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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)

2020 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 2020. These annual results are prepared in accordance with the China Accounting Standards and audited by PricewaterhouseCoopers Zhong Tian LLP. The Audit Committee of the Board has reviewed these annual results.

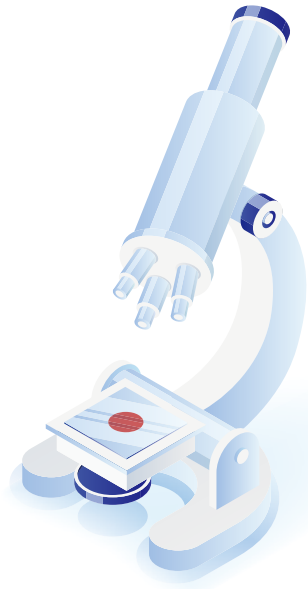
The full content of the Company’s annual report of 2020 is attached to this announcement. The formal annual report will be dispatched to the shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sphchina.com) at an appropriate time.

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

Shanghai, the PRC, 27 March 2021

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 2020 to 31 December 2020
"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)

Definitions

"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)
"NHS A"	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)
"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)
"Guosheng Group"	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) and Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)
"Guosheng Assets"	Shanghai Guosheng Group Assets Co., Ltd. (上海國盛集團資產有限公司)
"HISUN"	Zhejiang Hisun Pharmaceutical Co., Ltd.

"HPGC"	Harbin Pharmaceutical Group Co., Ltd.
"Fosun Pharmaceutical"	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司)
"NCPC"	North China Pharmaceutical Co., Ltd. (華北製藥股份有限公司)
"Baiyunshan"	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (廣州白雲山醫藥集團股份有限公司)
"Hengrui Medicine"	Jiangsu Hengrui Medicine Co., Ltd. (江蘇恒瑞醫藥股份有限公司)
"CR Sanjiu"	China Resources Sanjiu Medical & Pharmaceutical Company Limited (華潤三九醫藥股份有限公司)
"Livzon Pharmaceutical Group"	Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司)
"ANDA"	the Abbreviated New Drug Application
"SPH Cloud Health"	Shanghai Pharmaceuticals Grand Health Cloud Commerce Company Limited (上海醫藥大健康雲商股份有限公司)
"MediTrust Health"	Shanghai MediTrust Health Co., Ltd. (上海鎂信健康科技有限公司)
"DRG"	(disease) diagnosis related groups
"DIP"	Diagnosis-Intervention Packet
"DTP"	Direct to Patient
"CDMO"	Contract Development Manufacture Organization
"ADC"	Antibody Drug Conjugates
"BD"	expanded introduction of drugs
"BIOCAD"	BIOCAD, a biopharmaceutical company from Russia
"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)
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice

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 Jiangnan (*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.

REGISTERED ADDRESS

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

HEADQUARTERS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Causeway Bay, Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

Freshfields Bruckhaus Deringer LLP

LEGAL ADVISOR AS TO PRC LAW

Grandall Law Firm (Shanghai)

AUDITOR

PricewaterhouseCoopers Zhong Tian LLP

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

STOCK ABBREVIATION

SH PHARMA

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

A SHARE REGISTRAR

China Securities Depository and Clearing Corporation
Limited, Shanghai Branch
36/F, China Insurance Building, No. 166 Lujiazui East
Road, Pudong New Area, Shanghai, the PRC

H SHARE REGISTRAR

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

COMPANY WEBSITE

<http://www.sphchina.com>

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Financial Highlights

MAJOR DATA ON RESULTS, ASSETS AND LIABILITIES OF THE COMPANY FOR THE PAST FIVE FINANCIAL YEARS

Unit: RMB'000

Operating Results	For the year ended 31 December				
	2016	2017	2018	2019	2020
Revenue	120,764,660	130,847,179	159,084,397	186,565,796	191,909,156
Profit before income tax	4,638,996	5,204,808	5,343,378	6,262,467	7,175,483
Income tax expenses	(809,284)	(1,147,029)	(887,117)	(1,431,725)	(1,570,219)
Profit for the year	3,829,712	4,057,779	4,456,261	4,830,742	5,605,264
Attributable to:					
Owners of the Company	3,196,394	3,520,644	3,881,063	4,080,994	4,496,217
Non-controlling interest	633,318	537,135	575,198	749,748	1,109,047

Unit: RMB'000

Assets and Liabilities	As at 31 December				
	2016	2017	2018	2019	2020
Total assets	82,742,717	94,344,475	126,879,332	137,026,396	149,185,656
Total liabilities	45,908,252	54,668,627	80,446,061	87,640,468	94,444,926
Total equity	36,834,465	39,675,848	46,433,271	49,385,928	54,740,730
Attributable to:					
Owners of the Company	31,622,557	34,030,843	39,013,575	41,659,059	45,354,678
Non-controlling interests	5,211,908	5,645,005	7,419,696	7,726,869	9,386,052

Note: The financial information of 2020 is extracted from the financial statements of the Company prepared under the China Accounting Standards.

Chairman's Statement



The year 2021 marks the opening year of the 14th Five-Year Plan and coincides with the 10th anniversary of the listing of Shanghai Pharmaceuticals on the Hong Kong Stock Exchange.

Ten years ago, we were listed on the main board of the Hong Kong Stock Exchange, becoming the first pharmaceutical company in China to enter the dual-track of A+H stock and thus embarking on a decade-long rapid growth path.

In the past ten years, we have expanded our presence nationwide with revenue increasing by nearly seven times, compound growth rate reaching 20%, net assets increasing by four times, net profit attributable to shareholders of parent company increasing by four times. For ten consecutive years, we have achieved dividends of more than 30% of net profits.

In the past ten years, we have gone global and in 2020, we ranked among the Fortune Global 500 and Top 50 Global Pharmaceuticals for the first time.

Looking back, we seized the opportunities given by the times over and over again, especially in the context of the "Health China" development strategy formally proposed in the report of the 19th National Congress. We resonated with the times and played pieces of music of vigorous development.

Three years ago, we completed our first H-share placing, raising funds of HK\$3.116 billion; we successfully acquired 100% equity interest in Cardinal China, establishing our position as the second largest pharmaceutical business in China; and in the same year, we established our overseas headquarters in Hong Kong, taking an important step towards internationalization.

Chairman's Statement

Two years ago, the first share option scheme of Shanghai Pharmaceuticals was formally implemented, achieving a breakthrough from 0 to 1 in the reform of market-based incentive mechanism, which was also the first important initiative of the Company after it was listed as a pilot enterprise of the "Double Hundred Action" of state-owned enterprise reform.

One year ago, from an extraordinary beginning, we experienced a pandemic, a turnaround and a change unseen in a hundred years.

Faced with the "big test" for all mankind, we gave full play to the advantages of the full industrial chain of industry and commerce, production and research, and made every effort to achieve our mission. From the beginning of the fight against the pandemic, all staffs were scrambling around the country to open up the lifeline of scarce medical supplies. We also worked overtime to produce the top ten types of anti-pandemic drugs, to expand production capacity and export to dozens of countries. At each key point of the battle against the pandemic, Shanghai Pharmaceuticals has proven the corporate mission with actions – "Perseverance, committed to enhancing people's healthy living quality" which is not just a slogan.

Only when we share the same frequency can we resonate. This year, we were confirmed as Shanghai emergency medical supplies guarantee base, expanded a large number of supplies and equipment business categories, smoothly started Baoshan super factory and logistics center, Shanghai biopharmaceutical industry incubation base, Lingang pharmaceutical supplies import and export center and many other major projects, thus ushering in the prelude of a new era.

The reason why we can always step on the beat of the times and keep the exciting and progressive dance is inseparable from the **innovative development strategy** of Shanghai Pharmaceuticals.

Innovation is not only the theme through the times, but also the strongest sound that leads each phrase.

In the innovation development in line with the trend of the times, we gradually worked out a set of mature system, and continuously polished and optimized along each dimension, not letting go of any opportunity for leapfrog development under the tone of progressive innovation.

In terms of **product innovation**, we continued to significantly increase our R&D investment for several years, from RMB618 million in 2015 to RMB1.972 billion in 2020, more than tripling in five years; our innovative drug pipeline also grew from 11 products in 2018 to 25, 15 of which entered the clinic trial or went to market. We also had our first independent innovative drug that entered clinical phase III. By the end of this year, we expected the number of our pipeline to be over 30, with several projects entering clinical phase III.

In terms of **business innovation**, we continued to use our existing strength as a “springboard” for new business, expanding our business territory at a steady pace. In 2020, relying on our leading position in domestic vaccine distribution, we further extended our layout to the front-end of production and research. In August, we entered into a strategic partnership with CanSino. In November, we participated in the Series A financing of Chengdu Wesker as the lead investor. We also established a rare disease business unit and legal entity based on the most comprehensive range of in-production rare disease drugs in China and were working on rare diseases with a two-pronged approach of self-development + BD to meet the “unmet clinical needs” of patients.

In terms of **business model innovation**, we also fully utilized the magic formula of **combining finance and industry** to get out of the “comfort zone”, create a “friend zone” and build an “ecosphere”. Our Internet e-commerce platform SPH Cloud Health and innovative financial payment platform Meditrust Health respectively completed Series B financing with a fundraising scale of more than RMB1 billion and high-end generic drug technology platform Huiyong Drug Research also completed Series A financing; as a cornerstone investor, we participated in the IPO of Allist on the science and technology innovation board and SciClone Pharmaceuticals on the Hong Kong Stock Exchange and reached cooperation in pharmaceutical business, realizing the linkage and mutual promotion of investment and business; we established “industry-university-research” platforms with a number of universities, medical institutions and research institutes, and successfully transformed a number of cutting-edge projects including CAR-T cell therapy. We also participated in the establishment of the first phase of the RMB50 billion Shanghai Biomedical Industry Fund, forming strategic synergies in various aspects such as identification of high-quality targets, incubation of early-stage projects and layout of innovative fields.

