to be obtained by the Group from the Factoring Company in respect of the accounts receivable financing services shall not exceed RMB1.1 billion annually. The transaction amount of other commercial factoring services shall not exceed RMB100 million for each year.

In 2019, the actual amount of continuing connected transaction between the Group and the Factoring Company under the Commercial Factoring Service Framework Agreement did not exceed the above-mentioned maximum amount approved by the Board of Directors, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction is only subject to reporting, annual review and announcement requirements, and is exempt from independent shareholders’ approval requirements. Details are as follows:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2019 connected transaction	Annual cap for the 2019 connected transaction
During the period from January to December 2019	Factoring Company	Factoring services provided by connected company	the total amount of comprehensive credit to be obtained by the Group from the connected company in respect of the accounts receivable financing services	2.70	11.00
			Other commercial factoring services	/	1.00

Note: Please refer to Company’s announcements Lin No. 2017-028, Lin No. 2018-015, as the Company currently holds 27.5% of the equity interests in the Factoring Company, and the shareholding in Factoring Company by Shanghai Shangshi, the Controlling Shareholders of the Company, through Shangshi Financial Leasing Co., Ltd is more than 10%, the Factoring Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

Confirmation of continuing connected transactions

The directors of the Company (including independent non-executive directors) have reviewed the foregoing continuing connected transactions, and confirm that the foregoing continuing connected transactions are:

- entered into during ordinary course of business;
- entered into on normal commercial terms or better; and
- conducted in compliance with the relevant agreements, and are fair and reasonable and in the interest of the shareholders as a whole.

Auditors of the Company has submitted an independent auditor's assurance report on continuing connected transactions to the board of directors for continuing connected transactions pursuant to Rule 14A.56 of the Hong Kong Listing Rules, and confirmed that the foregoing continuing connected transactions:

- no transactions were entered into without approval of the board of directors of the Company;
- no transactions that involved the provision goods of or services by the Group were entered into without in compliance with pricing policies of the Group;
- no transactions were entered into without in compliance with relevant agreements in all material respects; and
- no transactions exceeded caps.

The Company has delivered a copy of auditor's letter to the Hong Kong Stock Exchange.

OTHER DISCLOSEABLE CONNECTED TRANSACTIONS UNDER THE HONG KONG LISTING RULES

No.

SIGNIFICANT RELATED PARTIES

Save as disclosed above, significant connected party transactions which do not constitute connected transactions under the Hong Kong Listing Rules in the year are disclosed in Note 47 to the annual financial statements prepared under the Hong Kong Financial Reporting Standards.

ENVIRONMENTAL POLICIES AND PERFORMANCE

See the "2019 Environmental, Social and Governance Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company for details.

INDUSTRY POLICIES

In 2019, the policies of the China's pharmaceutical industry continued the main theme of "accelerating fee control and structure adjustment, encouraging innovation and promoting transformation". On the one hand, fee control measures were more intensively implemented to further reduce the price of generic drugs and control the proportion of generic drugs in overall drug consumption expenditures, provided that the safety and quality of drugs are ensured. On the other hand, efforts were made to replace generic drugs with innovative drugs by using saved medical insurance costs for payment of innovative drugs, and continuing to improve the policy environment for the approval of new drugs, thereby significantly improving the efficiency of developing and marketing new drugs, and increasing the availability of new drugs for patients.

The expansion of "4 + 7" procurement with target quantity and the implementation of the price-for-quantity model has changed the competition pattern of the pharmaceutical industry. On 1 January 2019, the Notice of the General Office of the State Council on Issuing Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State (《國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知》) was issued. Eleven pilot cities commenced the trial of centralized procurement and use of drugs organized by the state. On 25 September 2019, nine departments including the National Healthcare Security Administration issued the Implementing Opinions on Expanding the Pilot Program for Conducting Centralized Procurement and Use of Drugs by the State to Wider Areas (《關於國家組織藥品集中採購和使用試點擴大區域範圍的實施意見》) to nationally implement centralized procurement with target quantity under the centralized procurement and use of drugs organized by the state.

With a new round of adjustments to the Insured Drugs Catalog, the number of drugs entering the list through negotiation has increased significantly. On 19 April 2019, the National Healthcare Security Administration published the 2019 Work Program for the Adjustment to the National Insured Drugs Catalog (《2019年國家醫保藥品目錄調整工作方案》). Compared with the previous version of insured drugs catalog, the new version was more precise and stricter in terms of definition of payment scope. At the same time, the number of drugs admitted to the list through negotiation increased significantly from 14 in 2017 and 44 in 2018 to 128. On 22 July 2019, the Opinions on Establishing the Management System for List of Healthcare Security Treatment (Draft for Opinions) (《關於建立醫療保障待遇清單管理制度的意見(徵求意見稿)》) was issued to solicitate opinions, permission to adjust the insured drugs catalog at provincial level were withdrawn, and the state centrally formulated payment standards. On 20 August 2019, the regular catalog of the Insured Drugs Catalog for 2019 was issued, with 148 products added and 150 products removed. On 28 November 2019, the third round of negotiation for admission into the National Insured Drugs Catalog was conducted, with 97 drugs being admitted.

Medical insurance payment reform. On 5 June 2019, four departments and commissions including the National Healthcare Security Administration jointly issued the Notice on the List of National Pilot Cities Paying by Disease Diagnosis Related Grouping (DRG) (《關於按疾病診斷相關分組付費國家試點城市名單的通知》), which identified 30 cities including Beijing as the national pilot cities for DRG, and announced the specific implementation plan in October 2019.

The new Drug Administration Law has been implemented, which encourages innovation, clearly requires the cancellation of GMP and GSP certification of drugs, and strengthens the accountability of enterprises. The Drug Administration Law of the People's Republic of China was deliberated and passed at the Twelfth Meeting of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019, and began to be implemented from 1 December 2019.

Continue to promote rational drug use. On 1 July 2019, the Notice on Issuing the National Catalog of First Batch of Drugs under Closely Monitoring on Reasonable Drug Use (for Chemical Medicines and Biological Products) (《關於印發第一批國家重點監控合理用藥藥品目錄(化藥及生物製品)的通知》) was published on the official website of the National Health Commission, which announced the catalog of drugs under closely monitoring on reasonable drug use.

Drive the development of traditional Chinese medicine, and promote the inheritance and innovation of traditional Chinese medicine. On 26 October 2019, the Central Committee of the Communist Party of China and the State Council issued the Guideline on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine (《關於促進中醫藥傳承創新發展的意見》) and strongly supported the development of the traditional Chinese medicine industry. The Law of the People's Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was promulgated on 28 December 2019 and will be implemented from 1 June 2020 to vigorously develop the traditional Chinese medicine, giving equal importance to traditional Chinese and western medicine and combining heritage and innovation, taping the unique role of traditional Chinese medicine in medical and health undertakings.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHER STAKEHOLDERS

The Group believes that different stakeholders (including employees, customers and suppliers) are the key to the success of the Group. The Group is committed to the realization of corporate sustainable development through maintaining contact and cooperation and fostering stable relationship with the stakeholders. During the Reporting Period, total purchases from the top five supplier of the Group was less than 10%, and total turnover from the top five customers was less than 5%.

RELEVANT INFORMATION OF THE CORPORATE BONDS

Unit: RMB100 million

Name of Bond	Abbreviation	Code	Date of Issue	Due Date	Balances of the Bonds	Interest Rate (%)	Repayment of principal and interest	Trading Place
Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2016 Corporate Bonds (first tranche)	16 SPH 01	136198.SH	26 January 2016	26 January 2019	20	2.98	Interest paid annually, with the last installment of interest paid together with the principal	Shanghai Stock Exchange
Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2018 Corporate Bonds (first tranche)	18 SPH 01	155006.SH	7 November 2018	7 November 2021	30	4.10	Interest paid annually, with the last installment of interest paid together with the principal	Shanghai Stock Exchange

“16 SPH 01” are issued to eligible investors. The due date of the corporate bonds of this tranche is 26 January 2019, and the Company has completed the payment of the principal and interest of the bonds with the last installment of interest, which was RMB2,059.6 million in total.

“18 SPH 01” are issued to eligible investors. The due date of the corporate bonds of this tranche is 7 November 2019, and the Company has completed the payment of the interest of the bonds, which was RMB123.00 million in total. The proceeds from the corporate bonds of this tranche was mainly used to supplement the working capitals and repay the bank borrowings and other interest-bearing debts.

CAPITAL STRUCTURE AND LIQUIDITY

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 63.96% as at 31 December 2019, representing an increase of 0.56 percentage point on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 5.46 times (2018: 6.31 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 28.12%.

During the Reporting Period, Shanghai Pharmaceuticals has a good liquidity. The balance of bank loans and bonds payable as at 31 December 2019 were RMB29.881 billion and RMB3.017 billion (including those due within 1 year) respectively, of which the balance of loans in US Dollar amounted to RMB5.637 billion, the balance of loans in New Zealand Dollar amounted to RMB168 million, the balance of loans and bonds payable at a fixed interest rate amounted to approximately RMB26.850 billion. The net amount of accounts receivable and notes receivable as at 31 December 2019 was RMB47.614 billion, representing an increase of 12.19% on a year-on-year basis. The increased receivable is mainly due to business expansion and the expanded scope of consolidation. As at 31 December 2019, the balance of accounts payable and notes payable was RMB36.872 billion, representing an increase of 4.91% on a year-on-year basis.

The Group’s objective on capital management is to safeguard the Group’s ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders, and also to maintain an optimal capital structure to lower capital cost. In order to maintain or adjust capital structure, the Group may adjust dividends amount payable to shareholders, return capital to shareholders, issue new share or dispose assets to reduce debts.

MAJOR ASSETS RESTRICTION AT THE END OF THE REPORTING PERIOD

As at 31 December 2019, the Company’s housing and buildings and machinery equipment with the book value of RMB222 million (original cost: RMB395 million), and 78,576.72 square meters of land use right (original cost of RMB21 million and book value of RMB18 million) were set as collateral for short-term borrowings of RMB351 million, long-term borrowings of RMB51 million and long-term borrowings due within one year of RMB20 million.

As at 31 December 2019, accounts receivable of RMB1.055 billion and receivables of RMB130 million was pledged to the bank as a guarantee for short-term borrowing of RMB1.026 billion. As at 31 December 2019, the balance of the Group’s other monetary funds was RMB2.437 billion, which was mainly the margin deposit for security for applying to the bank for issuing bank acceptance bills and letters of credit and term deposit placed at the bank with a term of more than three months.

EXCHANGE RATE FLUCTUATION RISK AND ANY HEDGING

Shanghai Pharmaceuticals conducts its operations mainly in China and makes settlements in RMB for its principal businesses. However, foreign exchange risks still exist in recognized assets and liabilities denominated in foreign currencies and future foreign currency transactions (the main currencies denominating are US dollar and Hong Kong dollar).

CONTINGENT LIABILITIES

During the Reporting Period, the Company has no major action or arbitration pending to be disclosed. The contingent liabilities and their financial impacts resulting from guarantee provided by the Company to other entities and its associates are as follows:

Guarantor	Secured Party	Amount Secured (RMB'000)	Commencement Date of Guarantee	Expiry Date of Guarantee
The Group	Chongqing Medicines Shanghai Sales Co., Ltd.	366.60	18 December 2019	18 March 2020
The Group	Chongqing Medicines Shanghai Sales Co., Ltd.	926.97	18 December 2019	18 March 2020
The Group	Chongqing Medicines Shanghai Sales Co., Ltd.	839.77	18 December 2019	18 June 2020
The Group	Chongqing Medicines Shanghai Sales Co., Ltd.	6,722.93	23 December 2019	23 March 2020

The said guarantees have no significant financial impact on the Company.

GUARANTEES

Unit: RMB

External guarantees provided by the Company (excluding those provided to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guaranteed party	Value of guarantee	Date of guarantee (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter Guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	725,379.20		2018/12/21	2019/3/21	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	2,648,381.96		2018/12/21	2019/6/21	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	601,265.00		2019/2/22	2019/3/11	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	22,524.60		2019/2/22	2019/8/22	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	366,604.00		2019/12/18	2020/3/18	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	926,965.48		2019/12/18	2020/3/18	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	839,773.10		2019/12/18	2020/6/18	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	6,722,926.37		2019/12/23	2020/3/23	Joint guarantee	No	No		No	No	Associate
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)												9,480,058.55	
Total remaining balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)												8,856,268.95	
Guarantees provided by the Company and its subsidiaries to its subsidiaries													
Total value guaranteed for its subsidiaries during the Reporting Period												6,001,991,096.06	
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)												9,769,010,625.30	
Total value guaranteed by the Company (including guarantees to subsidiaries)													
Total value guaranteed (A+B)												9,777,866,894.25	
Proportion of total value guaranteed in the Company's net assets (%)												23.47%	
Among which:													
Value guaranteed for shareholders, de facto controller and related parties (C)												/	
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D)												8,315,145,654.96	
Amount of total value guaranteed exceeding 50% of net assets (E)												/	
Total of value guaranteed for the above three items (C+D+E)												8,315,145,654.96	
Details of possible joint and several settlement liabilities for undue guarantee												/	
Details of guarantee												/	

EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

Number of in-service employees of the parent company	158
Number of in-service employees of the major subsidiaries	47,620
Total number of in-service employees	47,778
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	315

Composition of professions

Type of profession	Number of staff in the profession
Production staff	14,235
Sales staff	20,018
Technical staff	5,678
Finance staff	1,871
Administrative staff	4,360
Others (Service staff)	1,616
Total	47,778

Education level

Type of education level	Number of persons
PhD	80
Master	1,438
University graduate	11,905
College graduate	15,220
Specialized secondary school (high school) graduate	12,525
Below specialized secondary school graduate	6,610
Total	47,778

REMUNERATION POLICY

The Company adhered to the payment concept of “Position, Ability, Performance and Market” which improved annual and term performance evaluation system of senior management of the Company and management of the subsidiaries, with upgraded performance-based incentive and restraint mechanism. The Company constructed differentiated remuneration systems for management staff, marketing staff, R&D staff, technical quality management staff and production staff with reasonable docking between the various remuneration systems, so as to effectively motivate the employees and stimulate their creativity, continually improve the Company’s business results and enhance the achievement of the Company’s strategic goals. The Company carried out market research on remuneration, improving the staff revenue growth and underpinning mechanisms related to the Company’s operating performance, so that employees can share the achievements of enterprise development.

The remuneration and assessment committee of the board of directors of the Company considers and recommends to the board of directors the remuneration and other benefits to be paid to the directors of the Company. The remuneration of the directors and supervisors of the Company are resolved at the general meeting. The remuneration of all directors of the Company is monitored regularly by the remuneration and assessment committee to ensure an appropriate level of remuneration and compensation. The remuneration of the senior management of the Company is provided in accordance with the remuneration system for the senior management of the Company, which is implemented by the remuneration and assessment committee.

The Company has a well-established assessment mechanism to carry out assessment and give rewards and punishments according to the administrative measures relating to annual assessment of the responsibility for operation, with reference to indicator systems including core indicators, operating indicators and control indicators, as the determination criteria for the remuneration of directors, supervisors and senior management.

The remuneration and compensation package of the employees generally includes salary, allowance and bonus, as well as pension, medical insurance, housing fund, work-related injury insurance and other benefits from the Company. The Company participates in various employee welfare schemes, such as pension, medical insurance, housing fund, maternity and unemployment insurance organized by the provincial and municipal governments in accordance with the relevant regulations of China. Moreover, the Company establishes the supplementary pension system and improves the corporate welfare system, which will enhance the cohesion and competitiveness of the Group.

PENSION SCHEME

Shanghai Pharmaceuticals participates in a pension benefits scheme for employees organised by the local provincial and municipal governments in accordance with the relevant requirements of the PRC and pays pension contributions for all employees on a monthly basis. Retired employees are entitled to receive a monthly pension from the local provincial and municipal governments. Details are set out in Note 36 of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

TRAINING PROGRAM

Focusing on the Company's strategy and the annual priorities, combined with the staff's own positions and career development needs, the Company provided professional, efficient and personalized training courses and solutions for the staff. According to the requirements of the national regulatory authorities, the Company organized employees to receive GMP, GSP, operation skills, occupational safety, environmental protection and other systematic training every year. According to the requirements for the compliance of listed companies, the Company organized management at all levels to receive legal, internal control, risk management and other special training. In order to improve the management level and leadership ability, the Company carried out the senior management leadership development project in forms of expert forum, lectures on special topics, purpose-driven visiting and internal sharing. To improve its core soft power, the Company established a corporate university – Shanghai Medicine University, with function of "Five Platforms", including talent cultivation and management training platform, medical professional knowledge training platform, strategic consensus and transformation promotion platform, policies and corporate strategies research platform, and management model improvement and innovation platform. Through effective resource integration, Shanghai Medicine University accelerate the growth of talents to drive corporate development.

In 2019, Shanghai Medicine University pushed forward the implementation of the "dynamic development strategy with six verticals and six horizontals" to improve Shanghai Pharmaceuticals' talent training system. It organized training projects at various levels, forming a talent training system focusing on main programmes, rotation training programmes, professional programmes and special projects, supplemented by a series of forums + university lectures. In 2019, a total of 2,572 people participated in 4 main programmes, 10 professional programmes, 3 special programmes, 1 rotation training programme, and 23 forum lectures, with a total of 86 courses for 370 hours. For main programmes, tailored curriculum systems were developed based on different stages and directions of talent development. 308 trainees participated in the Fledging Goose project, where they focused on learning the Group's profile and corporate culture with an aim of integrating into the working environment as soon as possible. The Large Wild Goose and Elite Wild Goose projects are designed to improve the comprehensive capabilities of mid-level management, so they can lead their teams to practice and develop the corporate culture of Shanghai Pharmaceuticals. The 10 professional projects jointly implemented by Shanghai Medicine University and relevant business lines of the Group Headquarters (such as research and development, quality, legal affairs, finance, and marketing) focus on the core values of "innovation, integrity, cooperation, tolerance, and responsibility" to continuously improve cultural awareness and professional capabilities. The special programmes for Directors, Supervisors, senior management, and newly acquired enterprises are aimed at the senior management of holding companies to promote and strengthen the compliance culture, performance culture and lean culture within the Group's new member enterprises. The Mini MBA is developed for mid-level management outside the Goose series to enhance the cultural identity towards the Group and promote mutual trust and cooperation between member enterprises.

PUBLIC FLOAT

As at 31 December 2019, the total share capital of the Company was 2,842,089,322 Shares (1,923,016,618 A Shares and 919,072,704 H Shares), including 2,842,007,722 Shares without trade restrictions (1,922,935,018 A Shares and 919,072,704 H Shares). As at the date of this annual report, the Company has sufficient public float to meet the minimum public float requirements stipulated under the Securities Law of the People's Republic of China and the Hong Kong Listing Rules.

APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

There is no change in auditors appointed by the Company during the last three years.

COMMITMENTS BY DE FACTO CONTROLLER AND SHAREHOLDERS, OF THE COMPANY AND OTHER COMMITMENTS RELATED PARTIES DURING OR CARRY FORWARD TO THE REPORTING PERIOD

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

- in the event it acquires, procures or otherwise comes to possess businesses or assets that compete or could potentially compete with the businesses of the Company, it shall, pursuant to its non-competition deed, irrevocably grant the Company the pre-emptive right to acquire all of such businesses or assets at any time;
- it and its subsidiaries shall avoid any business or operations that may compete with the Company;
- it shall avoid investing in any other companies or enterprises that compete with the business and operations of the Company; and
- it shall bear all losses and expenses directly and indirectly incurred by the Company as a result of a breach by it of its undertakings set forth in its non-competition deed.

The Company has received the respective statements of Shanghai Pharmaceutical (Group) and SIIC confirming their compliance with their commitments pursuant to the respective non-competition deeds during the year 2019.

Directors, Supervisors and Senior Management

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

Unit: Share

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/decrease of Shares during the year	Reasons for change (increase/decrease)	Total remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)	Whether obtained salary from connected parties of the Company
Zhou Jun	Chairman, Non-Executive Director	Male	51	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Ge Dawei	Vice Chairman, Non-Executive Director	Male	57	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Cho Man	Executive Director, President	Male	59	27 June 2019	27 June 2022	20,009 A Shares	20,009 A Shares	0	/	641.11	No
Li Yongzhong	Executive Director, Vice President	Male	50	27 June 2019	27 June 2022	0	0	0	/	612.8	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	47	27 June 2019	27 June 2022	71,700 A Shares	71,700 A Shares	0	/	579.04	No
Li An	Non-Executive Director	Female	59	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Cai Jiangnan	Independent Non-Executive Director	Male	63	27 June 2019	27 June 2022	0	0	0	/	25	No
Hong Liang	Independent Non-Executive Director	Male	45	27 June 2019	27 June 2022	0	0	0	/	26.5	No
Gu Zhaoyang	Independent Non-Executive Director	Male	54	27 June 2019	27 June 2022	0	0	0	/	15	No
Manson FOK	Independent Non-Executive Director	Male	63	27 June 2019	27 June 2022	0	0	0	/	15	No
Xu Youli	Chief Supervisor	Male	46	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Huan Jianchun	Supervisor	Male	58	27 June 2019	27 June 2022	3,000 H Shares	3,000 H Shares	0	/	0	Yes
Xin Keng	Supervisor	Male	53	27 June 2019	27 June 2022	0	0	0	/	0	No
Zhao Yong	Vice President	Male	48	27 June 2019	27 June 2022	0	0	0	/	38.96	No
Mao Jianyi	Vice President	Male	52	27 June 2019	27 June 2022	0	0	0	/	348.15	No
Gu Haoliang	Vice President	Male	58	27 June 2019	27 June 2022	0	0	0	/	578.94	No
Liu Dawei ^{Note}	Vice President	Male	40	27 June 2019	27 June 2022	0	0	0	/	470.51	No
Zhang Yaohua	Vice President	Male	47	27 June 2019	27 June 2022	0	0	0	/	335.80	No
Chen Jinzhu	Secretary to the Board of Directors, Joint Company Secretary	Female	34	29 Aug 2019	27 June 2022	0	0	0	/	43.17	No
Wan Kam To	No longer as Independent Non-Executive Director	Male	67	05 June 2013	27 June 2019	0	0	0	/	12.5	No
Tse Cho Che, Edward	No longer as Independent Non-Executive Director	Male	64	05 June 2013	27 June 2019	0	0	0	/	11.5	No
Chen Xin	No longer as Supervisor	Female	57	31 Mar 2010	27 June 2019	10,000 A Shares	10,000 A Shares	0	/	0	Yes
Liu Yanjun	No longer as Vice President	Male	55	05 June 2013	27 June 2019	60,000 A Shares	60,000 A Shares	0	/	379.79	No
Total	/	/	/	/	/	161,709 A Shares 3,000 H Shares	161,709 A Shares 3,000 H Shares	0	/	4,133.77	/

Note Mr. Liu Dawei ceased to be the secretary to the Board and the joint company secretary of the Company due to internal work arrangement of the Company with effect from 28 August 2019.

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Major Work Experience
Zhou Jun	Mr. Zhou Jun obtained a bachelor of Arts from Nanjing University and a master of Economics in International Finance from Fudan University. He is an economist. He is currently the chairman of the Board and a non-executive director of the Company. Mr. Zhou Jun has over 20 years of professional experience in securities, merger and acquisition, financial investment, real estate, project planning and corporate management. He is currently an executive director and a president of Shanghai Industrial Investment (Holdings) Co., Ltd. He is also the vice chairman, executive director and chief executive officer of Shanghai Industrial Holdings Limited (stock code 00363), which is listed on the Hong Kong Stock Exchange. He is also the executive chairman and non-executive director of SIIC Environment Holdings Ltd. (a company listed on the Hong Kong Stock Exchange and the Singapore Stock Exchange with stock codes of 00807 and BHK, respectively), and the chairman of SIIC Management (Shanghai) Ltd., Shanghai Shen-Yu Development Co., Ltd., Shanghai Galaxy Investments Co., Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd. and Shanghai Luqiao Development Co., Ltd. Mr. Zhou Jun is also a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai, the chairman of Shanghai Shengtai Investment and Management Limited, an affiliate of Shanghai Charity Foundation and the chairman of Shanghai Young Entrepreneurs Association. Mr. Zhou Jun joined Shanghai Industrial Investment (Holdings) Co., Ltd. in April 1996 and held the positions of the executive director of Shanghai Industrial Urban Development Group Limited (stock code 00563); the independent non-executive director of Zhejiang Expressway Co., Ltd. (stock code 00576), which both are listed on the Hong Kong Stock Exchange; vice president as well as general manager of investment planning department of Shanghai Industrial Investment (Holdings) Co., Ltd.; deputy general managers of SIIC Real Estate Holdings (Shanghai) Co., Ltd. and Shanghai United Industrial Co., Ltd.; deputy chief executive officer of Shanghai Industrial Holdings Limited; and managing director of Shanghai Galaxy Investments Co., Ltd., etc.
GE Dawei	Mr. GE Dawei is a member of the Communist Party of China, and holds a doctor's degree in Economics. He currently serves as the party secretary, the vice chairman and the non-executive director of the Company and the vice chairman and the executive director of Shanghai Industrial Investment (Holdings) Co. Ltd. He previously served as the secretary-general of the Party Committee of the Shanghai State-owned Assets Supervision and Administration Commission, the deputy director of the Shanghai Municipal Financial Regulatory Bureau, the deputy secretary to the Party Committee of Shanghai Municipal Finance Bureau, deputy secretary to the Party Committee and deputy director of the Shanghai Municipal Human Resources and Social Security Bureau, the deputy director of the Shanghai Municipal Development and Reform Commission, etc.

Name	Major Work Experience
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Cho Man

Mr. Cho Man has a bachelor's degree in pharmacy from Sichuan University (former West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho is currently an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company. He served as vice chairman and chief executive officer of the Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, chairman and general manager of Sanjiu Economic Trading Co., Ltd. and Nine Stars Printing and Packaging Co., Ltd., vice director and head of sales department of Shenzhen South Pharmaceutical Factory, and head of transfusion medicine department, head of the drug injection department and pharmacist of Nanfang Hospital, First Military Medical University, Guangzhou, etc.

Li Yongzhong

Mr. Li Yongzhong is an executive master of business administration from the China Europe International Business School. He is qualified as a pharmacist. He is currently the executive director and vice president of the Company and the general manager and director of Shanghai Pharma Co., Ltd., a subsidiary of the Company. He also holds directorship in other subsidiaries of the Company. His previous positions included deputy manager of the New Drug Branch of, general manager and deputy general manager of pharmaceutical distribution business department of Shanghai Pharmaceutical Co., Ltd; deputy general manager and general manager assistant of Shanghai Pharmaceutical Co., Ltd., etc.

Shen Bo

Mr. Shen Bo is a master of professional accountancy from Chinese University of Hong Kong and a Chinese Certified Public Accountant. He is currently the executive director, vice president and chief financial officer of the Company, and holds directorships in certain subsidiaries of the Company. Mr. Shen Bo is currently the non-executive directors of companies listed on Hong Kong Stock Exchange including Tianda Pharmaceuticals Limited (stock code 00455) and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (stock code 01349). His previous positions included the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd, etc.

Directors, Supervisors and Senior Management

Name	Major Work Experience
Li An	Ms. Li An obtained a bachelor's degree in Engineering from Shanghai University of Science and Technology and is an engineer. She is currently the non-executive director of the Company. Ms. Li An is currently a director and the vice president of Shanghai Guosheng (Group) Co. Ltd., directors of companies listed on the Shanghai Stock Exchange including East China Construction Group Co., Ltd. (華東建築集團股份有限公司) (stock code 600629), Shanghai Tunnel Engineering Co., Ltd (stock code 600820) and Shanghai Electric Group Company Limited (a company listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange with stock codes 601727 and 02727, respectively). She previously served as the director of the Property Rights Division of as well as the director of the Center of Property Rights of the State-owned Asset Supervision and Administration Commission of Shanghai Municipal Government.
Cai Jiangnan	Mr. Cai Jiangnan obtained a bachelor's degree in Economics from East China Normal University, a master's degree in Economics from Fudan University and a Ph.D. in Social Politics from Brandeis University in the United States of America. Mr. Cai is currently the independent non-executive director of the Company. Mr. Cai Jiangnan has been engaged in teaching, researching and consulting in respect of health economics and health policy in universities, consulting companies and government departments in both China and the United States of America for nearly 30 years and published a large number of influential research results. He is currently the founder and executive director of Shanghai Chuangqi Health Development Research Institute (上海創奇健康發展研究院). He is also independent directors of WuXi AppTec Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange with stock codes 02359 and 603259, respectively), Zhejiang Dian Diagnostics Co., Ltd. (stock code 300244) a company listed on the Shenzhen Stock Exchange, Betta Pharmaceuticals Co., Ltd. (stock code 300558) and Harmonicare Medical Holdings Limited, (stock code 01509) (a company listed on the Hong Kong Stock Exchange). He previously served as the director of Health Management and Policy Center in and an adjunct professor of economics in China Europe International Business School, Senior Research Scientist of health policy of the Health & Social Services of Massachusetts, U.S.A (美國麻省衛生福利部), the first head of the Department of Public Economics in School of Economics, Fudan University and the director of the Institute of Economic Development, East China University of Science and Technology, etc.

Name	Major Work Experience
Hong Liang	Mr. Hong Liang obtained a bachelor's degree in Economic Law from East China University of Political Science and Law and a master's degree in International Comparative Law from Chicago-Kent College of Law in the United States of America. He is currently the independent non-executive director of the Company. Mr. Hong Liang has extensive experience in corporate law, finance law, state assets and state-owned enterprises and other related law fields. He is currently the Founding Partner of Shanghai Zhihe Law Firm (上海至合律師事務所), an independent director of Shanghai Weaver Software Co., Ltd. (上海泛微網絡科技股份有限公司, stock code: 603039) and Shanghai Meilin Aquarius Co., Ltd. (上海梅林正廣和股份有限公司, stock code: 600073) (both are listed on the Shanghai Stock Exchange), Shanghai Winner Information Technology Co., Inc. (stock code 300609) (a company listed on the Shenzhen Stock Exchange). Mr. Hong Liang is also a member of the Chinese People's Political Consultative Conference, Shanghai Committee, secretary general of the Company Law Committee of the China Lawyers Association, a member of China Youth Federation, representative of 11th Shanghai Party Congress, the director of State Assets and State-owned Enterprises Business Research Commission (國資國企業務研究委員會), an adjunct professor of East China University of Political Science and Law and Shanghai Institute of Political Science and Law, and an arbitrator of Shanghai International Economic and Trade Arbitration Commission and Shanghai Arbitration Commission. He previously worked at Shanghai Municipal People's Government, Hong Kong Stock Exchange and Shanghai Everbright Law Firm, etc.

Directors, Supervisors and Senior Management

Name	Major Work Experience
Gu Zhaoyang	Mr. Gu Zhaoyang holds a B.A. degree in English from Tsinghua University, an M.A. degree in Management from Renmin University of China, and a M.A. degree in Economics and Ph.D. degree in Accounting from Tulane University U.S.A. He is a CPA (non-practicing) in the U.S.A. He is currently an independent non-executive director of the Company and a Professor of Accountancy, an Outstanding Fellow of the Faculty of Business Administration, and the Dean of School of Accountancy at the Chinese University of Hong Kong (CUHK). Previously he was an Assistant and Associate Professor at Carnegie Mellon University, and an Associate Professor and Honeywell Professor in Accounting at the Carlson School of Management, University of Minnesota, where he was also the person in charge of the Accounting Ph.D. program. Dr. Gu Zhaoyang has taught financial accounting, managerial accounting, financial statement analysis and capital market accounting research at the undergraduate, MBA, EMBA and Ph.D. levels, and has published several research papers and served as a referee at a number of top academic journals.
Manson FOK	Mr. Manson FOK is a Bachelor of Medicine and Bachelor of Surgery, a Fellow of the Royal College of Surgeons of Edinburgh, United Kingdom, a Fellow of the Hong Kong College of Surgeons, and a Fellow of the Hong Kong Academy of Medicine (Surgery). He is currently an independent non-executive director of the Company. Mr. Manson FOK has been committed to the study of esophagus and upper gastrointestinal diseases and vascular diseases for many years, actively promoting the development of minimally invasive surgery, and has published many articles on international medicine and written chapters of over 10 professional books. Currently, he serves as the Dean of Faculty of Medicine of the Macau University of Science and Technology (MUST), the Dean and the chairman of the board of directors of the MUST Hospital. He also holds key positions in various foundations, professional committees and medical associations, and is a visiting professor at many wellknown institutions in China. He previously served as the vice chairman of the Endoscopy Skills Evaluation Committee of the Ministry of Health of China, the executive deputy director and the head of the Surgical Department of the Kiang Wu Hospital of Macau, a doctor of the Hong Kong Tung Wah Hospital and a senior lecturer of the Queen Mary Hospital of Hong Kong, etc.
Xu Youli	Mr. Xu Youli obtained a bachelor's degree in Economics from the University of Finance and Economics in Shanghai and a master's degree of Business Administration degree from Fudan University. He is a senior accountant, certified public accountant and an international certified internal auditor. Mr. Xu is currently the chief supervisor of the Company. Mr. Xu currently serves as the vice president of Shanghai Industrial Investment (Holdings) Co. Ltd.. He was previously a manager of the supervision and audit department of East China Branch of China Huaneng Group and a director of Shanghai Industrial Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code 600748).

Name	Major Work Experience
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Huan Jianchun

Mr. Huan Jianchun is a member of the Communist Party of China, and holds a university degree. He currently serves as a member of the Party Committee, secretary to the Disciplinary Committee and the employee supervisor of the Company, member of the Party Committee and secretary to the Disciplinary Committee of Shanghai Pharmaceuticals (Group) Co., Ltd. He previously served as the deputy secretary to the Youth League Committee of Shanghai Changning District, deputy director of the Overseas Chinese Affairs Office and the Religious and Ethnic Affairs Office of Shanghai Changning District, assistant general manager of the Administrative Office, deputy general manager of Human Resources Department, and deputy director of the Supervision Office of Shanghai Industrial Investment (Holdings) Co., Ltd., etc.

Xin Keng

Mr. Xin Keng has a bachelor's degree and a master's degree in engineering from Shanghai Jiao Tong University. He is an engineer. He is currently the supervisor of the Company. He has served as principal of the finance management department of Shenergy (Group) Co., Ltd. His previous positions included principal of securities department of Shenergy Company Limited, investment principal of state-owned assets department of Wenhui Xinmin United Press Group, deputy general manager of Wenxin Investment Co., Ltd. (文新投資有限公司), and deputy manager of financing division of investment banking department of Haitong Securities Co., Ltd. (海通證券股份有限公司), etc.

Zhao Yong

Mr. Zhao Yong holds a Master of Laws degree from the International Politics Department of Fudan University, and is a graduate of Advanced Business Administration from Cheung Kong Graduate School of Business. He currently serves as the deputy secretary to the Party Committee and vice president of the Company and the president of Shanghai Medicine University. He previously served as the vice president of Shanghai Labway Clinical Laboratory Co., Ltd., vice president of Shanghai Labway Investment Co., Ltd., deputy director of Shanghai Municipal Health and Family Planning Commission, deputy director and secretary to the Disciplinary Committee of Shanghai Municipal Population and Family Planning Commission, director of Informationization Committee of Shanghai Changning District, deputy secretary to the Party Work Committee and director of the Office of Xianxia Xincun Street of Shanghai Changning District.

Directors, Supervisors and Senior Management

Name	Major Work Experience
Mao Jianyi	Mr. Mao Jianyi graduated from medical faculty of Shanghai Second Medical University, and obtained an MBA degree from Shanghai PCEC East Asia College and a Ph.D. in economics from Shanghai University of Finance and Economics (International Open University of Washington in the United States of America (美國華盛頓國際公開大學)). Mr. Mao is a physician. He is currently a vice president of the Company and holds directorship in certain subsidiaries of the Company. He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd. and Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and director of Shenzhen Kondarl (Group) Co. Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 000048), etc.
Gu Haoliang	Mr. Gu Haoliang obtained a bachelor's degree of Industrial Accounting in Shanghai University of Finance and Economics, a Ph.D. of business administration of ESC RENNES School of Business, France. He is a senior accountant. He is currently the vice president of the Company, the chairman of the Company's subsidiaries, SPH Sine Pharmaceutical Factory Co., Ltd. and SPH New Asia Pharmaceutical Co., Ltd., the head of the marketing center of the Company, and holds directorship in certain subsidiaries of the Company. He was also the former chief financial officer of the prescription medicine business department of Shanghai Pharmaceutical (Group) Co., Ltd., the general manager of SPH Sine Pharmaceutical Factory Co., Ltd., the general manager of Shanghai Sine Tianyi Pharmaceutical Co., Ltd., the deputy general manager of Shanghai Honglian Electric Appliance Co., Ltd., the deputy general manager of Shangling Tian'an Refrigerator Co., Ltd., the deputy general manager of Hengtai Textile Co., Ltd., the finance director of Shanghai Aerospace Bureau 802 Institute, etc.

Name	Major Work Experience
Liu Dawei	Mr. Liu Dawei obtained a bachelor's degree in Economics with a major in Taxation from the Shanghai University of Finance and Economics and a master's degree of Business Administration degree with a major in Finance and Financial Management from the W. P. Carey School of Business at Arizona State University in the United States of America and is an accountant. He currently serves as vice president of the Company and also as the executive director and general manager of Shanghai Pharmaceuticals (HK) Investment Limited, a subsidiary of the Company. He previously served as secretary to the Board, joint company secretary, general manager of the strategic operations department and deputy general manager of the investment development department of the Company; the chief financial officer, Investment Director and general manager of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd.; the general manager of Shanghai Huashi Asset Management Co., Ltd.; the general manager, assistant to the department head and financial management officer of the headquarters finance department of Shanghai Pharmaceutical Co., Ltd.; and the chief financial officers of Ningbo Pharmaceutical Co., Ltd. and Ningbo Siming Pharmacy, etc.
Zhang Yaohua	Mr. Zhang Yaohua has a bachelor's degree in Polymer Chemistry from Fudan University and a MPAcc from Shanghai National Accounting Institute – Shanghai University of Finance and Economics, is an engineer and an economist. He is currently a vice president of the Company and holds directorship in certain subsidiaries of the Company. He previously served as the general manager of department of strategy and investment of the Company, Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd and SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司), etc.
Chen Jinzhu	Ms. Chen Jinzhu holds a bachelor's degree in economics and management from the University of Oxford and a Ph.D. degree in economics from Harvard University. She is a senior economist and Chartered Financial Analyst (CFA), and holds a number of professional qualifications in the fields of finance and investment. She is currently the secretary to the board of directors, joint company secretary and the director of the Board Office. She previously served as an assistant investment consultant at the Beijing Branch of the Private Banking Division, assistant general manager and then deputy general manager of the Gongyi Sub-Branch, and the general manager of the Business Center Sub-Branch of Henan Branch, of Industrial and Commercial Bank of China Limited; director of international business of China Minsheng Investment Co., Ltd.; deputy general manager of the International Business Center and regional head of the Hong Kong Office of Anbang Insurance Group Co., Ltd., etc.

Directors, Supervisors and Senior Management

Positions of directors, supervisors and senior management in other entities

Name of personnel	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Zhou Jun	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Cho Man	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Chairman	June 2013	up to today
Cho Man	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Cho Man	Zeus Investment Limited	Director	July 2016	up to today
Cho Man	Shanghai Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
Cho Man	Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Chairman	May 2017	up to today
Cho Man	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Cho Man	Cardinal Health (L) Co., Ltd.	Director	January 2018	up to today
Cho Man	Shanghai SPH Tsumura Pharmaceutical Co., Ltd.	Director	July 2018	up to today
Cho Man	SPH PHILILAB, INC	Director	October 2018	up to today
Cho Man	Shanghai Pharmaceuticals Bio Therapeutics Technology Co., Ltd.	Chairman	May 2019	up to today
Cho Man	SPH PROJECT BIOCAD Limited	Director	May 2019	up to today
Cho Man	China International Pharmaceutical (Holding) Corporation Limited	Director	May 2019	up to today
Cho Man	SPH-BIOCAD (HK) Limited	Director	October 2019	up to today
Cho Man	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	December 2019	up to today
Cho Man	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director	December 2019	up to today
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	Director General manager	April 2010 October 2012	up to today up to today
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	Director	August 2014	up to today
Li Yongzhong	Zeus Investment Limited	Director	July 2016	up to today
Li Yongzhong	Shanghai Pharma Health Commerce Co., Ltd.	Chairman	August 2016	up to today
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman Director	August 2016 April 2011	up to today up to today
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Chairman Director	August 2016 January 2012	up to today up to today
Li Yongzhong	Cardinal Health (L) Co., Ltd.	Director	January 2018	up to today

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Li Yongzhong	Yongyu (China) Pharmaceutical Enterprise Management Co. Ltd.	Chairman	January 2018	up to today
Li Yongzhong	Cardinal (China) Investment Co., Ltd.	Chairman	January 2018	up to today
Li Yongzhong	SPH Cardinal (Shanghai) Pharma Co., Ltd.	Chairman	January 2018	up to today
Li Yongzhong	SPH Bio Therapeutics Co., Ltd.	Director	June 2018	up to today
Shen Bo	Shanghai Pharmaceutical Co., Ltd.	Supervisor	April 2010	up to today
Shen Bo	SPH Bio Therapeutics Co., Ltd.	Director	December 2010	up to today
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	up to today
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	up to today
Shen Bo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2013	up to today
Shen Bo	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Director	July 2013	up to today
Shen Bo	China International Pharmaceutical (Holding) Corporation Limited	Executive director	May 2014	up to today
Shen Bo	Shanghai Hefeng Pharmaceutical Co., Ltd.	Chairman	November 2015	up to today
Shen Bo	Shanghai Industrial Group Pharmaceutical Co. Ltd.	Executive director	October 2015	up to today
Shen Bo	Shanghai Huarui Investment Co. Ltd.	Executive director	October 2015	up to today
Shen Bo	TECHPOOL Bio-Pharma Co., Ltd.	Director	May 2016	up to today
Shen Bo	Zeus Investment Limited	Director	July 2016	up to today
Shen Bo	Shanghai Pharma Health Commerce Co., Ltd.	Director	August 2016	up to today
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman	August 2016	up to today
		Director	June 2007	up to today
Shen Bo	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	August 2016	up to today
Shen Bo	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	December 2017	up to today
Shen Bo	SPH Sunnic Medical Technology Co., Ltd.	Chairman	May 2018	up to today

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Shen Bo	SPH Sunnic Leasing (Shanghai) Co., Ltd.	Chairman	May 2018	up to today
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chief supervisor	October 2018	up to today
Shen Bo	SPH Bio Therapeutics (USA) Co., Ltd.	Director	March 2019	up to today
Shen Bo	SPH PROJECT BIOCAD Limited	Director	May 2019	up to today
Shen Bo	SPH-BIOCAD (HK) Limited	Director, CEO	October 2019	up to today
Shen Bo	Shanghai Pharmaceutical Imp. & Exp. Co., Ltd.	Executive director	December 2019	up to today
Shen Bo	Shanghai SPH Biological Medicine Co., Ltd.	Director	December 2019	up to today
Zhao Yong	Shanghai Medicine University	Principal	July 2018	up to today
Zhao Yong	Shanghai SPH Biological Medicine Co., Ltd.	Chairman	December 2019	up to today
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	up to today
Gu Haoliang	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	June 2014	up to today
Gu Haoliang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	August 2016	up to today
Gu Haoliang	SPH Changzhou Pharmaceutical Co., Ltd.	Director	August 2016	up to today
Gu Haoliang	Shanghai Pharma Sales Co., Ltd.	Chairman	September 2016	up to today
Gu Haoliang	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Director	September 2016	up to today
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	January 2018	up to today
		Director	November 2010	up to today
Gu Haoliang	Shanghai Sine United Medicinal Herbs Co., Ltd.	General manager	August 2018	up to today
Gu Haoliang	Shanghai Shangke Pharmaceutical Co., Ltd.	Chairman	December 2018	up to today
Gu Haoliang	Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Director	March 2019	up to today
Gu Haoliang	Sichuan Guojia Pharmaceutical Science & Technology Co., Ltd.	Director	December 2019	up to today
Liu Dawei	Shanghai Pharma Health Commerce Co., Ltd.	Director	March 2015	up to today
Liu Dawei	Shanghai Healthcare Industry Equity Investment Fund	Member of the investment and decision-making committee	October 2015	up to today
Liu Dawei	Shanghai Lianyi Investment Center	Member of the investment committee	September 2016	up to today
Liu Dawei	Shanghai Ruijian Capital Management Co., Ltd.	Director	September 2016	up to today
Liu Dawei	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	up to today
Liu Dawei	SPH Bio Therapeutics Co., LTD.	Director	June 2018	up to today
Liu Dawei	SPH Therapeutics (Hong Kong) Co., Ltd.	Director	March 2019	up to today
Liu Dawei	SPH PROJECT BIOCAD Limited	Director	May 2019	up to today
Liu Dawei	SPH Chromo AG	Director	August 2019	up to today

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in the entity	Starting date of term of office	Expiry date of term of office
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	May 2017	up to today
Zhang Yaohua	Shanghai SPH Tsumura Pharmaceutical Co., Ltd.	Chairman	December 2017	up to today
Zhang Yaohua	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Chairman	October 2018	up to today
		Director	July 2013	up to today
Zhang Yaohua	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	May 2019	up to today
Zhang Yaohua	Shanghai SPH Biological Medicine Co., Ltd.	Chief supervisor	December 2019	up to today
Liu Yanjun	Central Research Institute of Shanghai Pharmaceuticals Holding Co., Ltd.	President	September 2013	October 2019
Liu Yanjun	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	February 2014	October 2019
Liu Yanjun	SPH Laboratory Inc.	Director	May 2014	October 2019
Liu Yanjun	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director	November 2014	October 2019
Liu Yanjun	Shanghai Sunway Biotech Co., Ltd.	Chairman	December 2017	October 2019
Liu Yanjun	SPH Bio Therapeutics Co., Ltd.	Director	June 2018	October 2019
Liu Yanjun	TECHPOOL Bio-Pharma Co., Ltd.	Director	July 2018	October 2019
Liu Yanjun	Shanghai Huiyong Pharmaceutical Research Co., Ltd.	Director	August 2018	October 2019
Liu Yanjun	SPH PHILILAB, INC	Director	October 2018	October 2019
Liu Yanjun	SPH Bio Therapeutics (Hong Kong) Co., Ltd.	Director	March 2019	October 2019
Liu Yanjun	SPH Bio Therapeutics (USA) Co., Ltd.	Director	March 2019	October 2019
Liu Yanjun	Oncternal Therapeutics, Inc.	Director	March 2019	October 2019
Liu Yanjun	Shanghai Pharmaceuticals Bio Therapeutics Technology Co., Ltd.	Director	May 2019	October 2019

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change situation	Reasons for changes
Zhou Jun	Chairman, non-executive director	Election	change of session
Ge Dawei	Vice Chairman, non-executive director		change of session
Cho Man	Executive director		change of session
Li Yongzhong	Executive director		change of session
Shen Bo	Executive director		change of session
Li An	non-executive director		change of session
Cai Jiangnan	Independent non-executive director		change of session
Hong Liang	Independent non-executive director		change of session
Gu Zhaoyang	Independent non-executive director		change of session
Manson Fok	Independent non-executive director		change of session
Xu Youli	Chief supervisor, supervisor		change of session
Huan Jianchun	Employee supervisor	Engagement	change of session
Xin Keng	Supervisor		change of session
Cho Man	President		change of session
Zhao Yong	Vice president		change of session
Shen Bo	Vice president		change of session
Mao Jianyi	Vice president		change of session
Gu Haoliang	Vice president		change of session
Liu Dawei	Vice president		change of session
Zhang Yaohua	Vice president	Resignation	change of session
Chen Jinzhu	Secretary to the board of directors, joint company secretary		change of session
Wan Kam To	Independent non-executive director		change of session
Tse Cho Che, Edward	Independent non-executive director		change of session
Chen Xin	Supervisor		change of session
Liu Yanjun	Vice president		change of session
Shu Chang	Vice president		retirement

As a company dual-listed in the A-share and H-share markets, Shanghai Pharmaceuticals has constantly improved the corporate governance structure of the Company, enhanced information disclosure, and standardized the Company's operations in accordance with the requirements of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, relevant laws and regulations of the China Securities Regulatory Commission and the Listing Rules of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

As at the end of the Reporting Period, the corporate governance of the Company complied with the standardized operation requirements of listed companies, and did not significantly deviate from the requirements of relevant documents of the China Securities Regulatory Commission. At the same time, the Company fully complied with the principles and code provisions set forth in the Corporate Governance Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS AND SUPERVISORS

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

BOARD OF DIRECTORS

Composition of the board of directors

The Company's board of directors comprises ten directors, including three executive directors, namely Mr. Cho Man (also the president), Mr. Li Yongzhong (also the vice president), and Mr. Shen Bo (also the vice president and the chief financial officer); three non-executive directors, namely Mr. Zhou Jun (the chairman), Mr. Ge Dawei (the vice chairman) and Ms. Li An; and four independent non-executive directors, namely Mr. Cai Jiangnan, Mr. Hong Liang, Mr. Gu Zhaoyang and Mr. Manson FOK. The biographical details of the directors are set out in the chapter headed "Directors, Supervisors and Senior Management" in this annual report.