In the most fundamental aspect of **institutional innovation**, we have been exploring the optimal combination of setting grand goals and staying down-to-earth. How to reward and support dedicators? How to give discipline and spur to those who are slack? How to continuously stimulate the vitality of the team? In the past year, we have made a lot of big moves, including the implementation of the first share option scheme, the launch of the market-standard R&D innovation medium and long-term incentive plan, the promotion of mixed ownership reform at all levels, and so on. In the future, we will not forget our original intention and continue to introduce innovative initiatives of institutional mechanisms that are more suitable for the genes of Shanghai Pharmaceuticals, more suitable for the characteristics of the industry and more adaptable to the development of the times. As the times go on, reform will not stop.

For Shanghai Pharmaceuticals, with a history of 100 years and revenue of nearly RMB200 billion, any innovation is like pushing a stationary flywheel, which requires great efforts to obtain sufficient initial acceleration. But as long as we are consistent in the right direction, each turn of effort will drive the flywheel faster and faster, and eventually accumulate strong kinetic energy to form the momentum of rolling forward. **This is the “flywheel effect”.**

Our flywheel has been on the same track with the times and has been rotating for several springs and autumns. The times will be our most powerful gas pedal.

Management Discussion and Analysis

PERFORMANCE ANALYSIS

Under the impact of COVID-19, the year 2020 witnessed increasingly severe and complicated international situation and accelerated pace of change of domestic pharmaceutical manufacturing. Under the background of “national joint procurement”, the industry enters the competition stage of stock game and incremental grabbing. Facing the new situation, new starting point and new development, the Company, on one hand, adhered to the four development strategies of “innovation, intensification, internalization and combination of industry and finance”, and strove to complete the annual operation targets and key tasks, on the other hand, took up the heavy responsibility and implemented the anti-pandemic supply work with dedication, professional knowledge and efficient execution and interpreted with actions the initial goal of safeguarding people’s life and health, thus winning the unanimous recognition from all walks of life.

The year 2020 was also a year of milestones. As a leading enterprise in Shanghai’s biopharmaceutical manufacturing, the Company entered the world’s top 500 and global pharmaceuticals top 50 for the first time, further establishing its leading position in the industry.

Overcoming difficulties and achieving positive growth in operating income in both segments (up by 2.86%)

During the Reporting Period, the operating income of the Company amounted to RMB191.909 billion (a year-on-year increase of 2.86%). Among them, the revenue of pharmaceutical manufacturing amounted to RMB23.743 billion (a year-on-year increase of 1.08%). The revenue of pharmaceutical service amounted to RMB168.166 billion (a year-on-year increase of 3.12%).

Making proactive response and achieving double-digit growth rate of net profit attributable to shareholders of the parent company (up by 10.17%)

The Company recorded RMB4.496 billion of net profit attributable to shareholders of the listed company, representing a year-on-year increase of 10.17%; RMB6.153 billion of net profit attributable to shareholders of listed company plus R&D expenses, representing a year-on-year increase of 13.30%; RMB3.821 billion of net profit attributable to shareholders of listed company, net of non-recurring profit and loss, representing a year-on-year increase of 10.41%.

Main business of pharmaceutical manufacturing contributed profits of RMB2.253 billion, representing a year-on-year increase of 8.56%; total profit contributed by manufacturing plus R&D expenses was RMB3.91 billion, representing a year-on-year increase of 14.15%; main business of pharmaceutical service contributed profits of RMB2.514 billion, representing a year-on-year increase of 13.21%. All main businesses maintained rapid growth. Shareholding enterprises contributed profits of RMB1.01 billion, representing a year-on-year increase of 31.93%.

Accelerating transformation and contributing R&D investment of nearly RMB2 billion (up by 30.70%)

The R&D investment reached RMB1.972 billion, representing a year-on-year increase of 30.70%, including RMB1.657 billion of R&D expenditure, representing a year-on-year increase of 22.76%.

Achieving high quality development and continuous improvement in operating cash flow (up by 13.65%)

The operating net cash inflow of the Company amounted to RMB6.845 billion, representing a year-on-year increase of 13.65%. Among them, operating net cash inflow of pharmaceutical manufacturing amounted to RMB3.542 billion and operating cash net inflow of pharmaceutical service amounted to RMB3.888 billion.

OPERATING HIGHLIGHTS OF THE COMPANY

Pharmaceutical manufacturing

During the Reporting Period, the Company's sales revenue from pharmaceutical manufacturing was RMB23.743 billion (a year-on-year growth of 1.08%); **its gross profit margin was 58.14% (a year-on-year increase of 0.62 percentage point)**. Among them, the sales revenue of 60 key varieties was RMB13.318 billion, representing a year-on-year decrease of 1.55% and the average gross profit margin was 70.51%, mainly due to the impact of the pandemic at the beginning of the year, but the second quarter saw gradual stabilization and rebound.

- **Products and manufacturing**

During the Reporting Period, the Company actively updated its product planning according to market changes, built a product chain of **the first generation of sales, development and layout** and strengthened lean and intensive control in both marketing and manufacturing in the industrial segment, both of which reaped good results.

1. **Significant increase in the number of products with sales revenue of over 100 million to 42**

Based on the focus strategy of big products, the Company centered "one strategy for one product" and achieved **to increase the number of products with annual industrial sales revenue of over 100 million from 35 in 2019 to 42**, covering cardiovascular, digestive system, immunometabolic, systemic anti-infection, psycho-neurological and anti-tumor fields.

During the Reporting Period, the Company further focused on the specialized fields by studying and analysing the policy impact and industry change trends, made efforts to build a high-quality marketing team, expanded the coverage of medical institutions, precisely formulated marketing strategies, continuously adjusted marketing methods and carried out various product promotion activities in a professional and compliant manner. Over 100 million varieties such as trypsin for injection, Guanxinling tablets, sodium thiosulfate for injection, polymyxin sulfate for injection, and eurycomycin for injection (Kailikang) achieved rapid year-on-year growth in sales revenue by improving the sales model and strengthening market access.

Among them, Kailikang was successfully covered by the national medical insurance through the national talk at the end of 2019, and vigorously self-operated and promoted in 2020 with more than 900 hospitals newly developed, achieving good results.

Management Discussion and Analysis

2. Significant breakthrough in international market development

Under the coordinated promotion of the newly established International Business Division, the Company actively expanded overseas sales of industrial products amid the pandemic. On one hand, the Company achieved breakthroughs in access to dozens of countries and regions through accelerated approval of export registration for anti-pandemic drugs; on the other hand, the Company keenly seized the opportunity arising from adjustment of the international market supply pattern of Active Pharmaceutical Ingredients (APIs) to further increase its market share in more than 50 countries where APIs were already sold.

During the Reporting Period, the Company responded to the national “Belt and Road” policy and implemented the Group’s internationalization strategy by launching the Ethiopia pharmaceutical plant project. Leveraging on the construction and management experience of the Company’s existing overseas industrial enterprises and mature production processes, the Company was proposed to build a new pharmaceutical plant in Ethiopia, which will become the second production and marketing base of Shanghai Pharmaceuticals in Africa and the first penicillin and cephalosporin pharmaceutical plant in Ethiopia.

3. Technology empowerment and industrialization through cutting-edge technology

During the Reporting Period, the Company jointly applied for the Shanghai Municipal Science and Technology Major Project “Ultra-limited Manufacturing”, which was approved by the Shanghai SASAC and Shanghai Municipal Science and Technology Commission officially launched in June 2020. The project, led by academician Qian Xuhong (錢旭紅), was jointly constructed by Shanghai Pharmaceuticals, East China Normal University and East China University of Science and Technology, focusing on replacement of the traditional kettle process with continuous production process and leading a major change in API manufacturing. In addition, the Company continued to track the international cutting-edge technology, promote the application of continuous flow technology production, carry out the research and development of flow process technology for rabepazole and other five products. While significantly improving production safety, the Company reduced the cost of raw materials by over 30% and applied for patents.

The Company continued to strengthen quality management, improve the quality management system of the whole life cycle; focus on lean production and continue to promote cost reduction and efficiency; promote the construction of technology innovation center, accelerate the application of advanced technology and product secondary development, continue to promote the development of new generic drugs; improve the project management system, continue to promote intelligent manufacturing; improve the centralized procurement system and deepen supply chain management.

4. Organizational reform and optimization and establishment of rare disease platform company

During the Reporting Period, the Company further promoted the reform and optimization of the Group’s organization:

- Refined the organizational system of functional department of the Marketing Center, adjusted and strengthened the functions of the Marketing Management Department, focused on efficiency and synergy, and strengthened the functions of the Marketing Center in medical affairs, marketing, product access, lean management, marketing informatization, pharmacovigilance, etc.