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

Pursuant to the Articles of Association, the term of office of the directors (including independent non-executive directors) is three years, renewable upon re-election at its expiry, provided that the term of office of the independent non-executive directors shall not exceed a consecutive period of six years.

Primary duties of the board of directors

The Company has complied with the provisions of the Corporate Governance Code and distinguished between the roles of the chairman and the chief executive officer. Mr. Zhou Jun is the current Chairman and Mr. Cho Man is the President. Meanwhile, with a view to differentiate the duties of the board of directors and the management, the Board is responsible for the Company's policy, budget and financial accounts, significant transactions (especially for those involving the conflict of interest), financial data, recruiting or dismissing senior management as well as other functions and powers as authorized by laws, administrative regulations, departmental rules, Articles of Associations or general meetings. The management is responsible for daily operations and implementation of relevant decisions.

Board meetings

In accordance with code provisions A.1.1 and A.2.7 of the Corporate Governance Code, during the Reporting Period, the Board has held at least four regular meetings every year, which were convened by the chairman and notices of board meetings were served on all directors and supervisors as required by relevant requirements; independent non-executive directors met with the chairman individually at least once.

During the Reporting Period, the board of directors held a total of thirteen meetings, at which proposals were considered in relation to the Company's business results, financial accounts and budgets, policies formulation, profit distribution, election of new session of Directors and Supervisors, share incentives, mergers and acquisitions, connected transactions as well as the performance of the corporate governance function, etc.

COMMITTEES UNDER THE BOARD

Remuneration and assessment committee

The remuneration and assessment committee under the board of directors of the Company consists of three directors, namely Mr. Hong Liang (an independent non-executive director), acting as its convener/chairman, Mr. Ge Dawei (a non-executive director) and Mr. Gu Zhaoyang (an independent non-executive director). The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating and implementing the performance assessment standards for directors, the president and other senior management of the Company, and formulating and reviewing the remuneration policies and proposals for directors, the president and other senior management. Please refer to the Chapter headed "Report of the Board of Directors" herein for the procedures of determining the remuneration of directors, supervisors and senior management and their remunerations.

During the Reporting Period, the remuneration and assessment committee held six meetings, at which the performance review report on senior management and the proposal for assessment on management responsibilities of the senior management, as well as issues relating to the Share Option Incentive Plan and the Initial Grant were discussed.

Audit committee

The audit committee under the board of directors of the Company consists of three independent non-executive directors, including Mr. Gu Zhaoyang, acting as its convener/chairman, Mr. Manson FOK and Mr. Hong Liang. The Audit Committee is a body specifically set up under the board of directors, mainly responsible for the relationship between the Company and the external auditors, reviewing the financial information of the Company, and supervising the financial reporting mechanism and risk management and internal control systems of the Company.

During the Reporting Period, the audit committee held a total of five meetings, at which matters were discussed in relation to the Company's business results, the self-appraisal report on internal control of the Company, summary of audit and supervision division for the year and future work plan, audit schedule on financial report, connected transactions, etc.

In accordance with code provision C.3.3 of the Corporate Governance Code and the Rule 14A.55 of the Hong Kong Listing Rules, the audit committee met with the auditor without the presence of management at least once during the Reporting Period; the audit committee and independent non-executive directors have reviewed the continuing connected transactions of the Company.

Strategy committee

The strategy committee under the board of directors of the Company consists of three directors, including Mr. Zhou Jun (a non-executive director), acting as its convener/chairman, Mr. Cai Jiangnan (an independent non-executive director) and Mr. Manson FOK (an independent non-executive director). The strategy committee is a special body established under the board of directors focusing on strategy study as entrusted by the board of directors, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

During the Reporting Period, the strategy committee held one meeting, at which the proposal concerning the follow-up review of the Three-year (2019-2021) Development Plan was discussed.

Nomination committee

The nomination committee under the board of directors consists of three directors, including Mr. Cai Jiangnan (an independent non-executive director) acting as its convener/chairman, Mr. Cho Man (an executive director) and Mr. Hong Liang (an independent non-executive director). The nomination committee is a special body established under the board of directors, mainly responsible for analysing the candidates for directors of the Company and the selecting criteria and procedures and making recommendations to the board of directors. The nomination committee may also be responsible for analysing the candidates for the senior management of the Company and the selecting criteria and procedures and making recommendations to the board of directors when necessary.

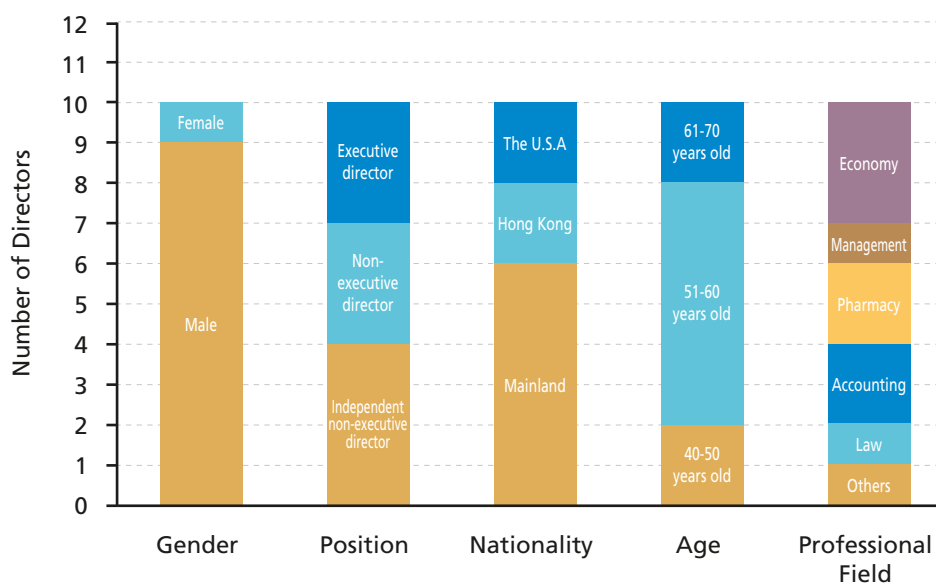
Corporate Governance Report

During the Reporting Period, the nomination committee held one meeting, at which proposals in relation to nomination of new session of Directors of the Company was discussed.

The nomination procedure for the Directors of the Company is as follows: The Nomination Committee submits proposals for candidates of Directors to the Board. The Board, or one or more Shareholders individually or collectively holding more than three percent (3%) of the Company's outstanding Shares, may nominate Directors to the general meeting. The general meeting finally reviews and approves candidates for Directors.

Selection of candidates for Director considers factors including, but not limited to, the Company's strategic planning, operating activities, asset size and shareholding structure, as well as the candidate's qualifications, independence, and professional fields.

Meanwhile, pursuant to Rule 13.92 of the Hong Kong Listing Rules, the Company adopted the Board Diversity Policy in March 2014. When assessing candidates for the Board, the Company will take into consideration the diversity perspective set out in this policy, including but not limited to gender, age, the highest academic degree, professional fields and term of service, so as to achieve a proper balance in the composition of the Board. The nomination committee considered that during the Reporting Period, the Board has met the expected goal of the member diversity policy and kept an appropriate balance of member structure. Details are as follow:



ATTENDANCE OF DIRECTORS AND COMMITTEE MEMBERS

The following table sets forth the attendance of each Director during their terms of office at meetings of the Board and board committees and the Company's general meetings for the year ended 31 December 2019:

Name of Director	Attendance/Numbers of Meetings					
	Board of Directors	Remuneration and assessment committee	Audit committee	Strategy committee	Nomination committee	General Meetings
Executive director						
Mr. Cho Man	13/13					2/2
Mr. Li Yongzhong	13/13					1/2
Mr. Shen Bo	13/13					2/2
Non-executive director						
Mr. Zhou Jun	13/13			1/1	1/1	2/2
Mr. Ge Dawei ^{note}	7/7	2/2				0/1
Ms. Li An	13/13					0/2
Independent non-executive director						
Mr. Cai Jiangnan	13/13	4/4		1/1		2/2
Mr. Hong Liang	13/13	6/6	5/5		1/1	2/2
Mr. Gu Zhaoyang ^{note}	7/7	2/2	3/3			1/1
Mr. Manson FOK ^{note}	7/7		3/3	1/1		1/1
Mr. Wan Kam To ^{note}	6/6	4/4	2/2			1/1
Mr. Tse Cho Che, Edward ^{note}	6/6		2/2		1/1	1/1

Note: On 27 June 2019, the Company successfully completed the election of Directors for the seventh session of the Board. Mr. Ge Dawei, Mr. Gu Zhaoyang and Mr. Manson FOK were appointed as Directors of the Company with effect from 27 June 2019; Mr. Wan Kam To and Mr. Tse Cho Che, Edward ceased to serve as Directors of the Company with effect from 27 June 2019. Adjustments were also made to relevant committee members. For details, please refer to the announcement of the Company dated 28 June 2019.

REMUNERATION OF AUDITORS

With reference to the Company's actual situation of business development, the audit fee payable to the auditors by Shanghai Pharmaceuticals for 2019 was set at RMB24.50 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.6 million (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the domestic auditor, PricewaterhouseCoopers Zhong Tian LLP (special general partnership), and the overseas auditor, PricewaterhouseCoopers.

In 2019, a non-audit service fee of approximately RMB0.18 million (taxation expense and disbursement inclusive) was paid by the Company to the affiliates or network members of the Company's auditors mainly for consulting services.

ACCOUNTABILITY AND AUDIT

Directors acknowledged their responsibility for preparation of financial statements of the Group for the year ended 31 December 2019.

As far as the directors are aware, there was no event, condition or material uncertainty that may cast doubt upon the Group's ability to continue its operation as a going concern.

The statements of declaration responsibilities made by the auditor on the financial statements are contained in the "Independent Auditor's Report".

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for overseeing and reviewing the Company's risk management and internal control system and ensuring the effectiveness of the system. During the Reporting Period, the Board has completed the annual review on the effectiveness of the Group's internal control system which covered all material control aspects, including finance, operation and compliance controls and risk management functions, and also the Board has taken full consideration of the resources for accounting, internal review, financial report and the qualification of the employees and their experience and makes sure the employees receive enough training with sufficient budget. In the progress of reviewing, the audit committee (on behalf of the Board) as well as the audit division are responsible for supervision of management to design, implement and monitor the risk management and internal control system. As the risk management and internal control system has its limitations, the system is designed to manage rather than eliminate the risk of failing to achieve business objectives and only provide reasonable and not absolute assurance against material misstatement or loss. As of 31 December 2019, such system of the Company is considered operating effectively and adequately.

To respond to the ever-changing risks and follow the compliance requirements of listing governance, the Company regarded the risk management and control as an important part of the strategic control system. The Company has established working procedures for risk identification, risk assessment, risk response and risk report to identify internal and external risks, assess the likelihood and impact of risks, identify risk response strategies and implement response plans, and regularly and systematically report the risk and risk management information.

In preparation of risk response measures, the Company has adopted four risk response strategies, i.e. risk avoidance, risk acceptance, risk mitigation and risk transfer.

In view of the internal control, the Company has established the corporate governance structure according to the requirements of establishing the modern enterprise system based on the enterprise risk and combining with its own development, and set up the organization structure which conforms to the business scale and operational needs of the Company. The Company continuously upgraded and optimized the internal control management system in terms of the controlled environment, risk assessment, controlled activities, information and communication and supervision mechanism.

The Company has also established a complete inside information processing and publication procedure. The Company has formulated and implemented information disclosure management regulations such as the Information Disclosure Affair Management Regulations and Investor Relations Management Regulations, and properly implemented the inside information confidentiality procedure. The Company strictly complied with the regulations of the Inside Information and Insiders Management Regulations and other related regulations to strengthen the confidentiality of inside information and improve the management of insider registration. The Company's Directors, Supervisors, senior management, and other relevant personnel are able to strictly abide by the confidentiality obligations during the preparation of periodic reports and interim announcements and during the planning of significant events.

SHAREHOLDER'S RIGHTS

The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised and their legitimate interests can be safeguarded and that the general meetings can be convened and held in strict compliance with the relevant laws and regulations. The Articles of Association and rules of procedures for the general meeting specify in detail the specific procedures for convening an extraordinary general meeting and proposing provisional motions at general meetings. Shareholders individually or collectively holding 10% or more of Shares of the Company may request the Board to convene an extraordinary general meeting and such request shall be in written form. The Board shall decide on whether the proposal is approved based on the provisions of laws, administrative regulations and the Articles of Association as well as the specific circumstances. Shareholders individually or collectively holding 3% or more of Shares may propose provisional proposals and submit them in writing to the convenor 10 days before the holding of the general meeting. The convenor shall include in the agenda of the meeting the issues raised in the proposals that fall within the scope of responsibility of the general meeting. For the contact information for shareholders to make inquiries or submit temporary proposals to the Company, please refer to the Chapter headed "Corporate Information".

INVESTOR RELATIONS

The Company attaches great importance to the management of investor relations, and global investor call meetings were held regularly and launched global institutional investor's road show activities, actively participated in and received investors' survey. Meanwhile, the Company positively responded to and answered the investor's questions through the SSE "E interactive", investor hotline and e-mails.

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Ms. Chen Jinzhu and Ms. Leung Suet Wing of TMF Hong Kong Limited (external service provider) are the joint company secretaries of the Company and received relevant training not less than 15 hours in 2019, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. The main internal main contact person of the Company of Ms. Leung Suet Wing is the board secretary of the Company, Ms. Chen Jinzhu.

THE DIRECTOR'S CONTINUOUS PROFESSIONAL DEVELOPMENT

During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills. Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company regularly provides all the directors with monthly data collection so that the directors are able to make informed decisions and discharge their responsibilities and duties as directors of the Company.

ARTICLES OF ASSOCIATION

The 2018 annual general meeting held on 27 June 2019 has reviewed and passed the "Proposal regarding Amendments to the Articles of Association and Rules of Procedure of the Board of Directors". For the details of the amendments, please refer to the Company's circular for the annual general meeting dated 21 May 2019.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Independent Auditor's Report

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

Opinion

What we have audited

The consolidated financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 119, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the Notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Impairment of trade receivables
- Inventory valuation and provisions

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Goodwill impairment assessment <i>Refer to notes 6 (Critical accounting estimates and judgements) and 12 (Intangible assets) to the consolidated financial statements</i> At 31 December 2019, the Group had goodwill amounting to RMB12,293 million, against which a provision of RMB1,503 million was set aside. Management applied significant judgements in determining the value in use of the Group's Cash Generating Units (the "CGUs") that goodwill was allocated to. The key assumptions adopted in the determination of value in use include: i) compound annual growth rate within the budget period; ii) growth rates to extrapolate cash flows beyond the budget period; iii) gross margin; and iv) discount rate. We focused on this area due to the magnitude of goodwill balance and significance of management judgements applied in assessing goodwill impairment.	For the relevant CGUs, we compared the current year actual results with the year 2019 forecast included in the prior year forecast to consider whether management's cash flow forecasts were reliable. We assessed the valuation approaches and methodologies adopted in the cash flow forecasts by reference to industry practice. We considered management's key assumptions by: • Comparing the compound annual growth rates within the budget period with the Group's historical growth rates and industry historical data; • Comparing the growth rates to extrapolate cash flows beyond the budget period with our independent expectation based on economic data; • Comparing the gross margin with the Group's past performance, taking into consideration of market trends; and • Assessing the discount rate by considering and recalculating the weighted average cost of capital for the individual CGU and comparable companies in the pharmaceutical industry, as well as considering territory specific factors, such as risk free interest rate and debt ratio prevailing in relevant market as of the base date. We tested the mathematical accuracy of the calculations of value in use. Based on the procedures performed, we considered that management's judgements in the impairment assessment of goodwill were supported by the evidence we gathered.

Key Audit Matter

How our audit addressed the Key Audit Matter

2. Impairment of trade receivables

Refer to notes 6 (Critical accounting estimates and judgements) and 19 (Trade and other receivables and other current assets) to the consolidated financial statements

At 31 December 2019, the Group had trade receivables amounting to RMB49,403 million, against which an impairment provision of RMB2,064 million was set aside. Trade receivables are measured at amortised cost less allowance for impairment in the consolidated financial statements.

Management applied the expected credit loss ("ECL") model to measure the impairment provision against trade receivables at the reporting date. Management estimated the loss allowance of trade receivables based on the lifetime of expected credit losses. For receivable balances with objective evidence of impairment, individual provision was made based on a probability-weighted estimate of the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive. For receivables without objective evidence of impairment, they were grouped based on shared credit risk characteristics, and collective provision was determined based on the historical credit loss rates to the respective aging category of the gross carrying amount of receivables. The ECL rates were adjusted to reflect current and forward-looking information.

We focused on this area due to the magnitude of trade receivable balances and the significance of management judgements applied in determining the provision for impairment of such balances.

We evaluated and validated the controls which management adopted to monitor the recoverability of receivables, including controls over identification of objective evidence of impairment and estimation of the impairment provisions.

We checked the accuracy of aging of trade receivables prepared by management on sample basis and tested the IT automatic controls related to the maintenance of aging analysis where relevant.

We independently assessed the recoverability of a sample of trade receivable balances, focusing on significant or high risk balances. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of the relevant customers, and legal letters, where applicable.

We assessed the Group's methodology of estimating the collective provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers' repayment pattern and market condition.

We evaluated management's assessment of the forward-looking information used to determine the expected credit losses by considering economic factors applied by the management. We also evaluated management's assessment of the sensitivity of the forward-looking information based on reasonable possible changes of the related key assumptions.

Based on the procedures performed, we considered management's judgments in assessing the recoverability of trade receivables were supported by the evidence we gathered.



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Key Audit Matters (continued)

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Key Audit Matter	How our audit addressed the Key Audit Matter
3. Inventory valuation and provisions <i>Refer to notes 6 (Critical accounting estimates and judgements) and 18 (Inventories) to the consolidated financial statements</i> At 31 December 2019, the Group had inventories amounting to RMB25,711 million, against which a provision of RMB834 million was set aside. Inventories are carried at the lower of cost and net realisable value (NRV) in the consolidated financial statements. Management determined the provision for inventory based on the level of inventories close to expiration date taking into consideration of goods return arrangement with suppliers and estimated probability of selling. We focus on this area due to the magnitude of inventory balances and the complexity of the calculation of inventory provisions including the judgement required on estimations.	We evaluated and validated the controls which management adopted to monitor inventories close to expiration dates and in making estimation of the probability of selling such inventories. We checked the accuracy of validity period of inventories prepared by management on sample basis and tested the IT automatic controls related to the maintenance of inventory aging analysis where relevant. We selected a sample of inventories close to expiration dates for which no provision was made and examined the contracts or agreements with the suppliers for return arrangements. We assessed appropriateness of the estimated probability of selling for inventories close to expiration dates by reviewing the historical sales pattern. We tested the mathematical accuracy of the calculations of inventory provisions. Based on the procedures performed, we considered the key data used in management's assessment of inventory provision was supported by the evidence gathered.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2020

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEET

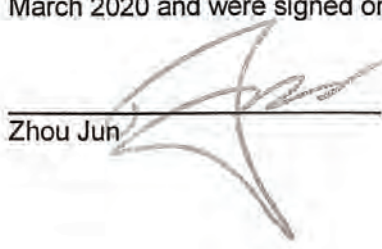
		As at 31 December	
	Note	2019	2018
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment	8	11,900,516	11,007,626
Land use rights	9	—	1,494,579
Right-of-use assets	10	3,145,384	—
Investment properties	11	228,837	240,598
Intangible assets	12	13,472,078	14,199,103
Investments in jointly controlled entities	14	829,404	725,361
Investments in associates	15	4,024,375	3,641,244
Deferred income tax assets	30	1,222,508	1,037,925
Financial assets at fair value through other comprehensive income	20	194,184	162,312
Financial assets at fair value through profit or loss	21	384,398	119,649
Other non-current assets	16	3,267,488	657,079
Other long-term receivables	17	265,642	315,975
		38,934,814	33,601,451
Current assets			
Inventories	18	24,877,357	25,024,010
Trade and other receivables and other current assets	19	52,871,320	48,014,842
Derivative financial instruments		3,027	5,190
Financial assets at fair value through other comprehensive income	20	2,187,060	1,532,866
Restricted cash and term deposits	22	2,436,560	2,089,114
Cash and cash equivalents	22	15,716,258	16,605,555
		98,091,582	93,271,577
Assets classified as held for sale		-	6,304
		98,091,582	93,277,881
Total assets		137,026,396	126,879,332

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
	Note	2019 RMB'000	2018 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	24	2,842,089	2,842,089
Share premium account	25	16,281,513	16,405,945
Other reserves	25	564,548	434,897
Retained earnings	26	21,970,909	19,330,644
		<u>41,659,059</u>	<u>39,013,575</u>
Non-controlling interests		<u>7,726,869</u>	<u>7,419,696</u>
Total equity		<u>49,385,928</u>	<u>46,433,271</u>
Liabilities			
Non-current liabilities			
Borrowings	28	9,134,221	9,620,298
Lease liabilities	10	1,191,253	—
Provisions	29	65,180	93,361
Deferred income tax liabilities	30	809,599	866,912
Termination benefit obligations	31	48,096	51,947
Other non-current liabilities	32	1,404,463	632,105
Other long-term payables	33	380,013	471,674
		<u>13,032,825</u>	<u>11,736,297</u>
Current liabilities			
Trade and other payables and other current liabilities	27	48,027,439	44,587,915
Borrowings	28	23,763,551	22,031,361
Contract liabilities	34	1,534,199	1,357,137
Lease liabilities	10	563,739	—
Derivative financial instruments		1,724	458
Current income tax liabilities		716,991	732,893
		<u>74,607,643</u>	<u>68,709,764</u>
Total liabilities		<u>87,640,468</u>	<u>80,446,061</u>
Total equity and liabilities		<u>137,026,396</u>	<u>126,879,332</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 7 to 119 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf.