- Comprehensively sorted out organizational structure of the Manufacturing Management Center, unified compensation and benefits and promotion channels of the management personnel in the Center and set up a Group Technology Innovation Center (physical operation) under the Manufacturing Management Center to ensure the effective implementation of the Group's development strategies for generic drugs, improved drugs and high-end preparations.
- Established Product Strategy Department to manage the whole cycle of R&D, production and marketing of the Group's industrial products and further improved the efficiency of product planning and execution.
- **On the basis of the Rare Diseases Division, further established the Rare Diseases Platform Company to carry out physical operation. On one hand, pooled the resources of 15 varieties of the National Rare Diseases Drug Key Development List (involving 18 rare diseases) existing in the Group to promote and coordinate management. On the other hand, closely liaised with domestic and foreign R&D institutions and R&D-oriented companies in this field to actively introduce cutting-edge innovative varieties.**

5. Layout of high-end fields and upgrade of manufacturing capacity

During the Reporting Period, the Company further optimized the layout of production bases through the construction of major engineering projects, promoted the matching of preparations and APIs, increased the number of biopharmaceutical and high-end preparation fields and promoted digitalization and intelligent transformation.

- **SPH Biomedicine Industrial Base (No. 92 Zhangjiang Road): As a major engineering construction project of Shanghai in 2020, Shanghai Pharmaceuticals plays a leading role in biopharmaceutical manufacturing, focusing on therapeutic antibodies, cell therapy, gene therapy, microecology and other biopharmaceutical innovation fields, and making every effort to build a leading national innovation incubator and CDMO platform and antibody industrialization platform. The production area of antibody industrialization will reach 100,000 square meters and bioreactor scale will reach 120,000 liters. The project is located in Pudong New Area, Shanghai, covering an area of 228 mu, with a total construction area of 400,000 square meters. The first phase is expected to be completed in 2023.**
- Baoshan Pharmaceutical Industry Park of Shanghai Pharmaceuticals: the project is located in Baoshan District, Shanghai, the product mainly focuses on innovative drugs and improved new drug preparation products, in line with global advanced production and management levels and is positioned to be a leading domestic and international high-end preparation super factory.
- SPH Jinshan Green Pharmaceutical Excellence Base: the project is located in Shanghai Jinshan Second Industrial Zone, covering an area of 78 mu for Phase I. It is intended to build an intensive, green, intelligent and information-based national API green factory, to realize the new products under research and the major special project "over-limit manufacturing" of Shanghai and to lead a major change in API manufacturing.

Management Discussion and Analysis

- Shanghai Pharmaceuticals Modern Traditional Chinese Medicinal (TCM) Base (Qingpu – SPH Xingling): located in Qingpu, Shanghai, covering an area of 64 mu, the project is expected to be completed and put into operation in 2021. As a pilot base for the Group's intelligent manufacturing, it will produce high value-added products including artificial musk raw materials, ginkgo biloba extract and Jingyin mixture, etc. Through the deep integration of informationization and automation, it will realize the digital transformation of SPH's TCM production.
- SPH Qingchunbao-Deqing Intelligent Pharmaceutical Factory (Phase I): adopting the new generation of Chinese medicine intelligent manufacturing technology system, led by the team of academician Zhang Boli (張伯禮), jointly developed by Tianjin University of Traditional Chinese Medicine, Zhejiang University and Chiatai Qingchunbao Pharmaceutical Co., Ltd., the project will introduce artificial intelligence and big data technology into the production of Chinese medicine and promote the iterative upgrading of Chinese medicine manufacturing from "experience pharmaceutical" to "scientific pharmaceutical". It was put into operation during the Reporting Period and was certified as the first "intelligent pharmaceutical factory" for Chinese medicine in China in November 2020.

In addition, during the Reporting Period, the groundbreaking of Shanghai Pharmaceuticals Liaoning Green Raw Material Medicine Base (Phase I) was laid in Fushun High-tech Zone in Liaoning Province in June, the groundbreaking of SPH Sine Pingyuan Pharmaceutical Industrial Park project was laid in Pingyuan, Shandong Province in July, and the civil construction of the Phase II project (ADC and large-molecular drug pilot platform) of Northern Pharma in Benxi, Liaoning Province has been basically completed and will be put into operation in 2021. The construction of each project is well underway.

• **R&D and Innovation**

R&D investment reached a new record high with a year-on-year growth of 30.70%

During the Reporting Period, the Company further increased its investment in R&D, with total investment in R&D in 2020 amounting to RMB1.972 billion (including capital investment) (a year-on-year growth of 30.70%), which was 8.31% of sales revenue from manufacturing, of which R&D expenses amounted to RMB1.657 billion (a year-on-year growth of 22.76%), which was 6.98% of sales revenue from manufacturing.

Over the past five years, the Company has continuously increased its R&D investment in accordance with its established innovation and transformation strategy. From RMB670 million in 2016 to RMB1.972 billion in 2020, it has nearly tripled in 5 years, with a cumulative R&D and innovation investment of RMB6.3 billion and a compound annual growth rate of over 30%, firmly moving towards a R&D-driven pharmaceutical company driven by technological innovation.

1. **Enriching its innovative drug pipeline with "self-research + introduction" model**

During the Reporting Period, the Company made more progress in its innovative drug pipeline.

Progress of Class 1 New Drug

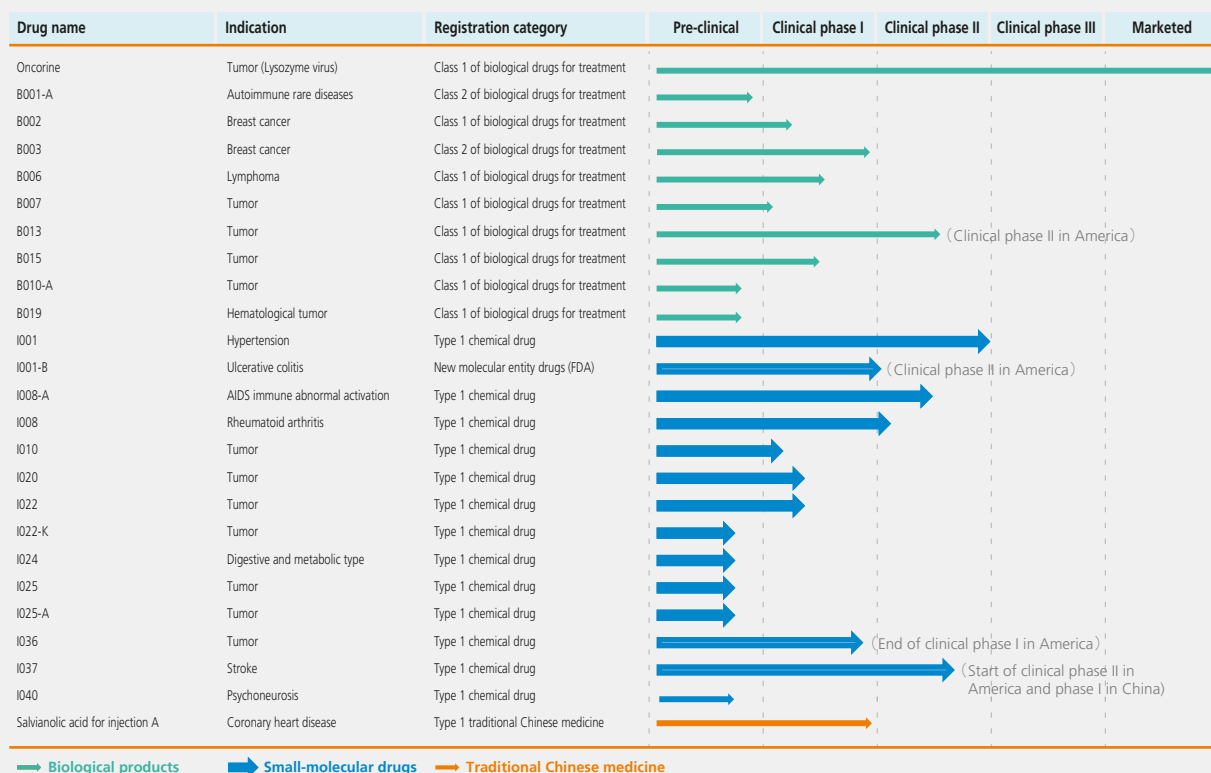
- **The clinical phase II trial on the efficacy and safety of I001 ("SPH3127 Tablets") for the treatment of essential hypertension was completed, and the clinical phase III solution was approved by the CDE to initiate the clinical phase III trial.**

Management Discussion and Analysis

- A major breakthrough in the international registration of innovative projects was achieved. I001-B (“SPH3127 Tablets”) was qualified for clinical trial by FDA and the clinical phase II trial for ulcerative colitis was initiated, expanding the new indications of the project.
- Prolgolimab Injection, a fully human anti-PD-1 monoclonal antibody in collaboration with Russia’s BIOCAD, received a Notice of Clinical Trial and started clinical phase III trial.
- B003 (recombinant anti-HER2 humanized monoclonal antibody for injection – MCC-DM1 coupling agent) completed clinical phase I trial, with clinical phase II/III trial solution designed and is ready for clinical phase II/III trials.
- The initial layout of cell therapy pipeline was completed and three projects were in pre-clinical stage, including B010-A (“Innovative targeted GPC3 CAR-T for advanced hepatocellular carcinoma”) and B019 (“CART for relapsed refractory childhood B-lineage acute lymphoblastic leukemia”), which have started non-registered clinical trials.
- A new generation of recombinant herpes lysing virus B015 (“T3011 (intratumoral injection)”) in collaboration with ImmVira obtained the Notice of Clinical Trial and the first subject was recruited in the clinical phase I trial in May 2020. T3011 is a new generation of lysing virus product integrating the latest concepts and achievements of modern tumor immunotherapy, which is in line with the Company’s strategic direction and is expected to become an important addition and upgrade to the anti-tumor pipeline and accelerate the development of related anti-tumor drugs and the expansion of indications of Shanghai Pharmaceuticals.
- The clinical phase II trial for the anti-rheumatoid arthritis indication of I008 (“Lei Teng Shu”) completed its first subject recruitment in July 2020.
- I020 (“SPH3348 Tablets”) clinical phase I trial completed the first subject recruitment in July 2020.
- I022 (“SPH4336 Tablets”) received the Notice of Clinical Trial and the first subject was recruited in the Phase I clinical trial in November 2020.
- I037 (“LT3001 for injection”), a new drug for acute stroke in collaboration with Taiwan’s Lumosa (6535.TW), received the Notice of Clinical Trial and the first subject was recruited in the Phase I clinical trial in January 2021.
- B007 (“recombinant anti-CD20 humanized monoclonal antibody subcutaneous injection”) received the Notice of Clinical Trial in January 2021.

As of the end of the Reporting Period, the Company had 25 innovative products in its drug pipeline entering the pre-clinical research and later development stages, 15 of which were in the clinic or had been marketed.

Management Discussion and Analysis



Note: Innovative drug pipeline refers to small-molecular, biological antibodies, cell therapy, Traditional Chinese medicine and other innovative projects that enter pre-clinical research and later development stages.

2. Strategic layout of the vaccine field to seize the first opportunity of the quality track

In 2020, a new awareness of the vaccine industry was triggered among the public, industry and capital. During the Reporting Period, the Company actively promoted the strategic layout of vaccines. Relying on its professional technical platform, quality control system and sales network for vaccine industrialization and its leading position in distribution and delivery of class II vaccines, it reached cooperation with leading companies in the industry in various aspects of vaccine development, industrialization, sales and delivery.

In November 2020, the Company also participated as the lead investor in the Series A financing of Chengdu Wesker Biomedical Co. Ltd., which is a biopharmaceutical company established by a team of scientists from West China Hospital led by Professor Wei Yuquan (魏於全), academican of the Chinese Academy of Sciences and director of the State Key Laboratory of Biotherapeutics at Sichuan University, to develop and produce vaccines and innovative oncology drugs, with the main product having completed Phase II clinical trial.

3. Reconstructing R&D institutional mechanism

During the Reporting Period, through continuous exploration of the institutional mechanism and mode of new drug R&D, the Company has initially completed the restructuring of the R&D system, forming a full chain layout from pre-clinical R&D, registration clinical, global R&D cooperation to pilot industrialization. At the same time, the Company reorganized the Science and Technology Innovation Council, with academician Chen Kaixian (陳凱先) as the chairman and academician Pei Gang (裴鋼) as the chief scientific advisor, as a scientific advisory body of the R&D management center, to give professional advice in the process of innovation development planning, innovation project establishment and introduction.

To stimulate innovation vitality, ensure the promotion of the Group's R&D projects with high quality and high efficiency, and realize the continuous enrichment of the Group's innovative product pipeline, **the Company introduced a new institutionalized medium- and long-term incentive scheme and cross-departmental long-term collaboration mechanism in line with the market-based R&D innovation incentive mechanism in medium and long term for science and technology innovation personnel and gave R&D personnel various incentive methods such as project follow-on investment and profit commission of scientific research results.**

4. Promotion of innovation by combining industry and finance

In recent years, the Company has been actively exploring the innovation system of mixed ownership system and playing the driving role of diversified equity structure on innovation. During the Reporting Period, Fudan Zhangjiang, an innovative drug company of which the Company is the largest shareholder, was successfully listed on the Science and Technology Innovation Board; Shanghai Huiyong Drug Research Company, formed in 2018 with a team of domestic experts in preparations, implemented the founding team's shareholding, and the Company entered the Series A financing two years after its establishment; a number of mixed ownership R&D innovation platforms built with a team of professors from Jiao Tong University School of Medicine and other experts are being established.

The Company also participated in the establishment of the Shanghai Biomedical Industrial Equity Investment Fund with a total amount of RMB50 billion, which completed the first fund raising of RMB7 billion during the Reporting Period. The Company expects to form various strategic synergies with the fund in the future to achieve a broader layout in the field of biopharmaceutical innovation, deepen synergy and ecosystem construction in the pharmaceutical and medical industries, and more flexible and market-oriented capital operation, thus helping the Company to accelerate its innovation transformation.

During the Reporting Period, the Company also established a new joint venture with Zhejiang Jiuzhou Pharmaceutical Co., Ltd. to jointly develop high-end formulations and improved drugs. This is the first time in China that two listed companies try to integrate the development of raw materials and preparations through a new joint venture since the formal implementation of MAH system. Through in-depth strategic cooperation with high quality suppliers of upstream APIs, the Company can ensure the supply of APIs for the products in production and development, and accelerate the international certification of products and international market development.

Management Discussion and Analysis

5. Promote the industrialization of innovative achievements through industry-university-research cooperation

The Company carried out high-level innovation cooperation in early incubation of innovative drugs, construction of clinical research platform, innovation and secondary development of TCM, etc. The Company dovetailed with multiple advantageous resources and implemented and promoted cooperation with numbers of universities, hospitals and research institutes in various aspects such as new drug discovery, new mechanism of action, new therapy development and commercialization. During the Reporting Period, the Company continued to strengthen strategic cooperation with universities, research institutes and clinical institutions:

- The Company signed a strategic cooperation framework agreement with Shanghai Jiao Tong University School of Medicine to build an incubation platform of “Shanghai Pharmaceuticals – Innovation Achievements of Shanghai Jiao Tong University School of Medicine” to promote the accelerated development of R&D and industrialization of cutting-edge innovation projects.
- Continued to promote the cooperation with West China Hospital of Sichuan University on innovation projects and in-hospital preparations, established the “Huaxi-SPH West Research and Achievement Conversion Center” and obtained approval for the establishment of the Sichuan Precision Medicine Industry Innovation Center with West China Hospital, developed strategic cooperation with Ruijin Hospital relying on the laboratory and clinical research platform of “National Major Science and Technology Infrastructure for Translational Medicine (Shanghai)”.
- Promoted strategic cooperation with Tianjin University of Traditional Chinese Medicine and Shanghai University of Traditional Chinese Medicine, jointly screened and cultivated large varieties such as Yangxinshi Tablets, Babaodan, Weifuchun Tablets and Wangbi Tablets, carried out secondary development of potential varieties such as Anti-aging Tablets and Yixin Ningshen Tablets, and promoted research on the creation of new traditional Chinese medicines.

During the Reporting Period, the Company has accumulated a lot of scientific research & cooperation with several blockbuster products obtaining substantial progress:

- Signed a strategic cooperation framework agreement with the Center of Excellence in Molecular Cells of Chinese Academy of Sciences to jointly establish the “Center of Excellence of Chinese Academy of Science in Molecular Cells of Chinese Academy of Sciences – Shanghai Pharmaceuticals” innovation incubation platform to realize the incubation and transformation of original scientific research results and cutting-edge innovative technologies of the Center of Excellence in Molecular Cells.
- Signed agreements of CAR-T Clinical Research Technology Transfer and CAR-T Combined Targeted Therapy for Acute Lymphoblastic Leukemia and Lymphoma with National Children’s Medical Center (Shanghai) and Shanghai Children’s Medical Center affiliated to Shanghai Jiao Tong University School of Medicine, respectively, aiming to build a new mechanism of cooperation between institutions and enterprises to efficiently connect clinical research and product development and promote new development of biomedical technology.

- Jointly built the Tumor Cell Therapy Center with the Tenth People's Hospital of Tongji University, which was officially completed and put into use.

6. Smooth progress of consistency evaluation and ANDA review

During the Reporting Period, a total of 16 varieties (18 specifications) passed the consistency evaluation of generic drugs, including: cefadroxil capsules, benazepril hydrochloride tablets, duloxetine hydrochloride enteric capsules, alprazolam tablets, nitroglycerin tablets, metformin hydrochloride tablets and cefradine capsules, which were approved in the fourth quarter. Up to now, the approved varieties of the Company reached 21 (27 specifications) in aggregate, ranking among the top in the industry. The Company has completed the filing of 36 varieties (51 specifications), including 30 varieties (39 specifications) of solid preparations and 6 varieties (12 specifications) of injectables.

In overseas markets, the new generation of anti-epileptic drug eslicarbazepine acetate tablets received provisional approval from the U.S. FDA for four specifications of the drug (i.e., U.S. generic drug application), and six other products (15 product specifications) completed ANDA filings.

In addition, three specifications of Rosuvastatin Calcium Tablets and Carbomer Obstetric Gel received the Drug Registration Certificate from the NMPA during the Reporting Period; as the marketing license holder (MAH) of Bromipyrindamole Tablets and Carbamazepine Tablets, Shanghai Pharmaceuticals received the Drug Manufacturing License from the Shanghai Medical Products Administration during the Reporting Period.

Pharmaceutical service

Stable growth, committed to building a closed loop of medical service ecology

During the Reporting Period, the Company's sales revenue from pharmaceutical distribution business was RMB167.650 billion (a year-on-year growth of 3.24%); its gross profit margin was 6.97% (a year-on-year increase of 0.10 percentage point). The sales revenue from pharmaceutical retail business was RMB8.519 billion (a year-on-year growth of 2.15%); its gross profit margin was 13.48% (a year-on-year decrease of 0.75 percentage point).

While actively maintaining the stable development of its existing commercial business, the Company strove to explore and build new business models and core competencies.