Zhou Jun



Cho Man

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Revenue	7	186,565,796	159,084,397
Cost of sales	35	(160,684,789)	(137,390,362)
Gross profit		25,881,007	21,694,035
Distribution and selling expenses	35	(12,855,723)	(11,058,099)
General and administrative expenses	35	(6,054,932)	(5,234,338)
Net impairment losses on financial assets	4.1(c)	(211,072)	(84,639)
Other income	37	520,679	380,206
Other gains – net	38	92,004	(160,318)
Impairment losses of goodwill	12	(704,762)	(632,373)
Gains on disposal of subsidiaries and an associate		18,860	600,608
Operating profit		6,686,061	5,505,082
Finance income	39	234,020	197,402
Finance costs	39	(1,422,800)	(1,006,817)
Share of profit of jointly controlled entities	14	246,767	231,605
Share of profit of associates	15	518,419	416,106
Profit before income tax		6,262,467	5,343,378
Income tax expense	40	(1,431,725)	(887,117)
Profit for the year		4,830,742	4,456,261
Profit for the year attributable to:			
Owners of the Company		4,080,994	3,881,063
Non-controlling interests		749,748	575,198
		4,830,742	4,456,261
Earnings per share for the year attributable to owners of the Company (expressed in RMB per share)			
-Basic and diluted	41	1.44	1.37

The above consolidated income statement should be read in conjunction with the accompanying notes.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2019	2018
		RMB'000	RMB'000
Profit for the year		4,830,742	4,456,261
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Financial assets at fair value through other comprehensive income (FVOCI)	25	31,872	(59,265)
Loss allowance of debt investments at FVOCI	25	1,184	965
Share of other comprehensive income of investments in associates		13	(2,942)
Currency translation differences – net	25	(90,083)	(413,906)
Other comprehensive income for the year, net of tax		(57,014)	(475,148)
Total comprehensive income for the year		4,773,728	3,981,113
Attributable to:			
– Owners of the Company		4,031,404	3,453,897
– Non-controlling interests		742,324	527,216
Total comprehensive income for the year		4,773,728	3,981,113

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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 account	Other reserves	Retained earnings		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 31 December 2018 as originally presented		2,842,089	16,405,945	434,897	19,330,644	39,013,575	46,433,271
Changes in accounting policy	3.2	-	-	(11)	(85,389)	(85,400)	(105,586)
Balance at 1 January 2019		2,842,089	16,405,945	434,886	19,245,255	38,928,175	46,327,685
Comprehensive income							
Profit for the year		-	-	-	4,080,994	4,080,994	4,830,742
Other comprehensive income							
Financial assets at fair value through other comprehensive income	20	-	-	31,872	-	31,872	31,872
Loss allowance of debt investments at FVOCI		-	-	1,151	-	1,151	1,184
Currency translation differences, net		-	-	(82,626)	-	(82,626)	(90,083)
Share of other comprehensive income of associates	15	-	-	13	-	13	13
Total other comprehensive income		-	-	(49,590)	-	(49,590)	(57,014)
Total comprehensive income/(loss) for the year		-	-	(49,590)	4,080,994	4,031,404	4,773,728
Transactions with owners							
Capital injections from non-controlling interests		-	-	-	-	63,937	63,937
Acquisitions of subsidiaries	46	-	-	-	-	89,850	89,850
Transaction with non-controlling interests		-	(84,963)	-	-	(166,715)	(251,678)
Appropriation to statutory reserves	25(b)	-	-	179,252	(179,252)	-	-
Dividends	42	-	-	-	(1,165,257)	(396,859)	(1,562,116)
Others		-	(39,469)	-	(10,831)	(5,178)	(55,478)
Total transaction with owners		-	(124,432)	179,252	(1,355,340)	(414,965)	(1,715,485)
Balance at 31 December 2019		2,842,089	16,281,513	564,548	21,970,909	7,726,869	49,385,928

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 account	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 31 December 2017 as originally presented	2,688,910	14,068,206	695,440	16,578,287	34,030,843	5,645,005	39,675,848
Changes in accounting policy	-	-	96	126,776	126,872	5,059	131,931
Balance at 1 January 2018	2,688,910	14,068,206	695,536	16,705,063	34,157,715	5,650,064	39,807,779
Comprehensive income							
Profit for the year	-	-	-	3,881,063	3,881,063	575,198	4,456,261
Other comprehensive income							
Financial assets at fair value through other comprehensive income	20	-	(59,265)	-	(59,265)	-	(59,265)
Loss allowance of debt investments at FVOCI		-	965	-	965	-	965
Currency translation differences – net		-	(365,924)	-	(365,924)	(47,982)	(413,906)
Share of other comprehensive income of associates	15	-	(2,942)	-	(2,942)	-	(2,942)
Total other comprehensive income		-	(427,166)	-	(427,166)	(47,982)	(475,148)
Total comprehensive income/(loss) for the year		-	(427,166)	3,881,063	3,453,897	527,216	3,981,113
Transactions with owners							
Issuance of new H shares	24,25	153,179	2,376,125	-	2,529,304	-	2,529,304
Capital injections from non-controlling interests		-	-	-	-	169,176	169,176
Acquisitions of subsidiaries		-	-	-	-	1,413,889	1,413,889
Transaction with non-controlling interests		-	(44,388)	-	(44,388)	(21,998)	(66,386)
Appropriation to statutory reserves	25(b)	-	166,527	(166,527)	-	-	-
Dividends	42	-	-	(1,079,994)	(1,079,994)	(309,528)	(1,389,522)
Others		-	6,002	(8,961)	(2,959)	(9,123)	(12,082)
Total transaction with owners		153,179	2,337,739	(1,255,482)	1,401,963	1,242,416	2,644,379
Balance at 31 December 2018		2,842,089	16,405,945	19,330,644	39,013,575	7,419,696	46,433,271

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	43(a)	7,427,235	4,304,698
Interest paid		(1,418,907)	(1,337,199)
Income tax paid		(1,639,247)	(1,371,420)
Net cash generated from operating activities		4,369,081	1,596,079
Cash flows from investing activities			
Cash paid in respect of acquisition of subsidiaries		(696,120)	(4,937,910)
Cash paid in respect of acquisition of associates and a jointly controlled entity		(63,468)	(364,125)
Purchases of financial assets at fair value through other comprehensive income		-	(147,264)
Purchases of financial assets at fair value through profit or loss		(140,888)	-
Proceeds from redemption of treasury bills		905,141	903,475
Purchases of treasury bills		(900,500)	(900,300)
Purchases of property, plant and equipment and investment properties		(2,127,927)	(1,784,244)
Purchases of land use rights and intangible assets		(625,198)	(158,800)
Proceeds from disposal of non-current assets	43(b)	141,904	64,174
Interest received		234,398	201,836
Dividends received		366,136	423,392
Proceeds from disposal of subsidiaries, associates and a jointly controlled entity	43(c)	65,903	104,557
Proceeds from disposal of financial assets at fair value through profit or loss		298	4,897
Change of term deposits – net		(620,000)	(390,000)
Advance receipts in relation to the relocation		870,014	-
Prepayment in respect of acquisition of a subsidiary		(1,692,714)	-
Other cash flows generated from investing activities		(66,859)	(510,592)
Net cash used in investing activities		(4,349,880)	(7,490,904)
Cash flows from financing activities			
Cash injection from non-controlling interests		28,537	95,447
Issuance of H Shares		-	2,529,303
Lease payments (2018: finance lease payments)		(625,606)	(3,976)
Proceeds from borrowings	43(d)	40,046,614	63,604,487
Repayments of borrowings	43(d)	(38,340,307)	(55,843,776)
Dividends paid by the Group		(1,595,341)	(1,400,088)
Acquisitions of non-controlling interests		(254,717)	(114,235)
Other cash flows used in financing activities		(166,072)	(3,642)
Net cash (used in)/generated from financing activities		(906,892)	8,863,520
Net (decrease)/increase in cash and cash equivalents		(887,691)	2,968,695
Cash and cash equivalents at the beginning of year		16,605,555	13,569,414
Exchange (losses)/gains on cash and cash equivalents		(1,606)	67,446
Cash and cash equivalents at end of year		15,716,258	16,605,555

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

1.1 History and group reorganisation

Shanghai Pharmaceuticals Holding Co., Ltd. (the “Company”), previously known as Shanghai No. 4 Pharmaceutical Co., Ltd. (上海四藥股份有限公司), was incorporated in the People’s Republic of China (the “PRC”) on 18 January 1994 as a joint stock company with limited liability under the Company Law of the PRC. In March 1994, the Company was listed on Shanghai Stock Exchange on 24 March 1994.

In 1998, Shanghai Pharmaceutical (Group) Corporation, the predecessor of Shanghai Pharmaceutical (Group) Co., Ltd. (“Shanghai Pharma Group”, 上海醫藥(集團)有限公司), injected certain assets and wholly owned subsidiaries (“new assets”) to the Company. In return, the Company issued 40,000,000 new domestic shares of RMB1 each (“A Shares”) and disposed all of its assets and liabilities before the new assets injection to Shanghai Pharma Group. After the new assets injection, the Company changed its name to Shanghai Pharmaceutical Co., Ltd. (上海市醫藥股份有限公司) and was then engaged in distribution of pharmaceutical products business.

In 2009, for the purpose of streamlining and restructuring the pharmaceutical businesses under the control of Shanghai Pharma Group and Shanghai Industrial Investment (Holdings) Co., Ltd. (Shanghai Industrial Group, 上海實業(集團)有限公司), the ultimate holding company of the Company, the Company entered into a series of restructuring agreements with Shanghai Pharma Group and Shanghai Industrial Group and their respective subsidiaries. After the restructuring transactions which were completed in 2010, the Company changed its name to Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司).

On 20 May 2011, the Company issued overseas-listed shares (“H Shares”) and became a company listed on the Hong Kong Stock Exchange. As at 31 December 2019, the Company totally had 919,072,704 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, China (Shanghai) Pilot Free Trade Zone, 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 27 March 2020.

2 Principal activities of the Group

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

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) and the disclosure requirements of the Hong Kong Company Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments.

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 6.

(ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules using modified retrospective approach and recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 3.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements.

As indicated in Note 3.1 above, the Group has adopted HKFRS 16 using modified retrospective approach from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 3.27.

On adoption of HKFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was at the range of 4.75%-4.90%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an arrangement contains a lease.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.2 Changes in accounting policies (continued)

(ii) Measurement of lease liabilities

The total impact on Group's lease liabilities as at 1 January 2019 is as follows:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	1,861,370
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,692,063
Add: Finance lease liabilities recognised as at 31 December 2018	24,629
Long-term payables for land use rights	27,102
(Less): Short-term leases recognised on a straight-line basis as expense	(53,395)
Lease liability recognised as at 1 January 2019	1,690,399
Of which are:	
Current lease liabilities	470,669
Non-current lease liabilities	1,219,730
	1,690,399

(iii) Measurement of right-of-use assets

The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

	RMB'000
The change in accounting policy affected the following items in the balance sheet on 1 January 2019:	
Decrease in property, plant and equipment	(57,139)
Decrease in land use rights	(1,494,579)
Increase in right-of-use assets	3,076,148
Increase in deferred tax assets	28,080
Decrease in trade and other receivables	(19,428)
Decrease in other long term payables	45,530
Decrease in trade and other payables and other current liabilities	6,201
Increase in lease liabilities	(1,690,399)
Decrease in other reserves	11
Decrease in non-controlling interests	20,186
Decrease in retained earnings from adoption of HKFRS 16 on 1 January 2019	85,389

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

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, at the non-controlling interest’s proportionate share of the recognised amounts of acquiree’s identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognised in profit or loss. 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 3.8).

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)

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless transaction provides evidence of an impairment of the transferred asset. 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 of the subsidiaries in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(b) Separate financial statements

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

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

(c) Jointly controlled entities and associates

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

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss in the investee after the date of acquisition. Other than the associates and jointly controlled entities acquired as an integrated part of the restructuring transactions as mentioned in Note 1.1 which were accounted for as prescribed in Note 3.3(a)(i), the Group's investment in associates and jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate or a jointly controlled entity, any difference between the cost of the associate and the jointly controlled entity and the Group's share of the net fair value of the associate's and jointly controlled entity's identifiable assets and liabilities is accounted for as goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.3 Subsidiaries, jointly controlled entities and associates (continued)

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

(c) Jointly controlled entities and associates (continued)

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

Other than the associates and jointly controlled entities acquired as an integrated part of the restructuring transactions as mentioned in Note 1.1 which were accounted for as prescribed in Note 3.3(a)(i), the Group's share of its jointly controlled entities and associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity or an associate equals or exceeds its interest in the jointly controlled entity or associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or associate.

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

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

3.4 Segment reporting

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

3.5 Foreign currency translation

(a) Functional and presentation currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.5 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within 'other gains – net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.6 Property, plant and equipment

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

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

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

– Buildings	5-50 years
– Buildings outside Hong Kong	useful lives
– Machinery	4-20 years
– Motor vehicles	4-14 years
– Furniture, fittings and equipment	3-14 years
– Medicinal plants	40 years
– Others	2-20 years

Medicinal plants are yew trees solely used in the production of certain medicine raw materials. It is expected to bear produce for more than several years, and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Produce growly on bearer plant is a biological asset (Note 3.9). Medicinal plants are stated at historical cost less depreciation and impairment.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.7 Investment properties

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

3.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

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

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

(b) Business network

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

(c) Trademarks and patent rights

Separately acquired trademarks and patent rights are shown at historical cost. Trademarks and patent rights acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and patent rights 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.8 Intangible assets (continued)

(d) Brands

Brands have indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows. They are assessed for impairment on an annual basis.

(e) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated life of contractual periods.

(f) 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.

(g) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.8 Intangible assets (continued)

(g) Research and development (continued)

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.

(h) 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.

(i) Other intangible assets

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

3.9 Biological assets (medicinal plants)

Biological assets of the Group primarily comprise bearer plants and produce growing on bearer plants.

Bearer plants of the Group primarily include yew trees. Biological assets meeting the definition of a bearer plant are accounted for as property, plant and equipment as described in Note 3.6. Produce growing on bearer plants are measured on initial recognition and at the end of each reporting period at their fair value less estimated cost to sell. The fair value of produce growing on bearer plants is estimated with reference to valuations based on the present value of the discounted estimated pre-tax net cash flows of the underlying biological assets. The expected cash flows from the whole life cycle of the produce growing on bearer plants are determined using the estimated market prices of the estimated yield of the ultimate medicine, less production cost, farming and harvest costs and other costs including fertiliser, labour costs and rental costs, required to bring the produce to maturity.

Changes in fair value of biological assets are recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.10 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or other non-amortising intangible assets – 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 Assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

3.12 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.12 Investments and other financial assets (continued)

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.12 Investments and other financial assets (continued)

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 19 for further details.

Debt investments at amortized cost and FVOCI are mainly considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses unless there has been objective evidence of impairment since initial recognition. Debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. For other financial assets that have objective evidence of impairment, lifetime expected credit losses recognized.

3.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

3.15 Inventories

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

3.16 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

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. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

3.19 Borrowings

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

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

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

3.20 Borrowing costs

General and specific borrowing costs directly attributable to the construction of qualifying assets, 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.

Borrowing costs includes interest expenses and finance charges in respect of financial lease.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.21 Current and deferred income tax (continued)

(a) Current income tax

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

(b) Deferred income tax

(i) Inside basis differences

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

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

(ii) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for jointly controlled entities and associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liabilities in relation to taxable temporary differences arising from the jointly controlled entities and associates is 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 at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; (b) when the Group recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. 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

Sales are recognised when control of goods or service has been transferred.

(a) Sales of goods

Sales are recognised when the products have been shipped to the specific location in accordance with the sales contract and the customers have inspected and accepted the products. There is no significant financing component as the sales are made with a credit term varied by customers' credit risk characteristics, which is consistent with market practices. Advance received from customers is presented as contract liabilities in the balance sheet.

Any consideration payable to customers or third parties that no distinct good or service received from those customers, the consideration is recognised as a reduction of the revenue.

(b) Rendering services

Revenue from providing services to external parties is recognised over a period of time based on the stage of completion of such service, which is determined by the proportion of costs incurred to the estimated total costs. As at the balance sheet date, the Group reassesses the stage of completion so as to better reflect the changes in obligation performance.

Revenue is recognised by the stage of completion of the services. Trade receivables are recognised when the Group has an unconditional right to payment. For the remaining part of the services, a contract asset is recognised. The Group recognises the loss provision using the expected credit loss model for its trade receivables and contract assets. If the payments received or receivable exceed the services rendered, a contract liability is recognised for the excess. Contract assets and contract liabilities under the same contract are presented on a net basis.

3.26 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.27 Leases

As explained in Note 3.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 3.2.

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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.

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

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- Amounts expected to be payable by the Group under residual value guarantees,
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.27 Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received if necessary.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability,
- Any lease payments made at or before the commencement date less any lease incentives received,
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Summary of significant accounting policies (continued)

3.28 Dividend distribution

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

3.29 Financial guarantee contracts

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

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

3.30 Other financial liabilities

Where the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle contractual obligation, the obligation meets the identification of a financial liability. The financial liability is recognised by the present value of the redemption amount.

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"), Hong Kong dollars ("HKD")), and details of which have been set out in Notes 19, 22, 27 and 28.

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 2019, 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 RMB138,806,000 (2018: higher/lower RMB152,036,000), mainly as a result of foreign exchange gains/losses arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables and payables and borrowings balances.

The aggregate net foreign exchange losses recognised in profit or loss were:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net foreign exchange loss included in other gains	16,136	124,212
Exchange losses on foreign currency borrowing included in finance costs	-	-
Total net foreign exchange loss recognised in profit before income tax for the period	16,136	124,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(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 borrowings.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates exposed the Group to fair value interest rate risk. In general, the Group raises 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 2019, the Group's borrowings at floating rate and fixed rate amounted to approximately RMB6,047,892,000 and RMB26,849,880,000 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 2019, if the interest rates on 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 RMB17,770,000 (2018: lower/higher RMB8,615,000) respectively, mainly as a result of higher/lower interest expenses on borrowings.

(c) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, at FVOCI and at FVPL, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

The Group has three types of financial assets that are subject to HKFRS 9's expected credit loss model:

- Trade receivables for sales
- Other receivables and other long-term receivables, and
- Debt investments carried at FVOCI

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, PRC listed banks or state-owned banks.

For trade receivables for sales, 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 TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(c) Credit risk (continued)

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2019 and 2018 was determined as follows for trade receivables and notes receivables :

Aging as at 31 December 2019	Less than 6 months	6 months to 12 months	Over 1 year	Total
Expected loss rate	1.17%	6.20%	74.58%	4.16%
Gross carrying amount	42,988,902	5,013,436	1,679,780	49,682,118
Loss allowance	(504,308)	(311,077)	(1,252,810)	(2,068,195)
Aging as at 31 December 2018	Less than 6 months	6 months to 12 months	Over 1 year	Total
Expected loss rate	0.87%	7.76%	85.72%	4.31%
Gross carrying amount	38,264,333	4,665,780	1,419,864	44,349,977
Loss allowance	(331,532)	(362,232)	(1,217,043)	(1,910,807)

The loss allowances for financial assets as at 31 December reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Other receivables and other long-term receivables RMB'000	Debt investments at FVOCI RMB'000
Opening loss allowance as at 31 December 2018	1,910,807	669,544	3,832
Increase in the loss allowance recognised in profit or loss during the year	163,085	46,474	1,513
Receivables written off during the year as uncollectible	(13,506)	(780)	-
Others	7,809	(14,473)	-
Closing loss allowance as at 31 December 2019	2,068,195	700,765	5,345

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(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).

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2019					
Borrowings (Note 28)	23,763,551	8,900,574	220,643	14,775	32,899,543
Interests payments on borrowings	595,584	277,414	7,518	-	880,516
Other Long-term payables	-	92	878,634	-	878,726
Lease liabilities	608,676	433,255	511,627	631,851	2,185,409
Financial liabilities as included in trade and other payables	46,439,967	-	-	-	46,439,967
	<u>71,407,778</u>	<u>9,611,335</u>	<u>1,618,422</u>	<u>646,626</u>	<u>83,284,161</u>
At 31 December 2018					
Borrowings (Note 28)	22,031,419	885,865	8,722,352	14,775	31,654,411
Interests payments on borrowings	721,025	339,198	261,407	-	1,321,630
Other Long-term payables	-	7,451	18,500	1,889,557	1,915,508
Financial liabilities as included in trade and other payables	43,378,551	-	-	-	43,378,551
	<u>66,130,995</u>	<u>1,232,514</u>	<u>9,002,259</u>	<u>1,904,332</u>	<u>78,270,100</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 2019 and 2018, 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 Notes 44 and 47.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Fair value estimation

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

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 and 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- (i) Financial instruments in level 1

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

- (ii) Financial instruments in level 2

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

- (iii) Financial instruments in level 3

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Fair value estimation (continued)

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019				
Assets				
Derivative financial instruments	-	3,027	-	3,027
Financial assets at fair value through profit or loss (Note 21)	260,673	-	123,725	384,398
Debt instruments at fair value through other comprehensive income (Note 20)	-	-	2,187,060	2,187,060
Equity investments at fair value through other comprehensive income (Note 20)	194,184	-	-	194,184
	<u>454,857</u>	<u>3,027</u>	<u>2,310,785</u>	<u>2,768,669</u>
Liabilities				
Derivative financial instruments	-	1,724	-	1,724
	<u>-</u>	<u>1,724</u>	<u>-</u>	<u>1,724</u>
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2018				
Assets				
Derivative financial instruments	-	5,190	-	5,190
Financial assets at fair value through profit or loss (Note 21)	7,887	-	111,762	119,649
Debt instruments at fair value through other comprehensive income (Note 20)	-	-	1,532,866	1,532,866
Equity investments at fair value through other comprehensive income (Note 20)	162,312	-	-	162,312
	<u>170,199</u>	<u>5,190</u>	<u>1,644,628</u>	<u>1,820,017</u>
Liabilities				
Derivative financial instruments	-	458	-	458
	<u>-</u>	<u>458</u>	<u>-</u>	<u>458</u>

Fair value of the Group's investment properties has been disclosed in Note 11. The fair value is within level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Fair value estimation (continued)

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the periods ended 31 December 2019 and 31 December 2018:

	Debt instruments at fair value through other comprehensive income RMB'000	Financial assets at fair value through profit or loss RMB'000
Opening balance 31 December 2018	1,532,866	111,762
Acquisitions	18,420,611	-
Disposals	(17,648,665)	(200)
(Loss)/Gains recognised in other gains	(117,752)	12,163
Closing balance 31 December 2019	<u>2,187,060</u>	<u>123,725</u>

(d) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 31 December 2019 RMB'000	Unobservable inputs	Range of inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Debt instruments at fair value through other comprehensive income	2,187,060	Discounted cashflows	3.65%-5.87%	Negative correlation
Financial assets at fair value through profit or loss	123,725	EV/EBIT and EV/S	0.30-10.57	Positive correlation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Financial risk management (continued)

4.2 Fair value estimation (continued)

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

The fair value of other long-term receivables, other long-term payables 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 other long-term receivables, other long-term payables and non-current borrowings as at 31 December 2018 and 2019 approximated to their carrying amount.

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 and term deposits;
- Current borrowings;
- Trade and other payables (excluding accrued taxes other than income tax, staff salaries and welfare payables).

5 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 net debt divided by total capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt.

The gearing ratios are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Borrowings	32,897,772	31,651,659
Lease liabilities	1,754,992	—
Other long-term payables	380,013	471,674
Less: Cash and cash equivalents	(15,716,258)	(16,605,555)
Total borrowings	19,316,519	15,517,778
Total equity	49,385,928	46,433,271
Total capital	68,702,447	61,951,049
Gearing ratio (%)	28%	25%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Capital management (continued)

The gearing ratio increased from 25% to 27% following the adoption of HKFRS 16 Leases. Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019. See Note 3.2 for further information.

6 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 12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Critical accounting estimates and judgements (continued)

(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 to completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(e) Impairment of trade receivables

The loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(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.

(g) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 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:

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

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

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

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

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

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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Segment information (continued)

Segment results for the year ended 31 December 2019

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	19,854,528	157,679,841	8,281,746	749,681	-	186,565,796
Inter-segment revenue	3,635,952	4,709,917	57,923	529,133	(8,932,925)	-
Segment revenue	23,490,480	162,389,758	8,339,669	1,278,814	(8,932,925)	186,565,796
Revenue less operating cost and expenses	1,915,780	4,994,351	64,690	36,137	(40,606)	6,970,352
Net impairment losses on financial assets						(211,072)
Other income						520,679
Other gains - net						92,004
Impairment losses of goodwill						(704,762)
Gains on disposal of subsidiaries and associates						18,860
Finance costs - net						(1,188,780)
Share of profit of jointly controlled entities	209,915	36,852	-	-	-	246,767
Share of profit of associates	476,177	42,794	-	(552)	-	518,419
Profit before income tax						6,262,467
Income tax expense						(1,431,725)
Profit for the year						4,830,742
Other segment items						
Depreciation of property, plant and equipment and investment properties	598,821	344,798	40,954	75,771	-	1,060,344
Amortisation of right-of-use assets and intangible assets	203,958	593,311	95,532	90,702	-	983,503
Capital expenditure	1,037,047	718,330	55,598	550,309	-	2,361,284
Segment assets and liabilities						
Investment in jointly controlled entities	546,199	283,205	-	-	-	829,404
Investment in associates	2,396,994	480,389	-	1,146,992	-	4,024,375
Other assets	31,296,683	99,515,229	2,261,119	34,873,044	1,222,508	169,168,583
Elimination						(36,995,966)
Total assets						137,026,396
Segment liabilities	10,635,945	74,677,597	1,684,481	15,871,968	1,526,590	104,396,581
Elimination						(16,756,113)
Total liabilities						87,640,468

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	135,803,888	86,113,878
Unallocated:		
Current income tax liabilities	-	716,991
Deferred tax assets/liabilities – net	1,222,508	809,599
Total	137,026,396	87,640,468

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Segment information (continued)

Segment results for the year ended 31 December 2018

	Production segment RMB'000	Distribution segment RMB'000	Retail segment RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
External revenue	16,176,664	135,085,003	7,141,004	681,726	-	159,084,397
Inter-segment revenue	3,285,050	4,359,561	61,067	422,038	(8,127,716)	-
Segment revenue	19,461,714	139,444,564	7,202,071	1,103,764	(8,127,716)	159,084,397
Revenue less operating cost and expenses	1,622,075	3,871,074	35,413	(106,472)	(20,492)	5,401,598
Net impairment losses on financial assets						(84,639)
Other income						380,206
Other gains - net						(160,318)
Impairment losses of goodwill						(632,373)
Gains on disposal of subsidiaries and associates						600,608
Finance costs - net						(809,415)
Share of profit of jointly controlled entities	202,876	28,729	-	-	-	231,605
Share of profit of associates	335,871	55,447	-	24,788	-	416,106
Profit before income tax						5,343,378
Income tax expense						(887,117)
Profit for the year						4,456,261
Other segment items						
Depreciation of property, plant and equipment and investment properties	539,379	308,126	37,583	50,882	-	935,970
Amortisation of intangible assets and land use rights	88,120	237,178	1,181	39,756	-	366,235
Capital expenditure	1,111,339	707,584	37,851	192,520	-	2,049,294
Segment assets and liabilities						
Investment in jointly controlled entities	478,234	247,127	-	-	-	725,361
Investment in associates	2,040,361	530,586	-	1,070,297	-	3,641,244
Other assets	27,902,399	91,071,041	2,199,123	33,679,583	1,037,925	155,890,071
Elimination						(33,377,344)
Total assets						126,879,332
Segment liabilities	8,312,417	67,992,351	1,593,014	16,508,799	1,599,805	96,006,386
Elimination						(15,560,325)
Total liabilities						80,446,061

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

	Assets RMB'000	Liabilities RMB'000
Segment assets/liabilities after elimination	125,841,407	78,846,256
Unallocated:		
Current income tax liabilities	-	732,893
Deferred tax assets/liabilities – net	1,037,925	866,912
Total	126,879,332	80,446,061

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Motor Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Others RMB'000	Construction -in-progress RMB'000	Medicinal plants RMB'000	Total RMB'000
Year ended 31 December 2019								
Opening net book amount	5,587,755	2,305,066	134,778	296,574	675,246	1,598,396	409,811	11,007,626
Adjustment for change in accounting policy (Note 3.2)	(32,958)	-	-	-	(24,181)	-	-	(57,139)
Restated opening net book amount	5,554,797	2,305,066	134,778	296,574	651,065	1,598,396	409,811	10,950,487
Additions	317,257	368,302	38,660	94,930	209,115	1,133,149	7,640	2,169,053
Acquisition of subsidiaries (Note 46)	32,596	8,778	2,147	1,107	85	-	-	44,713
Internal transfer	593,825	263,915	734	53,894	54,075	(966,443)	-	-
Transfer to right-of-use assets (Note 10)	-	-	-	-	-	(31,036)	-	(31,036)
Transfer to Intangible assets (Note 12)	-	-	-	-	-	(77,591)	-	(77,591)
Disposals (Note 43(b))	(6,352)	(16,224)	(3,542)	(1,517)	(27,159)	-	(84)	(54,878)
Depreciation charge	(302,748)	(386,045)	(44,713)	(96,882)	(210,928)	-	(7,223)	(1,048,539)
Provision for impairment (Note 35)	(31,517)	(2,075)	(299)	(796)	(5,039)	(6,579)	-	(46,305)
Translation difference	(3,770)	(857)	(1,059)	284	14	-	-	(5,388)
Closing net book amount	6,154,088	2,540,860	126,706	347,594	671,228	1,649,896	410,144	11,900,516
At 31 December 2019								
Cost	8,552,512	4,851,896	409,088	883,935	1,263,909	1,659,644	430,230	18,051,214
Accumulated depreciation	(2,325,794)	(2,264,869)	(281,454)	(534,142)	(585,996)	-	(20,086)	(6,012,341)
Impairment	(72,630)	(46,167)	(928)	(2,199)	(6,685)	(9,748)	-	(138,357)
Net book amount	6,154,088	2,540,860	126,706	347,594	671,228	1,649,896	410,144	11,900,516
Year ended 31 December 2018								
Opening net book amount	4,634,283	1,966,177	127,901	195,255	516,392	1,537,446	408,806	9,386,260
Additions	70,260	224,725	38,631	50,320	195,259	1,195,955	7,659	1,782,809
Acquisition of subsidiaries (Note 46)	550,896	168,409	13,400	60,394	116,393	-	-	909,492
Internal transfer	623,330	320,283	1,569	56,169	58,965	(1,060,316)	-	-
Transfer from investment properties (Note 11)	309	-	-	-	-	-	-	309
Transfer to land use rights (Note 9)	-	-	-	-	-	(18,259)	-	(18,259)
Disposals (Note 43(b))	(6,533)	(8,811)	(5,827)	(2,016)	(23,343)	-	(19)	(46,549)
Depreciation charge	(275,260)	(353,588)	(39,745)	(63,284)	(184,904)	-	(6,635)	(923,416)
Provision for impairment (Note 35)	(231)	(3,595)	-	(17)	(200)	-	-	(4,043)
Transfer to investment properties (Note 11)	(1,057)	-	-	-	-	-	-	(1,057)
Transfer to Intangible assets (Note 12)	-	-	-	-	-	(56,430)	-	(56,430)
Translation difference	(8,242)	(8,534)	(1,073)	(203)	(3,249)	-	-	(21,301)
Disposal of subsidiaries	-	-	(78)	(44)	(67)	-	-	(189)
Closing net book amount	5,587,755	2,305,066	134,778	296,574	675,246	1,598,396	409,811	11,007,626
At 31 December 2018								
Cost	7,691,312	4,331,358	396,654	770,086	1,618,989	1,598,396	422,673	16,829,468
Accumulated depreciation	(2,059,990)	(1,978,684)	(261,248)	(472,011)	(942,095)	-	(12,862)	(5,726,890)
Impairment	(43,567)	(47,608)	(628)	(1,501)	(1,648)	-	-	(94,952)
Net book amount	5,587,755	2,305,066	134,778	296,574	675,246	1,598,396	409,811	11,007,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Property, plant and equipment (continued)

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales (Note 35)	440,500	405,510
Distribution and selling expenses (Note 35)	206,160	153,943
General and administrative expenses (Note 35)	401,879	363,963
	<u>1,048,539</u>	<u>923,416</u>

- (b) The net book amount of property, plant and equipment pledged as collateral for the Group's borrowings (Note 28) as of the respective balance sheet dates were as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Property, plant and equipment, pledged	<u>221,984</u>	<u>204,705</u>

- (c) As at 31 December 2019, 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 RMB323,952,000 (2018: RMB381,723,000).
- (d) During the year ended 31 December 2019, the Group did not have any borrowing costs to capitalise (2018: Nil) on qualifying assets.
- (e) Buildings includes the following amounts where the Group is a lessee under a finance lease.

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Cost – capitalised finance leases	—	36,600
Accumulated depreciation	—	(4,831)
Net book amount	<u>—</u>	<u>31,769</u>

The Group leases the certain building under a non-cancellable finance lease agreement. The lease term is 10 years, and ownership of the asset lies within the Group. From 2019 leased assets are presented as a separate line item in the balance sheet, see Note 10. Refer to Note 3.2 for details about the changes in accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Land use rights

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 disclosed as right-of-use assets(note10) starting from 1 January 2019.

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
As at 31 December 2018/2017	1,494,579	1,284,041
Adjustment for change in accounting policy (Note 3.2)	(1,494,579)	—
Opening net book amount	—	1,284,041
Additions	—	126,435
Transfer from Property, plant and equipment (Note 8)	—	18,259
Acquisition of subsidiaries	—	160,168
Amortisation charge (Note 35)	—	(40,886)
Disposals	—	(5,133)
Disposal of subsidiaries	—	(48,305)
Closing net book amount	—	1,494,579

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	—	5,832
Distribution and selling expenses	—	4,906
General and administrative expenses	—	30,148
	—	40,886

- (b) The net book value of land use rights pledged as collateral for the Group's borrowings (Note 28) as of the respective balance sheet dates were as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
The carrying amount of the land use rights pledged	—	53,689

- (c) As at 31 December 2018, 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 RMB4,314,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Leases

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Right-of-use assets		
Buildings	1,598,987	1,555,897
Land use rights	1,523,287	1,494,579
Equipments	23,110	25,672
	<u>3,145,384</u>	<u>3,076,148</u>
Lease liabilities		
Current	563,739	470,669
Non-current	1,191,253	1,219,730
	<u>1,754,992</u>	<u>1,690,399</u>

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under HKAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 3.2.

The Group has land lease arrangement with mainland China. 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.

Additions to the right-of-use assets during the 2019 financial year were approximately RMB719,679,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Leases (continued)**(b) Amounts recognised in the statement of profit or loss**

The statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
Buildings	546,818	—
Land use rights	43,543	—
Equipments	7,905	—
	<u>598,266</u>	<u>—</u>
Interest expense (included in finance cost)	79,893	—
Cost of sales (Note 35)	36,825	—
Distribution and selling expenses (Note 35)	84,458	—
General and administrative expenses (Note 35)	36,950	—
	<u>238,126</u>	<u>—</u>

The total cash outflow for leases in 2019 was approximately RMB665,416,000.

(c) The Group's leasing activities and how these are accounted for

The Group leases various land-use rights, buildings, equipments and others. Rental contracts are typically made for fixed periods of 1 to 35 years, but may have extension options as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Investment properties

Investment properties are primarily located in the PRC with estimated useful lives within 50 years.

The movement of investment properties is analysed as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost	441,146	441,065
Accumulated depreciation	(212,309)	(200,467)
Net book amount	<u>228,837</u>	<u>240,598</u>
Opening net book amount	240,598	254,924
Acquisition of subsidiaries	-	3,893
Transfer from owner-occupied property, plant and equipment (Note 8)	-	1,057
Transfer to assets held for sale	-	(6,304)
Depreciation (Note 35)	(11,805)	(12,554)
Transfer to owner-occupied property, plant and equipment (Note 8)	-	(309)
Disposals	-	(201)
Translation difference	44	92
Closing net book amount	<u>228,837</u>	<u>240,598</u>

- (a) As at 31 December 2019, the fair values of the investment properties were approximately RMB1,021,100,000 (2018: RMB1,013,680,000). These estimates are made by the directors with reference to market transacted prices for similar properties in the vicinity of the relevant properties. In case where market transacted prices were not available, fair values were estimated using discounted cash flow projections based on reliable estimates of future rental income or market rents for similar properties in the same location and condition, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Investment properties (continued)

- (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	
	2019 RMB'000	2018 RMB'000
Rental income	79,294	58,914

- (c) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Group may obtain bank guarantees for the term of the lease.

- (d) Depreciation of investment properties has been charged to the consolidated income statements (Note 35) as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	11,805	12,554

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Intangible assets

	Goodwill RMB'000	Business network RMB'000	Trademarks and brands RMB'000	Know-how and patent rights RMB'000	Computer software RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018							
Cost	6,772,784	941,326	601,909	358,299	277,068	271,781	9,223,167
Accumulated amortisation	-	(437,851)	(14,192)	(185,351)	(128,017)	(99,962)	(865,373)
Impairment	(166,078)	-	-	(81,868)	-	(17,768)	(265,714)
Net book amount	6,606,706	503,475	587,717	91,080	149,051	154,051	8,092,080
Year ended 31 December 2018							
Opening net book amount at 31 December 2017	6,606,706	503,475	587,717	91,080	149,051	154,051	8,092,080
change in accounting policy	-	-	-	-	-	(71,946)	(71,946)
Opening net book amount at 1 January 2018	6,606,706	503,475	587,717	91,080	149,051	82,105	8,020,134
Additions	-	-	-	69,638	30,391	107,145	207,174
Acquisition of subsidiaries (Note 46)	5,416,345	1,004,765	102,015	321,725	116,654	-	6,961,504
Transfer from property, plant and equipment (Note 8)	-	-	-	-	53,801	2,629	56,430
Exchange difference	(45,261)	(3,743)	(31,808)	-	(122)	-	(80,934)
Disposal	-	-	-	-	(909)	(2,078)	(2,987)
Disposal of subsidiaries	(131)	-	-	-	(1)	-	(132)
Impairment charge (Note 35)	(632,373)	(2,854)	-	-	-	(1,510)	(636,737)
Amortisation charge (Note 35)	-	(199,320)	(9,220)	(34,736)	(75,763)	(6,310)	(325,349)
Closing net book amount	11,345,286	1,302,323	648,704	447,707	273,102	181,981	14,199,103
At 31 December 2018							
Cost	12,143,737	1,942,348	672,116	749,662	475,905	228,883	16,212,651
Accumulated amortisation	-	(637,171)	(23,412)	(220,087)	(202,803)	(27,624)	(1,111,097)
Impairment	(798,451)	(2,854)	-	(81,868)	-	(19,278)	(902,451)
Net book amount	11,345,286	1,302,323	648,704	447,707	273,102	181,981	14,199,103
Year ended 31 December 2019							
Opening net book amount at 31 December 2018	11,345,286	1,302,323	648,704	447,707	273,102	181,981	14,199,103
Additions	-	-	-	38,048	37,751	55,010	130,809
Acquisition of subsidiaries (Note 46)	136,590	31,000	6,500	-	318	55	174,463
Transfer from property, plant and equipment (Note 8)	-	-	-	4,993	72,598	-	77,591
Internal transfer	-	-	-	3,982	-	(3,982)	-
Exchange difference	12,804	2,706	6,609	-	76	7	22,202
Disposal	-	-	-	-	(819)	(10,391)	(11,210)
Impairment charge (Note 35)	(704,762)	-	(30,576)	-	(305)	-	(735,643)
Amortisation charge (Note 35)	-	(224,105)	(8,970)	(47,468)	(101,218)	(3,476)	(385,237)
Closing net book amount	10,789,918	1,111,924	622,267	447,262	281,503	219,204	13,472,078
At 31 December 2019							
Cost	12,293,131	1,976,054	685,225	796,685	584,220	251,143	16,586,458
Accumulated amortisation	-	(861,276)	(32,382)	(267,555)	(302,412)	(30,447)	(1,494,072)
Impairment	(1,503,213)	(2,854)	(30,576)	(81,868)	(305)	(1,492)	(1,620,308)
Net book amount	10,789,918	1,111,924	622,267	447,262	281,503	219,204	13,472,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Intangible assets (continued)

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	34,193	15,691
Distribution and selling expenses	254,791	213,368
General and administrative expenses	96,253	96,290
	<u>385,237</u>	<u>325,349</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	
	2019 RMB'000	2018 RMB'000
Production segment	3,698,883	3,513,061
Distribution segment	8,273,505	8,309,933
Others	320,743	320,743
	<u>12,293,131</u>	<u>12,143,737</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 certain assumptions made by management covering a five-year period (the "Period"). Cash flows within and 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 2019 are as follows:

	Production segment	Distribution segment
Compound annual growth rate within the budget period	-12%~14%	6%~8%
Growth rate to extrapolate cash flows beyond the budget period	0%~3%	2%~3%
Gross margin	10%~91%	6%~8%
Discount rate	12%~19%	13%~14%

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.

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13 Subsidiaries

In 2019 and 2018, the Company was mainly engaged in investment holding. Particulars of the Company's principal subsidiaries are set out in Note 51.

(a) Material non-controlling interests

As at 31 December 2019 and 2018, non-controlling interests presented in the consolidated balance sheets were approximately RMB7,726,869,000 and RMB7,419,696,000 respectively. Set out below is the summarised financial information for dividual subsidiary that has non-controlling interests that are material to the Group. During the year ended 31 December 2019 and 2018, Changzhou Pharmaceutical Co., Ltd and its subsidiaries is the only subsidiary group with material non-controlling interests.

Summarised balance sheet

Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	Current Assets RMB'000	Current Liabilities RMB'000	Net current assets RMB'000	Non-current Assets RMB'000	Non-current Liabilities RMB'000	Net non-current assets RMB'000	Net assets RMB'000	Carrying amount of non-controlling interest RMB'000
As at 31 December 2019	2,771,873	(1,594,193)	1,177,680	1,150,895	(114,097)	1,036,798	2,214,478	850,920
AS at 31 December 2018	2,699,274	(1,598,287)	1,100,987	1,002,974	(123,871)	879,103	1,980,090	764,054

Summarised income statement

Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	Revenue RMB'000	Profit before income tax RMB'000	Profit for the year RMB'000	Total Comprehensive income RMB'000	Total comprehensive income allocated to Non-Controlling Interests RMB'000	Dividends to non-Controlling Interests RMB'000
Year ended 31 Decemebr 2019	5,465,045	351,108	291,279	291,279	112,351	24,528
Year ended 31 Decemebr 2018	5,013,524	252,928	216,797	216,797	99,350	21,299

Summarised cashflows

Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	Net cash generated from operating activities RMB'000	Net cash (used)/ generated in investing activities RMB'000	Net cash used in financing activities RMB'000	Net (decrease)/ increase in cash and cash equivalents RMB'000	Cash, cash equivalents at beginning of year RMB'000	Cash and cash equivalents at end of year RMB'000
Year ended 31 Decemebr 2019	193,120	(127,542)	(108,751)	(42,286)	959,352	917,066
Year ended 31 Decemebr 2018	140,325	33,381	(126,225)	47,481	911,870	959,351

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 51.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Investments in jointly controlled entities

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Share of net assets, unlisted	831,152	727,109
Provision for impairment	(1,748)	(1,748)
	<u>829,404</u>	<u>725,361</u>
As at 1 January	725,361	662,551
Additions	4,284	22,896
Share of profit for the year	246,767	231,605
Dividends declared	(147,008)	(184,064)
Disposal	-	(7,627)
As at 31 December	<u>829,404</u>	<u>725,361</u>

Particulars of the Group's principal jointly controlled entities are set out in Note 51.