- **Internet layout results present and innovative initiatives recognized by the capital market**

The pandemic prevention and control accelerated the onlineization of hospitals and Internet medical treatment ushered in a development turning point. Health consumption continued to expand and upgrade and home health consumption and Internet health consumption became the new industry and new economy of the health industry. In this context, the Company continued to promote the layout of the pharmaceutical and health industry, extended the medical payment service industry chain, explored diversified innovative payment means, and devoted itself to creating a closed loop of medical service ecology. The Company created a number of industry-first "medicine + insurance" new models, such as patient finance, efficacy insurance and special drug insurance, which have reduced the overall economic burden of patients, society and the government.

Management Discussion and Analysis

SPH Keyuan affiliated to the Company has carried out the Internet hospital drug home delivery project and zero-touch intelligent medicine cabinet project in many hospitals; realized business connection with many Internet medical platforms and established online prescription flow processing mode; completed the construction of e-commerce platform in many provinces and cooperated with pharmacies and clinics in e-commerce business; completed the construction of Boyi SPH Internet technology platform and launched more than 10 DTP pharmacies.

The Company's "Internet+" pharmaceutical service technology platform, SPH Cloud Health, takes "DTP specialized pharmacy" and "Internet+ service" as the two cornerstones of business. During the pandemic period, relying on the advantages of its "Internet hospital + drug supply chain service extension project", it has been accelerating the online treatment of hospitals and has now connected to 232 hospitals. The recent Series B financing of SPH Cloud Health introduced advantageous industrial resources and development funds in the form of capital increase, and the financing amount reached RMB1.033 billion. The financing is conducive to establishing a fully market-oriented governance mechanism and incentive mechanism, further deepening the mixed ownership reform, accelerating the integration of new retail assets and upgrading the pharmaceutical service technology platform, and helping SPH Cloud Health to become a future industry leader. After the completion of the capital increase, the Company has ceased to include SPH Cloud Health's financial results into its consolidated statement, but will still benefit from its development.

The MediTrust Health that the Company has a stake in is a leading brand of innovative medical payment services in China, but also the leader in "Internet + medical + pharmaceutical + insurance" closed-loop ecological model. Currently, MediTrust Health has built a diversified business system covering patient services, commercial insurance services and pharmaceutical company services. Its innovative medical payment and patient benefit platform – "Yaokangfu" provides Internet + medical management services for patients, and is one of the most influential comprehensive drug benefit brands in China. In March 2020, MediTrust Health received strategic Series A+ financing from China Life Reinsurance Company Limited and reached a strategic cooperation agreement. In March 2021, MediTrust Health announced the completion of Series B financing of RMB1 billion, introducing multiple external investment institutions including Shanghai Biomedical Industrial Equity Investment Fund, Ant Group, Sinovation Ventures, Huaxing New Economy Fund and Northern Light Venture Capital.

- **Consolidating the leading position of import agency and achieving fast growth of vaccine business**

The Company made full use of the policy dividend of accelerated approval of innovative drugs to expand its differentiated competitive advantage in import agency, creating a one-stop diversified service from customs clearance to distribution, improving the stickiness of existing customers and attracting new ones.

In terms of imported drugs, the Company successfully introduced 17 import varieties under general agency throughout the year, occupying a leading market share and further strengthening the dominant position of Shanghai Pharmaceutical's import platform in China. Among them, the newly introduced varieties in the fourth quarter include:

- Dompe's Oxervate (Cenegermin-bkbj eye drops): A topical surface eye drop for the treatment of moderate or severe neurotrophic keratitis (NK), and the first application of human nerve growth factor as a drug or treatment. In February 2021, Oxervate was prescribed to the first patient at the Zhongshan Eye Center of Sun Yat-sen University in Guangzhou.
- Takeda China's Entyvio (vedolizumab for injection): the only intestinal selective biological agent currently available in the field of inflammatory bowel disease (IBD), has been marketed in more than 70 countries and regions worldwide, with an overall treatment experience of 510,000 patients/year.

As for imported vaccines, the Company's vaccine business achieved sales revenue of RMB5.226 billion during the Reporting Period, representing a year-on-year increase of 53.19%. The Company's agent, GlaxoSmithKline (GSK) blockbuster variety-the recombinant herpes zoster vaccine (SHINGRIX) was officially launched on 2 July 2020, and achieved sales of RMB487 million for the year. Vaccines occupy an important strategic position for people's health and life safety, so the Company has always maintained a rigorous attitude towards product quality and business development, carefully selected partners and products and ensured full traceability in distribution.

- **Launching the construction of three super logistics centers to enhance the service capability of pharmaceutical security bases**

During the Reporting Period, Shanghai Pharmaceuticals was identified as the only professional medical emergency supplies reserve platform in Shanghai, which includes drugs, vaccines, medical equipment, consumables, diagnostic equipment and ancillary reagents, personal protection, etc. As a modern service industry with high-tech content, pharmaceutical logistics has become an important basic facility in the field of health, with both commercial and social significance. **In 2020, according to the national requirements of "building a modern circulation system", in line with the intensification, modernization and intelligence of the supply chain, the Company promoted the construction of three major super logistics centers of Suide Road Phase II, Baoshan and Lingang.**

- Shanghai Pharmaceuticals Logistics Center Suide Road Phase II Project: The project launch ceremony was held in October 2020 at Suide Depot of Shanghai Pharmaceuticals Logistics Center Co., Ltd, marking another step towards a new starting point in the construction of leading pharmaceutical logistics guarantee work. The second phase of the Suide Road project will take material emergency protection as its core function to meet the needs of Shanghai as a super mega-city health emergency material reserve and effectively improve operational efficiency by configuring a series of automated and intelligent logistics equipment.
- SPH Baoshan Pharmaceutical Super Logistics Center: In accordance with Shanghai's biopharmaceutical manufacturing strategy, the Company launched the construction of SPH Baoshan Pharmaceutical Super Logistics Center during the Reporting Period. The project intended to build an "advanced, intelligent and green" modernized pharmaceutical logistics warehouse serving Shanghai, the Yangtze River Delta and the whole country, and become a strategic reserve center for medical supplies at national, local and military levels, as well as an operation support and display center for online and offline medical services of pharmaceutical health.

Management Discussion and Analysis

- **Lingang Logistics Project:** The project inauguration ceremony was successfully held in Shanghai International Convention Center in July 2020. As a cross-border logistics center located in the new area of Lingang Free Trade Zone, Lingang Logistics Project relies on Lingang Free Trade Pilot Zone to build a whole process pharmaceutical health industry chain. In the future, it will become a high-end industrial logistics base project with pharmaceutical logistics and free trade zone as the carrier, with composite functions, covering six core functions of “management R&D, display, experience, trading, logistics and after-sales service”, and providing a closed loop of the whole life cycle service of pharmaceutical products.
- **Collaborating with innovative pharmaceutical companies to create synergy effect**
 During the Reporting Period, the Company (as a strategic investor for the listing of Shanghai Allist Pharmaceutic Technology Co., Ltd. on the science and technology innovation board) signed a strategic cooperation agreement with the intention to carry out in-depth cooperation in the fields of logistics and warehousing, national distribution, “Internet+” new retail, innovative financial payment and the whole life cycle management of innovative drugs and to help Allist accelerate the commercialization process of its drugs under development and meet the treatment needs of patients. In addition, SPH International Supply Chain Co., Ltd, a subsidiary of the Company, also participated in the listing in Hong Kong, issuance and subscription of SciClone Pharmaceuticals as a cornerstone investor and intended to carry out in-depth cooperation for its marketed and pipeline products.
- **Actively undertaking the centralized procurement varieties, speeding up the network coverage through mergers and acquisitions**
 In 2020, the country implemented the third batch of nationwide centralized procurement of drugs, with the normalization of volume-based procurement. With the continuous expansion of policy impact and coverage, the business coverage area and core competitiveness requirements of pharmaceutical distribution service providers will also be higher. The Company took an active part in the selection of distributors for volume-based procurement varieties, provided value-added services such as market access, stocking and warehousing, and project promotion for the bid-winning enterprises, strove to improve service quality and brand influence, and built long-term and solid relationships with industrial enterprises with quality services. The Company also accelerated the domestic distribution network coverage through mergers and acquisitions. During the Reporting Period, the Company completed the acquisition of Jiangsu Runtian Biochemical Pharmaceutical Co., Ltd, the third-ranked pharmaceutical distribution company in Nanjing, and laid out businesses in Nanjing and Taizhou, forming a business axis of Wuxi-Nanjing-Xuzhou from south to north, truly achieving effective coverage of the whole Jiangsu Province; completed the construction of provincial platforms and network extension layout in Hunan, Yunnan and Shandong provinces, further consolidating the advantages of the national commercial layout.

MAJOR OPERATIONS DURING THE REPORTING PERIOD

Analysis of principal business

1. Analysis on changes in relevant items of statement of profit and statement of cash flows

Unit: RMB

Item	Amount for the Reporting Period	Amount for the same period of last year	Change (%)	Reasons for changes
Operating income	191,909,156,160.88	186,565,796,464.05	2.86	Increase of sales income during the Reporting Period
Operating cost	164,473,961,224.35	159,751,669,602.13	2.96	Increase of sales scale during the Reporting Period
Costs of sales	12,864,843,852.81	12,855,723,141.99	0.07	Increase of sales scale during the Reporting Period
Management expense	4,731,794,293.37	4,651,573,400.28	1.72	Increase of management expense resulting from the increase in the scale of operation during the Reporting Period
R&D expenditure	1,656,670,833.68	1,349,504,051.12	22.76	Increase of investment in R&D during the Reporting Period
Finance costs	1,239,584,410.58	1,258,772,206.26	-1.52	Increase of interest income during the Reporting Period
Losses from impaired assets	898,616,318.25	1,093,122,105.55	-17.79	Decrease of loss resulting from the provision for impairment of goodwill during the Reporting Period
Credit impairment loss	-39,657,678.67	211,071,663.93	/	Reversal of credit impairment of receivable during the Reporting Period
Other income	548,898,062.46	517,063,508.97	6.16	Increase of government grants during the Reporting Period
Investment income	976,194,502.02	653,782,285.09	49.31	Increase of income of long-term equity investments accounted for using the equity method during the Reporting Period
Gains arising from changes in fair value	116,797,793.20	122,162,503.68	-4.39	Decrease in fair value of derivative financial instruments during the Reporting Period
Gains on assets disposal	52,149,230.81	71,336,463.10	-26.90	Decrease of gains from disposal of intangible assets during the Reporting Period
Non-operating income	192,725,699.31	152,850,639.14	26.09	Increase of liquidated damages and compensation obtained during the Reporting Period
Non-operating expenses	201,631,278.24	104,330,648.69	93.26	Increase of compensation loss during the Reporting Period
Net cash flow generated from operating activities	6,844,720,625.06	6,022,385,613.17	13.65	Increase in collection of loans during the Reporting Period
Net cash flow generated from investing activities	-1,705,676,409.44	-4,584,277,541.25	62.79	Increase of cash brought from acquisition during the Reporting Period
Net cash flow generated from financing activities	-1,261,229,815.69	-2,325,798,531.53	45.77	Increase in cash received from the issue of extra short-term financing bills during the Reporting Period

Management Discussion and Analysis

2. Income and cost analysis

(1) 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	23,743,175,872.04	9,713,252,275.05	59.09	1.08	-0.25	+0.54 percentage point
Distribution	167,650,205,994.46	155,633,865,780.21	7.17	3.24	3.09	+0.14 percentage point
Retail	8,519,004,157.66	7,349,288,810.07	13.73	2.15	3.07	-0.77 percentage point
Others	336,926,182.01	232,933,626.70	30.87	11.14	11.50	-0.22 percentage point
Offsetting	-8,826,114,698.47	-8,706,291,103.61	/	/	/	/

(2) 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 Sales	188,369,663,807.76	162,090,267,810.15	13.95	2.65	2.70	-0.04 percentage point
Overseas Sales	3,053,533,699.94	2,132,781,578.27	30.15	24.39	23.29	+0.62 percentage point

(3) Principal business by product field

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 same products in the same industry and field (%)
Cardiovascular system	552,472	157,184	71.55	-1.60	2.66	-1.18	62.34
Digestive and metabolism	208,834	78,066	62.62	11.01	2.53	3.09	35.22
Systemic anti-infection	205,642	115,353	43.91	-21.27	-18.15	-2.14	19.93
Central nervous system	134,170	28,534	78.73	40.65	1.41	8.23	72.62
Anti-tumour and immunomodulatory agents	149,508	27,590	81.55	20.14	19.86	0.04	58.93
Musculoskeletal system	100,377	23,937	76.15	-0.83	8.74	-2.10	/
Respiratory system	141,784	38,314	72.98	-11.13	-18.04	2.28	/
Others	881,531	502,347	43.01	2.79	3.87	-0.60	/
Total	2,374,318	971,325	59.09	1.08	-0.25	0.54	/

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 drugs” products in 2019 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 2019 Annual Report of HPGC;
- ④ The operating income of central nervous system grew at a faster pace with sales of neostigmine in 2020 increasing by RMB200 million as compared with last year. 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 2019 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

(4) Table of analysis of cost

Unit: RMB0'000

		By industry				Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
By industry	Cost composition	Amount for the current 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	708,340.41	72.93	711,292.48	73.05	-0.42	/
	Power expenses	29,807.11	3.07	32,692.18	3.36	-8.82	/
	Depreciation expense	55,984.21	5.76	52,713.99	5.41	6.20	/
	Salaries	76,322.80	7.86	78,199.44	8.03	-2.40	/
	Other manufacturing cost	100,870.69	10.38	98,818.25	10.15	2.08	/
	Total manufacturing cost	971,325.23	100.00	973,716.34	100.00	-0.25	/
Service and others	Cost	16,356,118.15	/	15,865,998.52	/	3.09	/
Offsetting total cost		-880,047.26	/	-864,547.90	/	1.79	/
Total operating cost		16,447,396.12	/	15,975,166.96	/	2.96	/

3. Expenses

See "Analysis of principal business – analysis on changes in relevant items of statement of profit and statement of cash flows" 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.

4. R&D investment

(1) Table of R&D investment

Unit: RMB0'000

Expensed R&D investment for the current period	165,667.08
Capitalized R&D investment for the current period	31,526.86
Total investment in R&D	197,193.94
Proportion of the total amount of R&D investment to operating income (%)	8.31
Number of R&D personnel of the Company	1,347
Proportion of the number of R&D personnel to the total number of personnel of the Company (%)	2.80
Proportion of capitalized R&D investment (%)	15.99

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

(2) R&D investment in major projects

Unit: RMB0'000

R&D projects	R&D Investment amount	Expensed R&D Investment amount	Capitalized R&D Investment amount	Proportion of R&D investment to the operating income (%)	Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
I001 (SPH3127) I001-B (SPH3127)	3,144.32	3,144.32	0	0.13	171	The project completed the clinical phase II while expanding the new indications
I010 (SPH1188)	267.51	267.51	0	0.01	-23 /	
B001-A (Humanized CD20 antibody) B007 (Humanized CD20 antibody)	656.69	656.69	0	0.03	53	The project expanded new indications
I008-A (Lei Teng Shu) I008 (Lei Teng Shu)	1,427.80	1,427.80	0	0.06	111	The clinical phase II trial for two indications was initiated simultaneously
B002 (Her2 compound antibody)	806.28	806.28	0	0.34	3 /	
Salvianolic acid A for injection	682.17	682.17	0	0.03	21.47 /	
B003 (T-DM1)	1,972.70	1,972.70	0	0.08	35	Completed the clinical phase I

Note: Operating income was the corresponding manufacturing operating income of that product during the Reporting Period.

Management Discussion and Analysis

(3) Major R&D projects

Unit: RMB0'000

No.	R&D project	Name of drug (product)	Classification of registration	Indications or main function	Whether it belongs to prescription drugs	Whether it belongs to the protection varieties of traditional Chinese medicines (if available)	Phase of R&D (Registration)
1	I001 (SPH3127)	/	Class 1 of chemical drugs	Hypertension	/	/	Clinical phase II
2	I010 (SPH1188)	/	Class 1 of chemical drugs	Non-small-cell lung cancer	/	/	Clinical phase I
3	B001-A (Humanized CD20 antibody)	/	Class 1 of biological drugs	CD20 positive B-cell non-Hodgkin's lymphoma	/	/	Clinical phase I
4	I008 (Lei Teng Shu)	/	Class 1.1 of chemical drugs	Rheumatoid arthritis	/	/	Clinical phase II
5	B002 (Her2 compound antibody)	/	Class 1 of biological drugs	Her2-positive breast cancer	/	/	Clinical phase I
6	Salvianolic acid A for injection	/	Class 1 of Traditional Chinese Medicine	Cardiovascular and vascular system drug	/	/	Completed clinical phase I studies
7	B003 (T-DM1)	/	Class 1 of biological drugs	Breast cancer	/	/	Clinical phase I

Note: "/" represents that the R&D project is under research and development and certain contents are not available.

(4) Basic information of consistency evaluation projects

During the Reporting period, a total of 16 varieties (18 specifications) of the Company passed the consistency evaluation (excluding new generic drugs under application, the same below); 16 varieties (20 specifications) completed the application of the consistency evaluation, among which, 11 specifications have been submitted for evaluation (being accepted).

Management Discussion and Analysis

No.	Consistency evaluation projects	Classification of registration	Indications or main function	Whether it belongs to prescription drugs	Whether it belongs to the protection varieties of traditional Chinese medicines (if available)	Stage of R&D (Registration)
1	Metformin Hydrochloride Tablets 0.25g	Supplementary Application	Hypoglycemic agent	Yes	No	Approved
2	Metformin Hydrochloride Tablets 0.5g	Supplementary Application	Hypoglycemic agent	Yes	No	Approved
3	Levonorgestrel Tablets 0.75mg	Supplementary Application	Contraceptive drug	Yes	No	Approved
4	Levonorgestrel Tablets 1.5mg	Supplementary Application	Contraceptive drug	Yes	No	Approved
5	Ambroxol Hydrochloride Capsules	Supplementary Application	Expectorant and antitussive drug	Yes	No	Approved
6	Telmisartan Tablets	Supplementary Application	Anti-hypertension drug	Yes	No	Approved
7	Nitroglycerin Tablets	Supplementary Application	Vasodilator	Yes	No	Approved
8	Alprazolam Tablets	Supplementary Application	Sedative-hypnotic drug	Yes	No	Approved
9	Amiodarone Hydrochloride Tablets	Supplementary Application	Antiarrhythmic drugs	Yes	No	Approved
10	Duloxetine Hydrochloride Enteric-coated Capsules	Supplementary Application	Antidepressants	Yes	No	Approved
11	Dexopropionone Tablets	Supplementary Application	Sedative-hypnotic drug	Yes	No	Approved
12	Cefradine Capsules	Supplementary Application	Antibiotics	Yes	No	Approved
13	Benazepril Hydrochloride Tablets	Supplementary Application	Angiotensin-converting enzyme inhibitor I	Yes	No	Approved
14	Cefalexin Capsules	Supplementary Application	Antibiotics	Yes	No	Approved
15	Clindamycin Hydrochloride Capsules	Supplementary Application	Anti-infective drug	Yes	No	Approved
16	Clozapine Tablets	Supplementary Application	Antianxiety drug, Anticonvulsant drug	Yes	No	Approved
17	Amlodipine Besylate Tablets	Supplementary Application	Anti-hypertension drug	Yes	No	Approved
18	Captopril Tablets	Supplementary Application	Angiotensin-converting enzyme inhibitor	Yes	No	Approved
19	Methotrexate Tablets	Supplementary Application	Antineoplastic drug	Yes	No	Under CDE evaluation
20	Clozapine Tablets	Supplementary Application	Antianxiety drug, Anticonvulsant drug	Yes	No	Under CDE evaluation