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

Shanghai Hutchison Pharmacy Co., Ltd. (上海和黃藥業有限公司)

Summarised balance sheet

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current		
Total current assets	992,711	875,428
Total current liabilities	(558,897)	(597,332)
Non-current		
Total non-current assets	636,138	666,379
Total non-current liabilities	(38,822)	(42,840)
Net assets	<u>1,031,130</u>	<u>901,635</u>

Summarised statement of comprehensive income

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	1,798,572	1,867,619
Profit before income tax expense	494,936	452,573
Income tax expense	(75,327)	(60,938)
Profit for the year	419,609	391,635
Share of profit for the year @50%	209,805	195,818
Dividends declared by the jointly controlled entity to the Group	<u>145,000</u>	<u>180,000</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 Investments in jointly controlled entities (continued)

Reconciliation of summarised financial information

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Opening net assets 1 January	901,521	870,000
Profit for the year	419,609	391,635
Dividends	(290,000)	(360,000)
Closing net assets	1,031,130	901,635
Interest in associates @ 50%	515,565	450,818
Unrealised profit	(1,734)	(1,860)
Share of net assets	513,831	448,958

In addition to the interests in joint ventures disclosed above, the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Aggregate amount of individually immaterial joint ventures:		
Share of net assets	315,573	276,403
Share of profit and comprehensive income	36,836	30,259

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Investments in associates

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Share of net assets, listed	253,100	224,875
Share of net assets, unlisted	3,850,578	3,495,672
Provision for impairment	(79,303)	(79,303)
	<u>4,024,375</u>	<u>3,641,244</u>
Market value of listed shares	<u>908,313</u>	<u>821,657</u>
At 1 January	3,641,244	4,031,617
Additions	143,471	607,647
Share of profit for the year	518,419	416,106
Share of other comprehensive income	13	(2,942)
Dividends declared	(224,636)	(192,048)
Transferred to subsidiaries	-	(1,219,883)
Disposals	(54,693)	-
Provision for impairment	-	(3,277)
Others	557	4,024
End of the year	<u>4,024,375</u>	<u>3,641,244</u>

Particulars of the Group's principal associates are set out in Note 51.

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

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

Summarised balance sheet

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current		
Total current assets	9,342,949	8,170,862
Total current liabilities	(7,037,584)	(6,234,679)
Non-current		
Total non-current assets	2,843,942	2,621,069
Total non-current liabilities	(1,053,797)	(1,077,635)
Net assets	<u>4,095,510</u>	<u>3,479,617</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Investments in associates (continued)

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

Summarised statement of comprehensive income

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	16,753,261	11,678,344
Profit before income tax expense	1,018,587	719,014
Income tax expense	(502,126)	(86,372)
Profit for the year	932,213	632,642
Share of profits for the year @30%	279,664	189,792
Dividends declared by the associate to the Group	94,896	59,789

Reconciliation of summarised financial information

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Opening net assets 1 January	3,479,617	3,046,272
Profit for the year	932,213	632,642
Dividends	(316,320)	(199,297)
Closing net assets	4,095,510	3,479,617
Interest in associates @ 30%	1,228,653	1,043,885
Unrealised profit	(32,721)	(18,941)
Share of net assets	1,195,932	1,024,944

(b) Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)

Summarised balance sheet

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current		
Total current assets	2,301,471	1,868,451
Total current liabilities	(2,122,913)	(1,837,645)
Non-current		
Total non-current assets	724,811	625,309
Total non-current liabilities	-	-
Net assets attributable to owners	903,369	656,115

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 Investments in associates (continued)

(b) Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) (continued)

Summarised statement of comprehensive income

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	5,278,713	6,848,086
Profit before income tax expense	334,189	258,396
Income tax expense	(86,936)	(69,455)
Profit for the year	247,254	188,941
Share of profits for the year @30%	74,176	56,682
Dividends declared by the associate to the Group	-	85,190

Reconciliation of summarised financial information

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Opening net assets 1 January	656,115	751,141
Profit for the year	247,254	188,941
Dividends	-	(283,967)
Closing net assets	903,369	656,115
Interest in associates @ 30%	271,011	196,835
Unrealised profit	(4,106)	(5,971)
Share of net assets	266,905	190,864

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Aggregate carrying amount of share of net assets of individually immaterial associates	2,561,538	2,425,436
Aggregate amounts of the Group's share of:		
Profit from continuing operations	176,494	149,657
Other comprehensive income	13	(3,125)
Total comprehensive income	176,507	146,532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Other non-current assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Perpayment for business combination (a)	1,692,714	-
Prepayment for construction costs	772,693	377,379
Prepayment for land cost (b)	555,845	-
Others	246,236	279,700
	<u>3,267,488</u>	<u>657,079</u>

- (a) On 18 December 2019, the Group entered into an agreement with Chengdu Likang Industry Co., Ltd., pursuant to which, the Group is committed to purchase 41.00% equity interests in Sichuan Guojia Medical Technology Co., Ltd. ("Sichuan Guojia") with a consideration of approximately RMB1,692,714,000 (the "Acquisition"). As at 31 December 2019, the Group made full payment for the Acquisition. However, since the equity transfer procedure is still in progress, as of the date of this report, the Group has not effectively obtained the right to control Sichuan Guojia and hence does not consider the Acquisition had been completed and does not consolidate Sichuan Guojia into the Group's consolidated financial statements for the year ended 31 December 2019.
- (b) The prepayment for land costs represented the prepayments to government for purchase of land use rights by certain subsidiaries of the Group.

17 Other long-term receivables

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Performance guarantee deposits		
Non-current portion:		
Long-term deposits – gross receivables	359,443	440,694
Unrealized finance income	(92,408)	(123,131)
	<u>267,035</u>	<u>317,563</u>
Less: provision for impairment	(1,393)	(1,588)
Non-current long-term receivables - net	<u>265,642</u>	<u>315,975</u>
Current portion:		
Long-term deposits mature within 1 year – gross receivables	23,464	219,872
Unrealized finance income	(141)	(7,004)
	<u>23,323</u>	<u>212,868</u>
Less: provision for impairment	(66)	(1,064)
Current portion long-term receivables - net (Note 19)	<u>23,257</u>	<u>211,804</u>
Total	<u>288,899</u>	<u>527,779</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Other long-term receivables (continued)

The Group pays deposits to certain hospital customers as performance guarantees, for normally 1 to 15 years. The deposits are interest free and fully refundable by end of the guarantee periods or upon termination of business. Accordingly, an unrealised finance income is recognised on the balance sheet.

An analysis of the ageing by gross amounts of long-term receivables is as follow:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Gross long-term receivables		
No later than 1 year	23,464	219,872
Later than 1 year and no later than 5 years	159,443	190,694
Later than 5 years	200,000	250,000
	<u>382,907</u>	<u>660,566</u>

18 Inventories

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Raw materials	1,926,422	1,718,561
Work in progress	744,257	579,201
Finished goods	22,206,678	22,726,248
	<u>24,877,357</u>	<u>25,024,010</u>

The costs of inventories recognised as expenses and charged to consolidated income statement (Note 35) are as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of sales	156,151,170	133,616,323
General and administrative expenses	172,909	141,999
	<u>156,324,079</u>	<u>133,758,322</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 Trade and other receivables and other current assets

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade and notes receivables from third parties		
Trade receivable	48,831,938	43,496,519
Less: allowance for impairment	(2,056,993)	(1,901,898)
Trade receivable – net	46,774,945	41,594,621
Notes receivable	278,630	288,965
Less: allowance for impairment	(4,511)	(1,907)
Notes receivable – net	274,119	287,058
Other receivables from third parties		
Other receivables	2,802,232	2,870,683
Less: provision for impairment of other receivables	(688,011)	(659,292)
Other receivables – net	2,114,221	2,211,391
Amounts due from related parties (Note 47(c))		
Less: Provision	695,598 (17,985)	679,872 (14,602)
Amounts due from related parties – net	677,613	665,270
Prepayments		
-Raw materials and merchandise	1,731,298	1,791,847
-Prepaid expenses and others	182,144	230,178
	1,913,442	2,022,025
Value-added tax (“VAT”) and other tax recoverable	1,093,723	1,022,673
Other long-term receivables (Note 17)		
Other long-term receivables-current portion	23,323	212,868
Less: Provision for impairment	(66)	(1,064)
Other long-term receivables current portion – net	23,257	211,804
Total of trade and other receivables and current assets	52,871,320	48,014,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (a) The fair values of trade and other receivables and other current assets approximate their carrying amounts due to their short maturities.
- (b) The carrying amounts of trade and other receivables and other current assets before provision or allowance for impairment are denominated in the following currencies:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB	55,389,540	50,328,185
HKD	57,678	74,175
USD	37,413	44,439
AUD	78,701	84,403
NZD	67,697	42,137
Other currencies	7,857	20,266
	<u>55,638,886</u>	<u>50,593,605</u>

- (c) As of 31 December 2019, trade and notes receivables of approximately RMB1,055,492,000 (2018: RMB1,407,346,000) and bank's acceptance notes included in FVOCI of approximately RMB130,497,000 (2018: RMB144,193,000) have been factored by the Group for obtaining borrowings of approximately RMB1,026,173,000 (2018: RMB1,211,528,000) (Note 28).
- (d) 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 business segments, credit periods ranging from 30 to 180 days are granted to customers depending on customers' credit quality. At 31 December 2019 and 2018, aging analysis of gross trade and notes receivables due from third parties based on invoice date is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Less than 3 months	32,816,033	28,725,896
3 months to 6 months	9,604,714	8,977,254
6 months to 12 months	5,013,436	4,665,765
1 year to 2 years	658,570	626,016
Over 2 years	1,017,815	790,553
	<u>49,110,568</u>	<u>43,785,484</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (e) The notes receivable normally mature within 6 months, which is within the credit terms granted to customers. As at 31 December 2019, the impairment of notes receivables calculated using the expected credit losses model is RMB4,511,000 (2018: RMB1,907,000)
- (f) Movements on the allowance for impairment of trade and other receivables, other current assets from third parties and related parties are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
As at 31 December 2017		
– calculated under HKAS 39	—	1,764,700
Adoption of HKFRS 9	—	66,593
Opening loss allowance as at 1 January 2019/2018		
– calculated under HKFRS 9	2,578,763	1,831,293
Provision for impairment	210,752	84,671
Write-off against uncollectible receivables and other deductions	(14,286)	(20,369)
Others	(7,663)	683,168
As at 31 December 2019 and 2018	2,767,566	2,578,763

The details of Group's assessment of expected credit losses are set out in Note 4.1(c) above.

The provision for impairment of trade and other receivables has been included in 'general and administrative expenses'. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

In 2019, the Group reversed previous impairment of receivables of approximately RMB2,777,000 (2018: RMB95,710,000) due from its customers. The Group expected that the amount will be recovered according to the agreements with the customers.

- (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

20 Financial assets at fair value through other comprehensive income

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Equity investments at FVOCI		
Non-current assets – Listed shares (b)		
At 1 January	162,312	70,346
Additions	-	151,231
Fair value changes	31,872	(59,265)
At 31 December	194,184	162,312
Debt investments at FVOCI		
Current assets – Bank's acceptance notes (c)		
At 1 January	1,532,866	1,018,462
Additions	18,420,611	14,833,623
Disposals	(17,766,417)	(14,319,219)
At 31 December	2,187,060	1,532,866

(a) Classification of financial assets at fair value through other comprehensive income (FVOCI)

FVOCI comprise:

Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

Debt instruments where the contractual cash flows are solely principal and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

Further details of the classification are set out in Note 3.12 and Note 25.

(b) Equity investments at FVOCI

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

(c) Debt investment at FVOCI

Bank acceptance notes are classified as current assets due to its short maturity.

On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

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21 Financial assets at fair value through profit or loss

Financial assets mandatorily measured at FVPL include the following:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current assets:		
Listed common shares	260,673	7,887
Unlisted common shares	123,725	111,762
	<u>384,398</u>	<u>119,649</u>

During the year of 2019 and 2018, the following gains were recognised in profit or loss:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Fair value gains on equity investments at FVPL recognised in other gains (Note 38)	<u>125,589</u>	<u>9,304</u>

22 Cash and cash equivalents and restricted cash and term deposits

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash at bank	18,146,552	18,688,245
Cash on hand	6,266	6,424
	<u>18,152,818</u>	<u>18,694,669</u>
Less: restricted cash and term deposits (a)	<u>(2,436,560)</u>	<u>(2,089,114)</u>
Cash and cash equivalents	<u>15,716,258</u>	<u>16,605,555</u>
Denominated in:		
– RMB	17,793,200	18,115,762
– HKD	15,078	85,072
– USD	314,833	447,108
– EUR	6,325	2,874
– AUD	12,510	22,587
– Other currencies	10,872	21,266
	<u>18,152,818</u>	<u>18,694,669</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 Cash and cash equivalents and restricted cash and term deposits (continued)

(a) The restricted cash and term deposits comprised:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Term deposits	1,010,000	390,000
Restricted bank deposits, pledged for		
– issue of notes payable (Note 27)	1,352,662	1,683,312
– others	73,898	15,802
Total of restricted bank deposits	1,426,560	1,699,114
	<u>2,436,560</u>	<u>2,089,114</u>

The above mentioned term deposits are all interest-bearing and with maturity dates of more than three months. The Group intends to hold term deposits to maturity as at 31 December 2019.

(b) 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.

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

	As at 31 December	
	2019 % per annum	2018 % per annum
Effective interest rate	<u>0.35%~4.18%</u>	<u>0.35%~2.73%</u>

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23 Financial instruments by category

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Assets per balance sheet:		
Derivative financial instruments	3,027	5,190
Financial assets at fair value through other comprehensive income (FVOCI) (Note 20)	2,381,244	1,695,178
Financial assets at fair value through profit or loss(FVPL) (Note 21)	384,398	119,649
Receivables at amortised cost		
– Receivable from third party (Note 19)	47,049,064	41,881,679
– Amounts due from related parties, excluding prepayment (Note 47(c))	653,599	637,843
– Other receivables (Note 19)	2,114,221	2,211,391
– Cash and cash equivalents and restricted cash and term deposits (Note 22)	18,152,818	18,694,669
– Other long-term receivables-current	23,257	211,804
– Other long-term receivables-non current	265,642	315,975
	<u>71,027,270</u>	<u>65,773,378</u>
Liabilities per balance sheet:		
Derivative financial instruments	1,724	458
Other financial liabilities at amortised cost		
– Lease liabilities (Note 10)	1,754,992	—
– Accounts and notes payables (Note 27)	36,535,068	34,835,990
– Amounts due to related parties (Note 47(c))	775,088	562,986
– Accrual and other payables	9,127,997	7,979,304
– Borrowings (Note 28)	32,897,772	31,651,659
– Other long-term payables (Note 33)	380,013	471,674
– Provisions (Note 29)	65,180	93,361
	<u>81,537,834</u>	<u>75,595,432</u>

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24 Share capital

	Number of A Shares (thousands)	Number of H Shares (thousands)	A Shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total shares of RMB1 each RMB'000
Issued and fully paid:					
At 1 January 2019	1,923,016	919,073	1,923,016	919,073	2,842,089
Issue of Shares	-	-	-	-	-
At 31 December 2019	<u>1,923,016</u>	<u>919,073</u>	<u>1,923,016</u>	<u>919,073</u>	<u>2,842,089</u>
Issued and fully paid:					
At 1 January 2018	1,923,016	765,894	1,923,016	765,894	2,688,910
Issue of shares (Note25(a))	-	153,179	-	153,179	153,179
At 31 December 2018	<u>1,923,016</u>	<u>919,073</u>	<u>1,923,016</u>	<u>919,073</u>	<u>2,842,089</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Share premium account and other reserves

	Share premium account	Statutory reserves Note (b)	Financial assets at FVOCI Note (c)	Revaluation surplus	Translation difference	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	14,068,206	1,321,917	(15,596)	28,182	(49,831)	(589,136)	14,763,742
Issue of shares Note (a)	2,376,125	-	-	-	-	-	2,376,125
Financial assets at fair value through other comprehensive income	-	-	(59,265)	-	-	-	(59,265)
Loss allowance of debt investments at FVOCI	-	-	965	-	-	-	965
Appropriation to statutory reserves	-	166,527	-	-	-	-	166,527
Share of other comprehensive income of investments in an associate	-	-	-	(2,942)	-	-	(2,942)
Currency translation difference	-	-	-	-	(365,924)	-	(365,924)
Transaction with Non-controlling interests	(44,388)	-	-	-	-	-	(44,388)
Others	6,002	-	-	-	-	-	6,002
At 31 December 2018	16,405,945	1,488,444	(73,896)	25,240	(415,755)	(589,136)	16,840,842
Impact of adoption of HKFRS 16	-	(11)	-	-	-	-	(11)
At 1 January 2019	16,405,945	1,488,433	(73,896)	25,240	(415,755)	(589,136)	16,840,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Share premium account and other reserves (continued)

	Share premium account	Statutory reserves Note (b)	Financial assets at FVOCI Note (c)	Revaluation surplus	Translation difference	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	16,405,945	1,488,433	(73,896)	25,240	(415,755)	(589,136)	16,840,831
Financial assets at fair value through other comprehensive income	-	-	31,872	-	-	-	31,872
Loss allowance of debt investments at FVOCI	-	-	1,151	-	-	-	1,151
Appropriation to statutory reserves	-	179,252	-	-	-	-	179,252
Share of other comprehensive income of investments in an associate	-	-	-	13	-	-	13
Currency translation difference	-	-	-	-	(82,626)	-	(82,626)
Transaction with Non-controlling interests	(84,963)	-	-	-	-	-	(84,963)
Others	(39,469)	-	-	-	(604)	604	(39,469)
At 31 December 2019	<u>16,281,513</u>	<u>1,667,685</u>	<u>(40,873)</u>	<u>25,253</u>	<u>(498,985)</u>	<u>(588,532)</u>	<u>16,846,061</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 Share premium account and other reserves (continued)**(a) Share premium account**

On 26 January 2018, the Company completed the issuance of 153,178,784 new H Shares at a price of HKD20.43 per share to certain investors, who and whose ultimate beneficial owners are third parties independent of and not connected with the Company. Excess of total proceeds over the notional amount of share capital of RMB153,179,000 (Note 24) and issue costs directly related to the issuance amounting to approximately RMB2,376,125,000, was recognised in share premium account.

(b) Statutory reserves

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.

(c) Financial assets at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity and debt securities in other comprehensive income (OCI), as explained in Note 3.12. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

26 Retained earnings

	RMB'000
At 1 January 2018	16,705,063
Profit for the year	3,881,063
Dividends paid, 2017 (Note 42)	(1,079,994)
Appropriation to statutory reserves (Note 25(b))	(166,527)
Others	(8,961)
At 31 December 2018	19,330,644
Change in accounting policy – HKFRS 16	(85,389)
At 1 January 2019	19,245,255
Profit for the year	4,080,994
Dividends paid, 2018 (Note 42)	(1,165,257)
Appropriation to statutory reserves (Note 25(b))	(179,252)
Others	(10,831)
At 31 December 2019	21,970,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 Trade and other payables and other current liabilities

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Accounts payable to third parties	31,481,595	30,662,733
Notes payable	5,053,473	4,173,257
Payables for purchase of property, plant and equipment and land use rights	386,738	336,206
Staff welfare and salary payables	1,090,857	900,338
Tax liabilities other than income tax	498,429	309,297
Amounts due to related parties (Note 47(c))	775,088	562,986
Accrued expenses	3,840,925	3,289,313
Deposits from suppliers for performance and quality guarantees	2,762,550	1,989,351
Payables arising from acquisition of subsidiaries	610,414	974,195
Dividends payable	91,441	139,873
Others	1,435,929	1,250,366
	<u>48,027,439</u>	<u>44,587,915</u>

- (a) The aging analysis of accounts payables to third parties and notes payable is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Less than 3 months	26,605,954	25,450,302
3 months to 6 months	3,982,513	4,299,834
6 months to 12 months	3,652,380	3,226,129
1 year to 2 years	1,498,460	1,261,949
Over 2 years	795,761	597,776
	<u>36,535,068</u>	<u>34,835,990</u>

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB	46,904,829	43,177,340
USD	812,987	1,148,054
EUR	49,329	17,590
HKD	114,829	101,736
AUD	46,044	74,267
NZD	94,461	59,364
Other currencies	4,960	9,564
	<u>48,027,439</u>	<u>44,587,915</u>

- (c) The carrying amount of trade and other payables are considered to be the same as their fair value due to their short-term nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Borrowings

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings		
- guaranteed (a)	67,500	-
- secured (b)	170,787	143,485
- unsecured	5,897,705	6,479,507
Debentures (c)	2,998,229	2,997,306
Total non-current borrowings	9,134,221	9,620,298
Current		
Short-term bank borrowings		
- guaranteed (a)	190,150	465,584
- secured (b)	1,377,111	1,638,617
- unsecured	21,491,800	17,236,097
Interest	79,626	-
	23,138,687	19,340,298
Current portion of long-term bank borrowings		
- guaranteed (a)	1,000	-
- secured (b)	89,264	132,754
- unsecured	503,495	558,367
Interest	31,105	-
Debentures with maturity within 1 year	-	1,999,942
	624,864	2,691,063
Total current borrowings	23,763,551	22,031,361
Total borrowings	32,897,772	31,651,659

- (a) The Group's bank borrowings as at 31 December 2019 were guaranteed by the non-controlling interests of the Group's subsidiaries and a related party (Note 47(d)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Borrowings (continued)

- (b) The Group's bank borrowings were secured by the pledge of assets of the Group as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Secured by:		
- Property, plant and equipment and land use rights (Notes 8, 9, 10)	421,935	540,019
- Other Long-term receivables (Note 17)	189,054	163,309
- Trade receivables (Note 19)	895,676	1,027,445
- FVOCI (Note 20)	130,497	144,193
- Notes receivables	-	39,890
	<u>1,637,162</u>	<u>1,914,856</u>

- (c) Debentures

On 7 November 2018, the Company issued 3-year-maturity debentures with an aggregate amount of RMB3,000,000,000 at an interest rate of 4.10% per annum. The net proceeds received was RMB2,997,000,000. The debentures will be fully repayable by November 2021.

On 28 January 2016, the Company issued 3-year-maturity debentures with an aggregate amount of RMB2,000,000,000 at an interest rate of 2.98% per annum. The net proceeds received was RMB1,998,000,000. The Company fully repaid these debentures when they became due in year 2019.