Management Discussion and Analysis

No.	Consistency evaluation projects	Classification of registration	Indications or main function	Whether it belongs to prescription drugs	Whether it belongs to the protection varieties of traditional Chinese medicines (if available)	Stage of R&D (Registration)
21	Amiodarone Hydrochloride Tablets	Supplementary Application	Antiarrhythmic drug	Yes	No	Under CDE evaluation
22	Warfarin Sodium Tablets	Supplementary Application	Antithrombotic drug	Yes	No	Under application
23	Neostigmine Methylsulfate Injection	Supplementary Application	Anticholinesterase drug	Yes	No	Under CDE evaluation
24	Alfacalcidol Capsule (two specifications)	Supplementary Application	Vitamin	Yes	No	Under application
25	Lorazepam Tablets	Supplementary Application	Antianxiety drug	Yes	No	Under CDE evaluation
26	Telmisartan Tablets	Supplementary Application	Anti-hypertension drug	Yes	No	Under CDE evaluation
27	Flunarizine Hydrochloride Capsules (the same variety applied by different subordinated enterprises)	Supplementary Application	Drug for cerebrovascular disease and drug for reduced intracranial pressure	Yes	No	Under CDE evaluation Under application
28	Octreotide Acetate Injection	Supplementary Application	Systemic hormonal preparations (excluding sex hormone and insulin)	Yes	No	Under application
29	Azithromycin Tablets	Supplementary Application	Antibiotics	Yes	No	Under CDE evaluation
30	Clindamycin Hydrochloride Capsules (two specifications)	Supplementary Application	Anti-infective drug	Yes	No	Under application
31	Hydroxychloroquine Sulfate Tablets (two specifications)	Supplementary Application	Antimalarial drugs	Yes	No	Under CDE evaluation
32	Oseltamivir Phosphate Capsules	Supplementary Application	Antiviral drug	Yes	No	Under CDE evaluation
33	Aripiprazole Tablets	Supplementary Application	Antipsychotic drug	Yes	No	Under application
34	Folic Acid Tablets	Supplementary Application	Vitamin	Yes	No	Under application

Note: The data of “Stage of R&D (Registration)” was from the official website of CDE.

The R&D investment of the Company grew in a sustained and steady way, to ensure that there were new products set up and new products approved to be listed in the existing R&D product line, which provided the impetus for the Company to keep a stable and sustainable development and continuously enhanced the core competitiveness of the Company.

(5) Information about drug (product) that obtained approval

During the Reporting Period, the Company obtained clinical approval for 4 drugs, obtained production approval for 4 drugs and obtained production permit for 2 drugs.

No.	Drugs (products) that obtained approval	Approval matters	Acceptance of application No./ Approval No.	Indications	Classification of registration
1	SPH4336 Tablets	Clinical	CXHL2000137Guo	Tumor	Class 1 of chemicals drug
2			CXHL2000138Guo		
3	LT3001 for injection		JXHL2000142Guo	Acute ischemic stroke	Class 1 of chemicals drug
4	Humanized CD20 antibody	Manufacturing	CXSL2000334Guo	CD20 positive B-cell non-Hodgkin's lymphoma	Class 1 of biological drugs for treatment
5	Rosuvastatin Calcium Tablets (5mg)		National drug approval No. H20203478	Lipid regulation and anti-atherosclerosis	Class 4 of chemicals drug
6	Rosuvastatin Calcium Tablets (10mg)		National drug approval No. H20203479		
7	Rosuvastatin Calcium Tablets (20mg)		National drug approval No. H20203480		
8	Carbomer Obstetric Gel		National drug approval No. H20203283	Shorten delivery course and prevent birth trauma	Class 3 of chemicals drug
9	Pyridostigmine Bromide Tablets		Hu20200205	Myasthenia gravis, etc.	Chemicals drug
10	Carbamazepine Tablets			Complex partial seizure, etc.	Chemicals drug

(6) Information on international certification of drugs (products)

During the Reporting Period, the Company actively carried out international certification of drugs. The new ulcerative colitis indications of SPH3127 have received clinical acquiescence from U.S. FDA. 15 drugs have completed ANDA, including: Zhongxi-Hydroxychloroquine Sulfate raw materials, Hydroxychloroquine Sulfate Tablets (200mg), Philadelphia-Colesevelam dry suspension, Colesevelam Tablets, Pregabalin Capsule (50mg, 75mg, 100mg, 150mg, 200mg, 225mg, 300mg) and Captopril Tablets (12.5mg, 25mg, 50mg, 100mg); 4 drugs have received conditional marketing approval from FDA, namely Zhongxi-Eslicarbazepine Tablets (200mg, 400mg, 600mg and 800 mg).

5. Cash flows

The net cash flow generated from operating activities of Shanghai Pharmaceuticals was RMB6,845 million during the Reporting Period, representing a year-on-year increase of 13.65%, providing a better cash inflow from the operating activities; the net cash flow generated from investing activities was RMB-1,706 million; and the net cash flow from financing activities was RMB-1,261 million. The net cash flow generated from operating activities accounted for 122.11% of net profit, representing a decrease of 2.56 percentage points over the same period of last year.

Management Discussion and Analysis

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	501,339.00	0.0003	3,027,011.42	0.002	-83.44	Decrease in fair value of financial assets measured at fair value during the Reporting Period
Non-current assets due within one year	105,325,100.98	0.07	23,257,721.60	0.02	352.86	Increase of long-term receivables due within one year during the Reporting Period
Long-term receivables	169,846,933.41	0.11	265,642,096.94	0.19	-36.06	Increase of long-term receivables due within one year during the Reporting Period
Long-term equity investments	6,651,064,005.61	4.46	4,853,779,059.53	3.54	37.03	Increase in investments in associates and joint ventures during the Reporting Period
Other equity instrument investments	33,051,720.32	0.02	194,183,980.82	0.14	-82.98	Disposal of certain financial assets during the Reporting Period
Other non-current financial assets	978,557,029.53	0.66	384,398,172.73	0.28	154.57	Increase of financial assets measured at fair value during the Reporting Period
Intangible assets	5,195,253,776.03	3.48	3,930,371,809.89	2.87	32.18	Increase of purchase of land use rights during the Reporting Period
Other non-current assets	392,501,251.42	0.26	3,267,487,855.84	2.38	-87.99	Decrease of prepaid investment and land cost during the Reporting Period
Derivative financial liabilities	9,314,855.96	0.006	1,724,460.87	0.001	440.16	Increase in fair value of financial assets measured at fair value during the Reporting Period
Non-current liabilities due within one year	8,968,037,785.73	6.01	1,188,602,322.14	0.87	654.50	Increase of long-term borrowings due within one year and bonds payable during the Reporting Period
Other current liabilities	5,018,616,438.36	3.36	-	/	/	Increase of extra short-term financing bills during the Reporting Period
Long-term borrowings	1,184,078,311.36	0.79	6,135,992,761.69	4.48	-80.70	Increase of long-term borrowings due within one year during the Reporting Period
Bonds payable	-	/	2,998,228,732.34	2.19	/	Classification of bonds payable to non-current liabilities due within one year during the Reporting period
Accrued liabilities	25,760,655.02	0.02	70,923,169.00	0.05	-63.68	Decrease in pending litigation during the Reporting Period
Deferred gains	2,224,069,068.73	1.49	1,278,726,271.79	0.93	73.93	Increase of relocation compensation during the Reporting Period

Analysis on Investment Conditions

1. Overall analysis on external equity investments

Unit: RMB0'000

Amount of investment during the Reporting Period	328,846.72
Increase or decrease in amount of investment	205,251.67
Amount of investment in the same period of last year	123,595.05
Percentage of increase or decrease in amount of investments (%)	166.07

Management Discussion and Analysis

2. Major equity investment

As at 31 December 2020, the Company did not have any significant investment under paragraph 32(4A) of Appendix 16 to the Hong Kong Listing Rules.