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
RMB	27,092,929	25,754,378
USD	5,636,770	5,631,256
NZD	168,073	266,025
	<u>32,897,772</u>	<u>31,651,659</u>

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Borrowings		
- RMB	3.98%	4.06%
- USD	3.56%	3.61%
- NZD	3.11%	3.11%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 Borrowings (continued)

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 1 year	23,761,780	22,031,361
Between 1 and 2 years	8,900,574	885,865
Between 2 and 5 years	220,643	8,719,658
Wholly repayable within 5 years	32,882,997	31,636,884
Over 5 years	14,775	14,775
	<u>32,897,772</u>	<u>31,651,659</u>

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Within 6 months	23,375,556	20,009,455
Between 6 and 12 months	6,024,830	5,471,149
Between 1 – 5 years	3,482,611	6,156,280
Over 5 years	14,775	14,775
	<u>32,897,772</u>	<u>31,651,659</u>

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

29 Provisions

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Legal claims	<u>65,180</u>	<u>93,361</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Deferred income tax

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	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets		
- To be recovered after more than 12 months	394,269	307,862
- To be recovered within 12 months	1,088,227	730,063
	<u>1,482,496</u>	<u>1,037,925</u>
Deferred income tax liabilities		
- To be recovered after more than 12 months	885,345	789,170
- To be recovered within 12 months	184,242	77,742
	<u>1,069,587</u>	<u>866,912</u>
Deferred income tax assets - net	<u>412,909</u>	<u>171,013</u>

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

	For the year ended at 31 December	
	2019	2018
	RMB'000	RMB'000
Opening balance	171,013	(53,886)
Accounting policy change (Note 3.2(iv))	28,080	5,926
At 1 January	199,093	(47,960)
Recognised in the consolidated income statements (Note 40)	217,698	402,449
Acquisition of subsidiaries	(4,800)	(178,631)
Recognised in other comprehensive income in equity	149	36
Others	769	(4,881)
Deferred income tax assets- net	<u>412,909</u>	<u>171,013</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Deferred income tax (continued)

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	Unrealised profit RMB'000	Leases RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	254,216	2,999	96,964	118,555	—	110,906	583,640
Acquisition of subsidiaries	190,164	-	78,072	1,459	—	14,718	284,413
Recognised in the consolidated income statements	81,550	(12)	52,603	28,548	—	10,166	172,855
Recognised in equity	-	-	-	-	—	48	48
Others	(82)	-	-	-	—	(2,949)	(3,031)
At 31 December 2018	525,848	2,987	227,639	148,562	—	132,889	1,037,925
Accounting policy change (Note 3.2(iv))	-	-	-	-	316,001	-	316,001
At 1 January 2019	525,848	2,987	227,639	148,562	316,001	132,889	1,353,926
Acquisition of subsidiaries	7,552	-	-	-	-	-	7,552
Recognised in the consolidated income statements	105,292	(986)	43,950	19,668	(20,631)	(26,479)	120,814
Recognised in equity	-	-	-	-	-	152	152
Others	-	-	-	-	-	52	52
At 31 December 2019	638,692	2,001	271,589	168,230	295,370	106,614	1,482,496

Deferred income tax liabilities

	Fair value adjustments on assets in relation to business combination RMB'000	Deemed disposal RMB'000	Fair value gains from FVOCI and FVPL RMB'000	Leases RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	433,570	147,917	12,301	—	37,812	631,600
Acquisition of subsidiaries	463,044	-	-	—	-	463,044
Recognised in the consolidated income statements	(77,517)	(147,917)	2,551	—	(6,711)	(229,594)
Recognised in equity	-	-	-	—	12	12
Others	-	-	-	—	1,850	1,850
At 31 December 2018	819,097	-	14,852	—	32,963	866,912
Accounting policy change (Note 3.2(iv))	-	-	-	287,921	-	287,921
At 1 January 2019	819,097	-	14,852	287,921	32,963	1,154,833
Acquisition of subsidiaries	12,352	-	-	-	-	12,352
Recognised in the consolidated income statements	(85,415)	-	2,454	(21,043)	7,120	(96,884)
Recognised in equity	-	-	-	-	3	3
Others	-	-	-	-	(717)	(717)
At 31 December 2019	746,034	-	17,306	266,878	39,369	1,069,587

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 Deferred income tax (continued)

The Group did not recognise deferred income tax assets of approximately RMB714,050,000 (2018: RMB527,419,000) in respect of tax losses amounting to approximately RMB2,856,198,000 (2018: RMB2,109,678,000) that can be carried forward against future taxable income. Tax losses amounting to approximately RMB146,335,000, RMB316,332,000, RMB702,643,000, RMB765,729,000 and RMB925,159,000 will expire in 2020, 2021, 2022, 2023 and 2024 respectively.

31 Termination benefit obligations

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Termination benefit	48,096	51,947

The Group offers termination payments to certain employees for encouraging them to accept voluntary redundancy retirement before their normal retirement age (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 liabilities 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 liabilities recognised in the consolidated financial statements are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
At beginning of year	51,947	51,866
Additions	10,543	19,952
Interest expenses	(1,032)	2,014
Benefits paid	(13,362)	(21,885)
At end of year	48,096	51,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Other non-current liabilities

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Medical reserve funds (a)	87,994	89,465
Project research and development funds (b)	389,082	179,469
Office and plant relocation funds (c)	889,645	323,864
Others	37,742	39,307
	<u>1,404,463</u>	<u>632,105</u>

- (a) During the years ended 31 December 2019 and 2018, certain medical reserve funds were received by the Group from the PRC government for the Group to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies.

The Group sells pharmaceutical products to specific customers at certain mutually agreed price when there are any major disaster, epidemic and other emergency. Such transactions will be priced at cost and the relevant trade receivables from specific customers will be offset with the balance of the funds received upon approval from the relevant PRC government authorities. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes. The funds used to offset trade receivables during the years ended 31 December 2019 and 2018 were not significant.

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

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

As at 31 December 2019, the balance primarily represented an advance of approximately RMB870,000,000 received by one of the Group's subsidiaries from local government as compensation for relocation. As at 31 December 2019, the detail arrangement and terms of the relocation are still under negotiation and the relocation is not expected to be completed within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Other long-term payables

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Finance lease payables	-	24,629
Long-term payables for land use rights	-	27,102
Long-term payables for acquisition of subsidiaries (a)	380,013	426,695
	<u>380,013</u>	<u>478,426</u>
Less: Long-term payables due within 1 year	-	(6,752)
	<u>380,013</u>	<u>471,674</u>

- (a) The Group assumes an obligation of redemption of shares of a subsidiary due to a put option embedded in an agreement entered by the Group and certain shareholders of a subsidiary. The Group is obligated to purchase all or part of the shares held by certain shareholders in the subsidiary at a put option price specified in the agreement. The long-term payables for redemption of shares of a subsidiary is calculated at the present value of the estimated redemption price.

34 Contract liabilities

Liabilities related to contracts with customers:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Advances received from customers	1,534,199	1,357,137

(a) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year	1,313,000	987,608

(b) Unsatisfied performance obligations

The Group's contracts are for periods less than one year and the Group has elected the practical expedient for not to disclose the unsatisfied performance obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Expenses by nature

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials, merchandise and consumables used	156,359,270	136,136,044
Changes in inventories of finished goods and work in progress	(35,191)	(2,377,722)
Employee benefit expenses (Note 36)	7,665,728	6,555,615
Promotion and advertising costs	5,598,905	4,426,087
Travelling and meeting expenses	1,662,250	1,936,936
Transportation costs	1,121,813	1,080,783
Depreciation of property, plant and equipment (Note 8)	1,048,539	923,416
Amortisation of land use rights (Note 9)	—	40,886
Amortisation of right-of-use assets (Note 10)	598,266	—
Depreciation of investment properties (Note 11)	11,805	12,554
Amortisation of intangible assets (Note 12)	385,237	325,349
Real estate tax, stamp duties and other taxes	544,758	509,633
Energy and utilities	466,507	362,145
Repair and maintenance fee	354,882	320,879
Office expenditures	246,339	197,336
Operating lease rentals	158,233	727,550
Provision for impairment of property, plant and equipment (Note 8)	46,305	4,043
Provision for impairment of right-of-use assets (Note 10)	19,005	—
Provision for impairment of intangible assets (Note 12)	30,881	4,364
Provision for impairment of other assets	134	-
Write-down of inventories to net realisable value	292,035	351,461
Auditor's remuneration		
- Audit services	24,349	24,349
- Non - Audit services	180	560
Others	2,995,214	2,120,531
Total cost of sales, distribution and selling expenses and general and administrative expenses	179,595,444	153,682,799

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Employee benefit expenses

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Wages and salaries	5,878,155	4,978,406
Contributions to pension plans (a)	570,340	589,621
Housing fund, medical insurance and other social insurance (b)	702,277	617,115
Others	514,956	370,473
Total employee benefit expenses including directors' emoluments	<u>7,665,728</u>	<u>6,555,615</u>

- (a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 16% 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 0.1% to 12% 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) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2018: three) directors whose emoluments for the year have been included in Note 50. The emoluments of the remaining two (2018: two) highest individuals for the year are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries and fee	2,238	1,660
Bonuses	8,067	5,003
Employer's contribution to pension scheme and others	241	175
	<u>10,546</u>	<u>6,838</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 Employee benefit expenses (continued)**(c) Five highest paid individuals (continued)**

The emoluments fell within the following bands:

	Year ended 31 December	
	2019	2018
	Number	Number
Emolument bands (in HKD)		
HKD3,000,001 - HKD3,500,000	-	1
HKD4,500,001 - HKD5,000,000	-	1
HKD5,000,001 - HKD5,500,000	1	-
HKD6,000,001 - HKD6,500,000	1	-

- (d) In 2019 and 2018, 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.

37 Other income

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants (a)	517,064	376,739
Dividends (b)	3,615	3,467
	<u>520,679</u>	<u>380,206</u>

- (a) Government grants mainly represented subsidy income received from various government organisations to support the operation of the Group. The grants were unconditional and non-refundable.
- (b) Dividends were received from financial assets measured at fair value through profit or loss (FVPL) (Note 21) and at fair value through other comprehensive income (FVOCI) (Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 Other gains – net

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Gain on financial assets at fair value through profit or loss, net (Note 21)	125,589	9,304
Gain on disposals of financial assets at fair value through profit or loss	154	4,422
(Loss)/gain on fair value change of derivatives	(3,427)	6,590
Loss on disposals of financial assets at fair value through other comprehensive income	(117,752)	(159,606)
Loss on disposals of trade receivables	(23,651)	(38,763)
Gain/(loss) on disposals of property, plant and equipment	6,465	(12,198)
Gain on disposals of intangible assets and land use right (Note 32)	64,872	15,498
Foreign exchange loss	(16,136)	(124,212)
Relocation gain (Note 32 (c))	99,790	172,758
Provision for impairment of investment in associates (Note 15)	-	(3,277)
Others – net	(43,900)	(30,834)
	<u>92,004</u>	<u>(160,318)</u>

39 Finance income and costs

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Interest income	234,020	197,402
Total finance income	<u>234,020</u>	<u>197,402</u>
Interest expenses	(1,405,213)	(1,006,064)
Other loss	(17,587)	(753)
Finance costs	<u>(1,422,800)</u>	<u>(1,006,817)</u>
Net finance costs	<u>(1,188,780)</u>	<u>(809,415)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 Taxation

(a) Income tax expense

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current income tax	1,649,752	1,289,888
Deferred income tax (Note 30)	(218,027)	(402,771)
	<u>1,431,725</u>	<u>887,117</u>

- (i) Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

Australia profits tax has been provided at the rate of 30% (2018: 30%) on the estimated assessable profit for the year.

New Zealand profits tax has been provided at the rate of 28% (2018: 28%) on the estimated assessable profit for the year.

- (ii) Under the Law of the PRC on Corporate Income Tax (the "CIT Law") and implementation Regulations of the CIT Law, the income tax rate of 25% (2018:25%) is applicable to all of the Group's PRC subsidiaries for the year ended 31 December 2019, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by relevant tax authorities.

The preferential CIT policies enjoyed by the Groups' certain subsidiaries are as follows:

- Subsidiaries approved by relevant local tax authorities as the High-technological Enterprise, and enjoyed a preferential CIT rate of 15%.
- Subsidiaries were recognised by relevant local tax authorities as Encouraging Enterprises in the western region, and enjoyed a preferential CIT rate of 15%.
- Subsidiaries were recognised by relevant local tax authorities as Small and micro Enterprises, and enjoyed a preferential CIT rate of 5% for the taxable income under 1 million, and 10% for the taxable income between 1 million and 3 million.
- A Subsidiary was recognised by relevant local tax authorities as Enterprises engaged in tree cultivation, planting and collection of forest products, and was exempted from corporate income tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 Taxation (continued)

(a) Income tax expense (continued)

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Profit before income tax	6,262,467	5,343,378
Tax calculated at the domestic CIT rate applicable	1,565,617	1,335,845
Income not subject to taxation	(200,217)	(298,515)
Cost not deductible for taxation purposes	335,978	199,081
Preferential tax rate of certain subsidiaries	(332,662)	(220,106)
Reversal of deferred tax liabilities previously recognized upon deemed disposal a subsidiary.	-	(147,918)
Additional deduction on research and development expenses	(132,249)	(120,394)
Utilisation of tax losses for which no deferred income tax asset was recognised	(36,032)	(52,308)
Tax losses for which no deferred income tax asset was recognised	231,290	191,432
Income tax expenses	1,431,725	887,117
Effective tax rate	22.86%	16.60%

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

	Year ended 31 December					
	2019			2018		
	Before tax RMB'000	Tax charge RMB'000	After tax RMB'000	Before tax RMB'000	Tax charge RMB'000	After tax RMB'000
Financial assets at fair value through other comprehensive income	33,385	(329)	33,056	(57,978)	(322)	(58,300)
Currency translation differences, net	(90,083)	-	(90,083)	(413,906)	-	(413,906)
Others	13	-	13	(2,942)	-	(2,942)
	(56,685)	(329)	(57,014)	(474,826)	(322)	(475,148)
Current tax		-			-	
Deferred tax (Note 30)		(329)			(322)	
		(329)			(322)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 Taxation (continued)**(b) VAT and related taxes**

Certain of the Group's revenues (including sales revenue) are subject to output VAT generally calculated at 6%, 9%, 10%, 11%, 13% or 16% 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 city construction tax and educational surtax based on 1% to 7% and 1% to 5% of the net VAT payable.

41 Earnings per share

The basic earnings per share is calculated 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	
	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	4,080,994	3,881,063
Weighted average number of ordinary shares (thousands)	2,842,089	2,829,324
Basic earnings per share (RMB)	1.44	1.37

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.

42 Dividends

The dividends paid in 2019 and 2018 were approximately RMB1,165,257,000 (RMB0.41 per share) and RMB1,079,994,000 (RMB0.38 per share) respectively. A dividend in respect of the year ended 31 December 2019 of RMB0.44 per share, amounting to a total dividend of approximately RMB1,250,519,000 is proposed by the directors of the Company on 27 March 2020 and subject to the shareholders' approval at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Proposed final dividend of RMB0.44 (2018: RMB0.41) per share	1,250,519	1,165,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43 Notes to the consolidated statements of cash flows

(a) Cash generated from operations

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	6,262,467	5,343,378
Adjustments for:		
- Share of profit from associates	(518,419)	(416,106)
- Share of profit from jointly controlled entities	(246,767)	(231,605)
- Depreciation of property, plant and equipment and investment properties	1,060,344	935,970
- Amortisation of right-of-use assets and intangible assets	983,503	366,235
- Financial assets at fair value through profit or loss	(125,589)	(9,304)
- Gain on disposals of financial assets at fair value through profit or loss	(154)	(4,422)
- Loss/(Gain) on fair value change of derivatives	3,427	(6,590)
- Loss/(Gain) on disposals of		
- property, plant and equipment and investment properties	(6,465)	12,198
- right-of-use assets and intangible assets	(64,872)	(15,498)
- investment in subsidiaries and associates	(18,860)	(600,608)
- Provisions for impairment of		
- inventories	292,035	351,461
- investment in associate	-	3,277
- Property, plant and equipment	46,305	4,043
- right-of-use assets and intangible assets	49,886	4,364
- others	134	-
- Impairment losses of goodwill	704,762	632,373
- Net impairment losses on financial assets	211,072	84,639
- Dividend income	(3,615)	(3,467)
- Financial cost - net	1,050,268	1,027,805
- Foreign exchange loss	1,606	37,185
- Other losses – others – net	134,033	30,834
	9,815,101	7,546,162
Changes in working capital:		
- Inventories	63,143	(2,842,902)
- Trade and other receivables and other current assets	(5,380,258)	(2,053,630)
- Trade and other payables and other current liabilities	2,656,695	1,784,597
- Restricted cash	272,554	(129,529)
Cash generated from operations	7,427,235	4,304,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) In the cash flow statements, proceeds from disposals of Non-current assets comprised:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net book amount		
-Property, plant and equipment (Note 8)	54,878	46,549
-Right-of-use assets/land use rights (Note 9,10)	26,590	5,133
-Investment properties (Note 11)	6,304	201
-Intangible assets(excluding goodwill) (Note 12)	11,210	2,987
	<u>98,982</u>	<u>54,870</u>
Gain/(Loss) on disposal		
-Properties, plant and equipment and investment properties (Note 38)	6,465	(12,198)
-land use rights and intangible assets (Note 38)	64,872	15,498
	<u>170,319</u>	<u>58,170</u>
Receipt of proceeds from the disposal of properties, plant and equipment and investment properties in prior year	51,660	-
Advance receipts in relation to the disposal of investment properties and properties, plant and equipment	(57,664)	57,664
Receivable in respect of the disposal of properties, plant and equipment	(21,908)	(51,660)
Receivable in respect of the disposal of land use right and intangible assets	(503)	-
	<u>141,904</u>	<u>64,174</u>

(c) The cash flow statements, proceeds from disposals of subsidiaries and associates and a jointly controlled entity are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net book amounts		
-Subsidiaries	-	1,254,680
-Associates	54,693	-
Gain on disposal	18,860	600,608
Less: transfer from associates to subsidiaries	-	(15,037)
transfer from a subsidiary to an associate	-	(1,757,294)
	<u>73,553</u>	<u>82,957</u>
Cash receipt in respect of disposal of a subsidiary in prior year	-	24,920
Cash and cash equivalents in subsidiaries disposed	-	(3,320)
Receivable in respect of disposal of associates	(7,650)	-
	<u>65,903</u>	<u>104,557</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) Total borrowings reconciliation

This section sets out an analysis of total borrowings and the movements in total borrowings for each of the periods presented.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Borrowings – repayable within one year	23,763,551	22,031,361
Borrowings – repayable after one year	9,134,221	9,620,298
Total borrowings	<u>32,897,772</u>	<u>31,651,659</u>
Total borrowings as at 31 December 2018		31,651,659
Cash flows		1,706,307
Foreign exchange adjustments		52,884
Other non-cash movements		(513,078)
Total borrowings as at 31 December 2019		<u>32,897,772</u>

44 Contingencies and guarantees

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Outstanding loan guarantee provided to a related party	<u>8,856</u>	<u>3,374</u>

As at 31 December 2019, outstanding loan guarantees of approximately RMB8,856,000 (2018: RMB3,374,000) are provided by the Group to a related party of the Group (Note 47(d)). The directors of the Company consider that the related party has sufficient financial strength to settle its obligations and thus has not made any provision for the outstanding balance of the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

45 Capital commitments

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Property, plant and equipment	396,857	392,755

46 Business combination

In year 2019, the Group acquired many entities. The details of one major significant acquisition is disclosed as below:

On 1 January 2019, the Group acquired 83.5% equity interests in Chongqing Huiyuan Pharmaceutical Co., Ltd. ("Chongqing Huiyuan") from third parties, and effectively obtained the control over Chongqing Huiyuan's pharmaceutical business and consolidated it into the Group's consolidated financial statements.

As a result of the acquisition, the Group is expected to increase its presence in the pharmaceutical markets. The goodwill of RMB164,543,000 arising from the acquisition is attributable to the workforce and the high profitability of the acquired business.

The following table summarises the consideration paid for the acquisition of approximately RMB467,805,000, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46 Business combination (continued)

	Chongqing Huiyuan
	RMB'000
Consideration – cash	467,805
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	29,175
Intangible assets	37,860
Right-of-use assets	27,442
Investments in associates	10,775
Deferred income tax assets	4,938
Other non-current prepayments	1,378
Inventories	111,582
Trade and other receivables and other current assets	194,445
Financial assets at fair value through other comprehensive income	20,636
Cash and cash equivalents	30,246
Borrowings	(4,600)
Deferred income tax liabilities	(7,523)
Trade and other payables and other current liabilities	(89,607)
Contract Liabilities	(565)
Total identifiable net assets	366,182
Non-controlling interests	(62,920)
Goodwill	164,543
	467,805

The following table summarized the cash outflows from the acquisition of Chongqing Huiyuan for the year ended 31 December 2019:

	RMB'000
Total cash consideration	467,805
Less: cash and cash equivalents in a subsidiary acquired	(30,246)
Cash outflows from the acquisitions	437,559

The revenue and profit for the year included in the consolidated income statement since the acquisition date on 1 January 2019 contributed by the above mentioned entities was approximately RMB860,497,000 and RMB57,592,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 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 respectively, both of which are government-related enterprises 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 as well as their close family. 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 Industrial Investment (Holding) Co., Ltd. (上海實業(集團)有限公司)	Ultimate holding company
Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)	Immediate holding company
Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)	Intermediate holding company
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Yingdalai Property Co., Ltd. (上海英達萊置業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Overseas United Investment Co., Ltd. (上海海外聯合投資股份有限公司)	Controlled by Shanghai Industrial Group
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Jointly controlled entity
Jiangxi Nanhua Medicines Co., Ltd. (江西南華醫藥有限公司)	Jointly controlled entity
Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海博萊科信誼藥業有限責任公司)	Associate
Shanghai Sine Promod Pharmaceutical Corp., Ltd. (上海信誼百路達藥業有限公司)	Associate
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (上海復旦張江生物醫藥股份有限公司)	Associate

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

Name of related party	Nature of relationship
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Associate
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd. (上藥康德樂羅達(上海)醫藥有限公司)	Former Associate
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. (上海雷允上北區藥業股份有限公司)	Associate
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	Associate
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Former associate
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司)	Associate
Chongqing Medicines Shanghai Pharma Sales Co., Ltd. (重慶醫藥上海藥品銷售有限責任公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司)	Associate
Shanghai Industrial Group Finance Co., Ltd. (上海上實集團財務有限公司)	Associate
Jilin Yatai Huashi Pharmaceutical Co. Ltd. (吉林亞泰華氏醫藥有限公司)	Former associate
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾醫藥有限公司)	Associate
Shanghai Tsumura Pharmaceuticals Co., Ltd. (上海津村製藥有限公司)	Associate
Liaoning International Pharmaceutical Trading Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Former associate
Guangzhou Ruixun Medicine Co., Ltd. (廣州銳訊醫藥有限公司)	Associate
Shanghai Huayu Saffron Planting Professional Cooperative (上海華宇西紅花種植專業合作社)	Associate
Shangshi Commercial Factoring Co., Ltd. (上實商業保理有限公司)	Associate
Sichuan Guojia Medical Technology Co., Ltd. (四川省國嘉醫藥科技有限公司)	Associate
Wenshan Miaoxiang Panax notoginseng Co., Ltd. (文山苗鄉三七股份有限公司)	Associate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

In addition to those disclosed elsewhere in the financial statements, 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 2019 and 2018, 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	
	2019 RMB'000	2018 RMB'000
(i) Sales of goods and vender of services		
Jiangxi Nanhua Medicines Co., Ltd.	2,284,199	2,061,761
Shanghai Hutchison Pharmaceutical Co., Ltd.	60,312	79,842
Shanghai Ivyuan Pharmacy Co., Ltd.	38,752	35,791
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	27,552	48,539
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	11,064	14,901
Shanghai Roche Pharmaceutical Co., Ltd.	9,742	8,336
Shanghai Jianer Pharmacy Co., Ltd.	4,999	5,359
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	2,617	2,399
Liaoning International Pharmaceutical Trading Co., Ltd.	-	51,402
Sph KDL Health (Shanghai Luoda) Pharmaceutical Co., Ltd.	-	1,005
Others	22,876	12,349
	<u>2,462,113</u>	<u>2,321,684</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

	Year end 31 December	
	2019	2018
	RMB'000	RMB'000
(ii) Purchase of goods and services		
Shanghai Roche Pharmaceutical Co., Ltd.	2,354,304	1,895,501
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	372,721	541,158
Guangzhou Ruixun Medicine Co., Ltd.	188,824	322,214
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	185,443	161,479
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	61,829	27,418
Shanghai Hutchison Pharmaceutical Co., Ltd.	52,441	75,699
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	30,500	43,087
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	20,158	22,451
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	11,350	17,437
Wenshan Miaojiang Panax notoginseng Co., Ltd.	10,993	-
Shanghai Huayu Saffron Planting Professional Cooperative	10,858	2,855
TECHPOOL Bio-Pharma Co., Ltd.	-	141,335
Others	23,887	7,137
	<u>3,323,308</u>	<u>3,257,771</u>
(iii) Rental income		
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	11,655	9,736
Shanghai Yingdalai Property Co., Ltd.	4,360	4,256
Shanghai Hutchison Pharmaceutical Co., Ltd.	2,463	2,126
Shanghai Pharma Group	878	2,107
	<u>19,356</u>	<u>18,225</u>
(iv) Rental payable		
Shanghai Pharma Group	26,904	21,284
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	11,724	12,585
Shanghai Indu-Land Property Co., Ltd.	8,829	8,346
	<u>47,457</u>	<u>42,215</u>
(v) Addition of right-of-use assets		
Shanghai Pharma Group	25,519	—
Shanghai Indu-Land Property Co., Ltd.	4,166	—
	<u>29,685</u>	<u>—</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

		Year end 31 December	
		2019	2018
		RMB'000	RMB'000
(vi)	Finance cost of lease liabilities		
	Shanghai Pharma Group	1,175	—
	Shanghai Indu-Land Property Co., Ltd.	99	—
		<u>1,274</u>	<u>—</u>
(vii)	R&D expenditure		
	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	<u>6,372</u>	<u>2,090</u>
(viii)	Interest income		
	Shanghai Industrial Group Finance Co., Ltd.	<u>2,534</u>	<u>2,919</u>
(ix)	Interest expense		
	Shanghai Industrial Group Finance Co., Ltd.	78,570	77,420
	Shangshi Commercial Factoring Co., Ltd.	31	24
	Shanghai Industrial Group	-	8,922
		<u>78,601</u>	<u>86,366</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

	Year end 31 December	
	2019	2018
	RMB'000	RMB'000
(x) Deposits and borrowings		
Net Increase/(Decrease) of the deposit balance		
Shanghai Industrial Group Finance Co., Ltd.	323,318	(113,044)
Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	4,542,500	2,224,500
Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	(4,115,020)	(2,353,500)
Shanghai Industrial Group	-	(633,450)
	(4,115,020)	(2,986,950)
Discount of bank acceptance notes		
Shanghai Industrial Group Finance Co., Ltd.	1,119,085	989,075
Discount of trade acceptance notes		
Shanghai Industrial Group Finance Co., Ltd.	-	19,890
Factoring of trade receivables		
Shangshi Commercial Factoring Co., Ltd.	270,000	20,000
Shanghai Industrial Group Finance Co., Ltd.	-	1,800,000
	270,000	1,820,000
Loan to related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	-	10,700
Repayment received from related parties		
Shanghai Huaren Pharmaceutical Co., Ltd.	600	4,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

(b) Key management compensation

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Salaries	9,676	7,150
Bonuses	29,776	18,069
Pensions and others	831	882
	<u>40,283</u>	<u>26,101</u>

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

	As at 31 December	
	2019 RMB'000	2018 RMB'000
(i) Amount due from related parties (Note 19)		
– Trade receivables	571,550	564,493
– Other receivables	50,172	46,312
– Prepayments	24,014	27,427
– Dividends receivable	49,862	41,640
	<u>695,598</u>	<u>679,872</u>
– Less: Provision	(17,985)	(14,602)
	<u>677,613</u>	<u>665,270</u>
Trade receivables due from:		
Jiangxi Nanhua Medicines Co., Ltd.	522,176	525,626
Shanghai Hutchison Pharmaceutical Co., Ltd.	32,533	22,056
Shanghai Ivyuan Pharmacy Co., Ltd.	4,885	3,625
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	4,732	2,705
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	4,063	4,240
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	781	636
Shanghai Roche Pharmaceutical Co., Ltd.	-	1,071
Others	2,380	4,534
	<u>571,550</u>	<u>564,493</u>
Less: Provision for impairment	(6,691)	(7,002)
	<u>564,859</u>	<u>557,491</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

(i) Amount due from related parties (Note 19) (continued)

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Other receivables due from:		
Shanghai Overseas United Investment Co., Ltd.	13,297	13,297
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	9,367	-
Shanghai Huayu Saffron Planting Professional Cooperative	7,588	11,472
Shanghai Huaren Pharmaceutical Co., Ltd.	7,412	7,687
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	1,461	1,461
Shanghai Roche Pharmaceutical Co., Ltd.	300	4,870
Others	10,747	7,525
	<u>50,172</u>	<u>46,312</u>
Less: Provision for impairment	(11,169)	(7,496)
	<u>39,003</u>	<u>38,816</u>

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

Prepayments due from:

Shanghai Huayu Saffron Planting Professional Cooperative	12,893	9,880
Shanghai Hutchison Pharmaceutical Co., Ltd.	4,192	3
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	3,702	-
Shanghai Roche Pharmaceutical Co., Ltd.	588	16,077
Others	2,639	1,467
	<u>24,014</u>	<u>27,427</u>

Dividends receivable:

Sichuan Guojia Medical Technology Co., Ltd.	48,412	-
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,450	1,450
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	-	40,190
	<u>49,862</u>	<u>41,640</u>
Less: Provision for impairment	(125)	(104)
	<u>49,737</u>	<u>41,536</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
(ii) Amounts due to related parties (Note 27)		
– Trade payables	337,392	311,977
– Other payables	427,855	241,704
– Dividends payable	8,079	8,079
– Interests payable	1,762	1,226
	<u>775,088</u>	<u>562,986</u>
Trade payables due to:		
Shanghai Roche Pharmaceutical Co., Ltd.	227,730	222,002
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	41,049	37,663
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	14,958	15,976
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	13,699	4,227
Wenshan Miaojiang Panax notoginseng Co., Ltd.	11,029	36
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	7,444	10,556
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	7,207	7,817
Shanghai Hutchison Pharmaceutical Co., Ltd.	4,049	258
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,350	5,392
Guangzhou Ruixun Medicine Co., Ltd.	997	4,826
Shanghai Tsumura Pharmaceuticals Co., Ltd.	-	1,867
Others	7,880	1,357
	<u>337,392</u>	<u>311,977</u>
Other payables due to:		
Shanghai Shangshi (Group) Co., Ltd.	415,000	225,000
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	9,103	9,066
Shanghai Pharma Group	3,316	4,685
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	291	388
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	-	2,135
Others	145	430
	<u>427,855</u>	<u>241,704</u>

Other payables are all non-trade payables and mainly represent rental expenses and other operating payables due to related parties and will be settled upon demand of these related parties.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

(ii) Amounts due to related parties (Note 27) (continued)

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Dividends payable:		
Shanghai Pharma Group	8,000	8,000
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	79	79
	<u>8,079</u>	<u>8,079</u>
Interests payable:		
Shanghai Industrial Group Finance Co., Ltd.	<u>1,762</u>	<u>1,226</u>
Contract liabilities:		
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,309	374
Jiangxi Nanhua Medicines Co., Ltd.	-	785
Jilin Yatai Huashi Pharmaceutical Co. Ltd.	-	302
Others	39	39
	<u>1,348</u>	<u>1,500</u>
Lease liabilities:		
Shanghai Pharma Group	26,196	—
Shanghai Indu-Land Property Co., Ltd.	5,462	—
	<u>31,658</u>	<u>—</u>
(iii) Cash at bank and borrowings due from/to related parties		
Current borrowings		
Shanghai Industrial Group Finance Co., Ltd.	<u>1,356,980</u>	<u>929,500</u>
Deposit		
Shanghai Industrial Group Finance Co., Ltd.	<u>17,140</u>	<u>11,404</u>
Cash at bank		
Shanghai Industrial Group Finance Co., Ltd.	<u>2,202,208</u>	<u>1,878,890</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47 Significant related parties transactions (continued)

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Outstanding loan guarantees provided by the Group to		
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	8,856	3,374

(e) Other transactions with related party

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Subsidiaries acquired by the Group from		
Shanghai Pharma Group	-	280,793

48 Subsequent Events

(a) The issue of Super & Short-term Commercial Paper ("SCP")

The Group is authorized to issue SCP with limitation to amount of RMB5,000,000,000 by National Association of Financial Market Institution Investors in the PRC subsequently. The company has completed the first stage of issuing with amount of RMB2,500,000,000 and bears fixed interest rate of 2.45% per annum, it is unsecured and repayable within 270 days. The raised funds have been received by the Group on 28 February 2020.

(b) The assessment of the impact of coronavirus disease ("COVID-19")

COVID-19 outbreak began in January 2020 over China, the Group strictly implemented regulations and requirements of the governments for virus controls. To ensure both epidemic prevention and production, the Group gradually restored production when the situation got under control.

COVID-19 may have certain impact on the Group's production and operation. The impact will largely depend on duration of the outbreak and implementation of regulatory policies thereafter. The Group will pay close attention to the situation and assess the impact of COVID-19 on the Group's operation and profitability. Up to the date of the report, no significant adverse impact has been noted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49 Balance sheet and reserve movement of the Company

COMPANY BALANCE SHEET

		As at 31 December	
	Note	2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		74,107	87,364
Land use rights		—	24,995
Right-of-use assets		29,746	—
Intangible assets		66,258	61,270
Investments in subsidiaries		20,462,376	19,397,787
Investments in associates		1,265,400	1,183,484
Financial assets at fair value through profit or loss		25,207	24,890
Other non-current assets		1,536	-
		21,924,630	20,779,790
Current assets			
Trade and other receivables and other current assets		16,676,883	10,613,424
Restricted cash and term deposits		290,035	-
Cash and cash equivalents		3,398,272	1,617,375
		20,365,190	12,230,799
Total assets		42,289,820	33,010,589
Share capital		2,842,089	2,842,089
Share premium account	Note (a)	18,784,110	18,782,879
Other reserves	Note (a)	1,306,819	1,127,578
Retained earnings	Note (a)	2,061,204	1,749,651
Total equity		24,994,222	24,502,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49 Balance sheet and reserve movement of the Company (Continued)

COMPANY BALANCE SHEET (CONTINUED)

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Liabilities		
Non-current liabilities		
Borrowings	2,998,229	2,997,306
Deferred income tax liabilities	5,860	5,860
Other non-current liabilities	43,131	34,245
	<u>3,047,220</u>	<u>3,037,411</u>
Current liabilities		
Trade and other payables and other current liabilities	11,535,479	2,790,951
Borrowings	2,703,230	2,675,823
Contract liabilities	4,207	4,207
Lease liabilities	5,462	—
	<u>14,248,378</u>	<u>5,470,981</u>
Total liabilities	<u>17,295,598</u>	<u>8,508,392</u>
Total equity and liabilities	<u>42,289,820</u>	<u>33,010,589</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49 Balance sheet and reserve movement of the Company (Continued)

(a) Share premium account, other reserves and retained earnings

	Share premium account	Statutory reserves	Others	Retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	16,406,754	940,701	20,350	1,328,274
Issue of new H shares	2,376,125	-	-	-
Comprehensive income				
Profit for the year	-	-	-	1,667,898
Other comprehensive income				
Appropriation to statutory reserves	-	166,527	-	(166,527)
Dividends	-	-	-	(1,079,994)
At 31 December 2018	18,782,879	1,107,228	20,350	1,749,651
Changes in accounting policy	-	(11)	-	(99)
Balance at 1 January 2019	18,782,879	1,107,217	20,350	1,749,552
Comprehensive income				
Profit for the year	-	-	-	1,656,161
Other comprehensive income				
Appropriation to statutory reserves	-	179,252	-	(179,252)
Dividends	-	-	-	(1,165,257)
Others	1,231	-	-	-
At 31 December 2019	18,784,110	1,286,469	20,350	2,061,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

50 Benefits and interests of directors

(a) Directors, supervisors and chief executives' emoluments

The remuneration of every director and the chief executive director ("the president") of the Company for the year ended 31 December 2019 is set out below:

Name	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
Mr.Zhou Jun	-	-	-	-
Mr.Ge Dawei (a)	-	-	-	-
Mr.Cho Man (also the president)	1,500	4,908	3	6,411
Mr.Li Yongzhong	1,245	4,768	115	6,128
Mr.Shen Bo	1,245	4,427	118	5,790
Ms.Li An	-	-	-	-
Mr.Cai Jiangnan	250	-	-	250
Mr.Hong Liang	265	-	-	265
Mr.Gu Zhaoyang (b)	150	-	-	150
Mr.Fok Manson Xun (c)	150	-	-	150
Mr.Wan Kam To (d)	125	-	-	125
Mr.Tse Cho Che (e)	115	-	-	115
	<u>5,045</u>	<u>14,103</u>	<u>236</u>	<u>19,384</u>

(a) Appointed on 27 June 2019

(b) Appointed on 27 June 2019

(c) Appointed on 27 June 2019

(d) Retired on 27 June 2019

(e) Retired on 27 June 2019

The remuneration of every director and the chief executive director (the "president") of the Company for the year ended 31 December 2018 is set out below:

Name	Salaries RMB'000	Bonuses RMB'000	Pensions RMB'000	Total RMB'000
<i>Directors</i>				
Mr.Zhou Jun	-	-	-	-
Mr.Cho Man (also the president)	1,100	2,870	3	3,973
Mr.Li Yongzhong	950	2,885	108	3,943
Mr.Shen Bo	800	2,579	110	3,489
Ms.Li An	-	-	-	-
Mr.Cai Jiangnan	200	-	-	200
Mr.Hong Liang	230	-	-	230
Mr.Wan Kam To	250	-	-	250
Mr.Tse Cho Che	230	-	-	230
	<u>3,760</u>	<u>8,334</u>	<u>221</u>	<u>12,315</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51 Principal subsidiaries, jointly controlled entities and associates

As at 31 December 2019, the Company has direct and indirect interests in the following subsidiaries:

Principal subsidiaries

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
Shanghai Pharmaceutical Co., Ltd. (上藥控股有限公司)	PRC, 26 April 2010	5,000,000	100	-	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	PRC, 14 June 1993	1,300,000	-	100	Distribution of pharmaceutical products in the PRC
China International Pharmaceutical (Holdings) Limited (中國國際醫藥(控股)有限公司)	HK, 31 October 2003	22,508	100	-	Distribution of pharmaceutical products in the HK
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. (上海上藥信誼藥廠有限公司)	PRC, 23 October 1993	1,191,611	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd. (上海上藥第一生化藥業有限公司)	PRC, 30 July 1994	225,000	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	PRC, 01 December 1995	545,800	65	35	Pharmaceutical products manufacture and trading in the PRC
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd. (上海上藥新亞藥業有限公司)	PRC, 11 August 1993	1,052,429	97	-	Pharmaceutical products manufacture and trading in the PRC
SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司)	PRC, 01 November 1993	78,790	57	19	Pharmaceutical products manufacture and trading in the PRC
SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司)	PRC, 01 January 1975	141,322	-	100	Pharmaceutical products manufacture and trading in the PRC
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	PRC, 28 April 1992	1,476,070	100	-	Pharmaceutical products manufacture and trading in the PRC
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	PRC, 10 March 2009	93,642	100	-	Pharmaceutical products manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
SPH Qingdao Growful Pharmaceutical Co., Ltd. (上海醫藥集團青島國風藥業股份有限公司)	PRC, 30 June 1994	93,000	68	-	Pharmaceutical products manufacture and trading in the PRC
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	PRC, 06 November 1992	128,500	20	55	Pharmaceutical products manufacture and trading in the PRC
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	PRC, 01 January 1999	53,160	-	51	Pharmaceutical products manufacture and trading in the PRC
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	PRC, 11 September 2002	84,030	-	61	Pharmaceutical products manufacture and trading in the PRC
Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限公司)	PRC, 12 December 1999	51,000	-	55	Pharmaceutical products manufacture and trading in the PRC
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	PRC, 25 March 1993	100,000	39	28	Pharmaceutical products manufacture and trading in the PRC
Zeus Investment Limited	Hongkong, 24 August 2016	AUD316,920,000	-	60	Investment holding practices in Australia
SHANGHAI SUNVE BIO-TECH CO LTD. (上海三維生物技術有限公司)	PRC, 29 December 1995	USD15,343,000	-	100	Pharmaceutical products manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	PRC, 10 September 1998	127,000	99	1	Medical instruments manufacture and trading in the PRC
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	PRC, 12 May 1982	101,390	100	-	Distribution of pharmaceutical products in the PRC
Shanghai Sine Tianping Pharmaceutical Company Ltd. (上海信誼天平藥業有限公司)	PRC, 07 May 1998	154,700	-	100	Pharmaceutical products manufacture and trading in the PRC
SHANGHAI SINE JINZHU PHARMACY CO., LTD.; Shanghai Sine Jinzhu Pharmacy Co., Ltd.(上海信誼金朱藥業有限公司)	PRC, 01 December 1993	9,072	-	100	Pharmaceutical products manufacture and trading in the PRC
Shanghai Sine Wanxiang Pharmaceutical Co., Ltd. (上海信誼萬象藥業股份有限公司)	PRC, 25 January 1999	100,000	-	100	Pharmaceutical products manufacture and trading in the PRC
SHANDONG SINE PHARMACEUTICAL CO LTD (山東信誼製藥有限公司)	PRC, 09 April 2013	65,170	-	55	Pharmaceutical products manufacture and trading in the PRC
Shanghai New Asiatic Medicine Industry Minhang Co., Ltd. (上海新亞藥業閔行有限公司)	PRC, 06 July 1989	57,500	-	100	Pharmaceutical products manufacture and trading in the PRC
Liaoning Meiya Pharmaceutical Co.,Ltd. (遼寧美亞製藥有限公司)	PRC, 27 March 1996	130,000	-	100	Pharmaceutical products manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
Shanghai Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	PRC, 18 October 1989	148,200	-	90	Pharmaceutical products manufacture and trading in the PRC
Shanghai Huayu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	PRC, 17 December 1998	270,060	-	100	Pharmaceutical products manufacture and trading in the PRC
Shanghai Lei Yun Shang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	PRC, 13 November 1998	465,070	-	100	Pharmaceutical products manufacture and trading in the PRC
SPH Shenxiang Health Pharmaceutical Co., Ltd. (上海上藥神象健康藥業有限公司)	PRC, 10 March 2017	150,000	-	100	Pharmaceutical products manufacture and trading in the PRC
SPH Xing Ling Sci.&Tech. Pharmaceutical Co., Ltd. (上海上藥杏靈科技藥業股份有限公司)	PRC, 21 September 1998	80,000	-	86	Pharmaceutical products manufacture and trading in the PRC
Zhejiang Jiuxu Pharmaceutical Co., Ltd. (浙江九旭藥業有限公司)	PRC, 27 March 2003	25,000	-	51	Pharmaceutical products manufacture and trading in the PRC
Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	PRC, 14 December 2001	108,000	-	78	Pharmaceutical products manufacture and trading in the PRC
Chifeng Aike Pharmaceutical Technology Co., Ltd. (赤峰艾克製藥科技股份有限公司)	PRC, 27 July 2001	40,900	-	58	Pharmaceutical products manufacture and trading in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
SPH (benxi) North Pharmaceutical Co., Ltd. (上海醫藥集團(本溪)北方藥業有限公司)	PRC, 22 November 2014	380,000	100	-	Development, manufacture and distribution of medicine in the PRC
Shanghai Huiyong Medicine Research Co., Ltd. (上海惠永藥物研究有限公司)	PRC, 10 May 2018	100,000	70	-	Development of medicine in the PRC
Zhejiang Shanghai Xinxin Pharma Co., Ltd. (浙江上藥新欣醫藥有限公司)	PRC, 12 January 2005	37,880	-	67	Distribution of pharmaceutical products in the PRC
Ningbo Pharmaceutical Co., Ltd. (上藥控股寧波醫藥股份有限公司)	PRC, 05 July 1994	250,000	-	64	Distribution of pharmaceutical products in the PRC
Shanghai Pharmaceutical Shanhe Wuxi Co., Ltd. (上藥控股江蘇股份有限公司)	PRC, 26 April 1993	119,225	-	98	Distribution of pharmaceutical products in the PRC
Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (上藥控股廣東有限公司)	PRC, 08 January 1998	76,880	-	83	Distribution of pharmaceutical products in the PRC
SPH Shan Dong Pharmceutical Co., Ltd. (上藥控股山東有限公司)	PRC, 18 April 2014	80,000	-	75	Distribution of pharmaceutical products in the PRC
Fujian Pharmaceutical Co.,Ltd (福建省醫藥有限責任公司)	PRC, 27 December 1984	109,716	-	49 (note)	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

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

Principal subsidiaries (continued)

Company Name	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
Cardinal Health (Shanghai) Pharmaceutical Co., Ltd. (上藥康得樂(上海)醫藥有限公司)	PRC, 13 August 2004	98,634	-	100	Distribution of pharmaceutical products in the PRC
SHANGHAI HUASHI PHARMACEUTICAL CO., LTD. (上海華氏大藥房有限公司)	PRC, 27 October 1994	250,000	-	100	Retailing of pharmaceutical products in the PRC
Shanghai Pharma Health Commerce Co., Ltd (上海醫藥大健康雲商股份有限公司)	PRC, 18 March 2015	1,333,375	5	93	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Hubei Co. Ltd. (上藥科園信海醫藥湖北有限公司)	PRC, 16 November 2010	100,000	-	60	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd. (上藥科園信海陝西醫藥有限公司)	PRC, 26 October 1996	100,000	-	85	Distribution of pharmaceutical products in the PRC
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd. (河南省康信醫藥有限公司)	PRC, 07 September 1999	100,000	-	70	Distribution of pharmaceutical products in the PRC
China Medical Foreign Trading Liao Ning Co.Ltd. (遼寧省醫藥對外貿易有限公司)	PRC, 18 June 1994	282,013	52	-	Distribution of pharmaceutical products in the PRC

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Principal jointly controlled entities and associates

As at 31 December 2019, the Company has direct and indirect interests in the following principal jointly controlled entity and associates:

<u>Company Name</u>	Country and date of incorporation	Issued and paid up capital/ registered capital RMB'000	Share percentage held by the Company Direct %	Share percentage held by the Company Indirect %	Principal activities and place of operations
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黄药业有限公司)	PRC, 30 April 2001	229,000	-	50	Pharmaceutical products manufacture and trading in the PRC
Shanghai Roche Pharmaceutical Co., Ltd. (上海罗氏制药有限公司)	PRC, 06 May 1994	USD134,697,000	-	30	Pharmaceutical products manufacture and trading in the PRC
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施贵宝制药有限公司)	PRC, 30 June 2009	USD18,440,000	30	-	Development, manufacture and distribution of chemical medicine in the PRC