During the Reporting Period, the material acquisitions or disposal of subsidiaries, associates and joint ventures were as follows:

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
Sichuan Guojia Medical Technology Co., Ltd.	2 January 2020	189,358.90	Production and sales of drugs	51.00%	Own fund	Third parties	306,597.25	13,392.85	No

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

Unit: RMB100 million

Company Name	Business Nature	Shareholding Percentage	Registered Capital	Assets Scale	Owners' Equity	Operating Income	Net Profit
Shanghai Pharma Co., Ltd.	Sales of drugs	100.00%	50.00	578.20	145.24	1,028.09	17.17
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100.00%	13.00	270.71	66.17	424.90	9.08
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100.00%	11.92	55.55	28.28	58.16	5.31
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	2.25	21.97	13.07	28.89	2.22
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	18.18	12.09	18.88	0.46
Shanghai TCM Co., Ltd.	Production and sales of drugs	100.00%	14.76	73.81	39.49	57.82	4.22
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75.00%	1.29	37.68	16.78	13.28	1.22
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	0.79	41.58	23.78	54.05	2.82
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	5.46	35.05	29.17	12.54	6.23
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	12.15	8.03	14.03	1.05
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	7.70	5.71	5.51	0.68
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	0.84	4.70	3.42	4.33	0.62
Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	0.51	9.48	5.20	7.50	0.67
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	5.94	3.20	4.14	0.05
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	1.01	2.28	1.20	1.65	-0.01
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical instruments	100.00%	1.27	6.04	3.39	4.17	0.11
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	1.41	5.51	3.89	2.69	0.40
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	9.83	2.13	13.74	0.67
Zeus Investment Limited	Production and sales of healthcare products	59.61%	AUD3.19	23.97	8.97	9.14	0.02
TECHPOOL Bio-pharma Co., Ltd.	Production and sales of drugs	67.14%	1.00	18.10	13.92	12.16	1.64

Management Discussion and Analysis

CORE COMPETITIVENESS ANALYSIS

1. *Advantages of the industrial chain value*

Shanghai Pharmaceuticals 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.

2. *Product structure advantages*

The Company has profound history. Over the years, it owns rich product resources. It produces nearly 700 varieties of traditional Chinese medicine and chemical medicine 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 continues to improve its product structure through an open and diversified innovation model, actively laying out and developing therapeutic antibodies, gene therapy, immune cell therapy, vaccines, microecology, rare disease drugs and other fields, and laying out next-generation products through product planning to continuously build a product chain with clinical value that meets clinical needs.

3. *Innovative platform advantages*

The Company has been steadfastly laying out its innovation transformation since several years ago, continuously increasing its R&D investment, relying on the multi-faceted resource advantages of being a large state-controlled pharmaceutical group, promoting an open and diversified innovation model based on independent R&D + external cooperation, thus to continuously build a product chain with clinical value. The Company has improved its open innovation layout, built an international R&D center, laid out the frontier fields of biopharmaceuticals such as cell therapy, lysing virus and ROR1 antibody, established a joint venture with Russian enterprise BIOCAD to develop bio-innovative drugs, and extensively cooperated with universities and colleges, research institutes and medical institutions to establish strategic cooperation and project cooperation on project aspect and jointly develop innovative drugs and therapies. The Company has launched the construction of a number of major innovation platforms for the key steps and major shortcomings of innovative drug R&D, forming a complete innovation value chain from R&D, pilot testing, clinical and industrialization, etc. and has brought into play the leading company-driven effect. As a result, the R&D competitiveness of the Company is gradually coming to the fore.

4. *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 products.

5. *Service innovation advantages*

The Company keeps providing services for reform of public medical institutions and exploring new models and fields with partners through its own supply chain network and information solutions. 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 actively explored new models for the supply and payment of innovative pharmaceutical and health products, pioneered several industry-first cases such as patient finance, efficacy insurance and special drug insurance, and created a closed loop of medical service ecology.

6. *Advantages of financial and industrial 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 the cooperation with investment institutions including Shanghai Biomedical Industrial Equity Investment Fund, the Company has a relatively optimized capital operation ability, thus, it can fully combine industrial capital with financial capital to drive the industrial development.

7. *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

During the 14th Five-Year Plan, as China will further promote the implementation of the “Healthy China” strategy and deepen the reform of the medical and health system, the pharmaceutical industry will also usher in a new era of structural optimization and increased differentiation. During the 14th Five-Year Plan, the overall compound growth rate of the industry will slow down and gradually transform from high-speed development to high-quality development. 2021 is the opening year of the 14th Five-Year Plan, and the development trend will be mainly reflected in the following aspects:

1. With the normalization of nationwide volume-based procurement, common generic drugs will enter the era of micro-profit, and pharmaceutical enterprises will have to work on improving quality and efficiency, strengthening innovation and technological upgrading, while paying more attention to the development of out-of-hospital markets.
2. Increasing market share of innovative drugs. With the accelerated introduction of innovative drugs in the medical insurance catalog, the accelerated release of innovative drugs will be promoted. The innovation of China's local pharmaceutical enterprises has entered an explosive period, coupled with a large amount of capital to promote the domestic innovation ecological field, a number of innovation-driven pharmaceutical enterprises will stand out, the industry is bound to accelerate differentiation, and innovation and transformation will become the core theme of the pharmaceutical industry.

Management Discussion and Analysis

3. Changes in the pharmaceutical market landscape. “DRG” has advanced from the pilot to the actual payment stage, and “DIP” has also entered the pilot operation stage, these changes will promote the reform of the operation mechanism of the pharmaceutical terminal market, thus causing changes in the pharmaceutical market pattern.
4. Under the trend of Internet + Big Data, drug sales terminals are more diversified, which is expected to further give rise to new business models.

Development Strategy

In the context of the reform and development of the domestic pharmaceutical industry, the Company actively grasps the national strategic opportunities, responds to the industrial changes, accelerates the transformation and development, puts forward the development strategy of “driven by scientific and technological innovation to build a leading international pharmaceutical enterprise”, deeply promotes the four major transformation and development initiatives of “innovative development, intensive development, international development and combined development of industry and finance”, comprehensively promotes the digitalization construction of Shanghai Pharmaceuticals, maintains the leading position in the domestic pharmaceutical industry, makes every effort to build a Chinese pharmaceutical industry group with international competitiveness and influence, and makes positive contributions to the health of the public.

- **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 construction 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. Also, it will vigorously promote the construction of 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 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 the Company’ 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 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”.
- 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.
- Empowered by “digitalization construction of SPH”.** The Company will continue to promote the digitalization construction of SPH, enhance management refinement standards with the help of big data and improve system capabilities, thereby building an effective organization.

Business Plan

In 2021, the Company will actively respond to the changes in the industry, ensure good operation, and strive to complete the business performance and make a good start for the “14th Five-Year Plan”.

In terms of business development, the Company will focus on its advantageous resources, continue to make “bigger” potential products in the industrial segment, accelerate the introduction and pilot of innovative business in the industrial segment, and further explore the development potential of the traditional Chinese medicine segment; continue to promote the construction of provincial platforms and rapid development of innovative business in the pharmaceutical business segment, and drive growth with innovation and transformation; and continue to improve the quality of operation to ensure high-quality development.

Management Discussion and Analysis

In terms of scientific and technological innovation, the Company will continue to increase innovation investment in the industrial segment, strengthen scientific and technological innovation capabilities, continue to build an efficient R&D system, improve the quality and quantity of R&D results, promote the construction of a number of major innovation platforms, and accelerate the construction of an integrated innovation incubation and transformation platform from R&D, pilot testing, manufacturing to sales; and continue to promote digital and Internet business development in the commercial segment and accelerate the transformation of service innovation.

In terms of talent team construction, the Company will further strengthen the introduction, development and retention of talents, continuously improve the systematic, scientific and diversified talent ladder of the Company, improve the incentive mechanism and employment mechanism, and further stimulate the potential and motivation of talents. The Company will also continue to improve the construction of corporate culture and thereby enhancing organizational vitality.

In terms of system capacity building, the Company will continue to accelerate the digitalization construction of Shanghai Pharmaceuticals to further enhance system capacity and thereby building an efficient organization.

Potential risk factors

Considering that the epidemic has a wide global reach and may last for a long period, the business development of international trade, international investment and import of bulk raw materials may face fluctuation risks in the short term.

The normalization of medical insurance cost control and payment reform will lead to further price reductions for some drugs. The Company will take the initiative to adjust its market strategy according to market changes, actively expand the international market, accelerate innovation and transformation, thereby striving to market key new products as planned.

Innovative drug research and development projects have long lead times and large investments, and the progress, approval results and timing are subject to certain uncertainties. Therefore, there is a risk that the project development progress or clinical trial results are not as expected. The Company will closely monitor changes in the industry, continue to increase investment in R&D, optimize the allocation of innovation resources, vigorously introduce market-oriented innovative talents to steadily improve innovation competitiveness.

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. For possible risks, the Company will actively propose solutions to lower their overall effect on the business of the Company.

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. 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 annual financial statements of the Group for the year ended 31 December 2020. The annual report has been reviewed by the audit committee of the Company and approved at the 20th meeting of the seventh session of the Board of Directors. PricewaterhouseCoopers Zhong Tian LLP, issued standard unqualified auditor's reports for the financial reports prepared by the Company based on the China Accounting 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, SIIC. 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 VI (1) to the financial statements. 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 chapter headed "Management Discussion and Analysis" above.

RESULTS AND DIVIDEND

The profit of the Group for the year ended 31 December 2020 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 2020: A proposed cash dividend of RMB4.80 (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 2020.

Cash dividend of H Shares is expected to be paid before 30 August 2021. 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 2020 was RMB2,964,512,023.95 based on the financial statements prepared under the China Accounting Standards. In addition, details of the changes in reserves (including the reserve fund available for distribution) as at 31 December 2020 are set out in the Note XVII (6) to the financial statements.

Report of the Board of Directors

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 "2020 Corporate Social Responsibility 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 RMB8,628.00 million, accounting for 4.50% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB2,861.43 million, accounting for 1.49% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB13,554.72 million, accounting for 8.24% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB1,927.88 million, accounting for 1.17% 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 their independence and still considers each of them to be independent.

INTEREST OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

As of 31 December 2020, 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.

Report of the Board of Directors

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save as disclosed in this annual report, during the Reporting Period, the Company or any of its subsidiaries had not entered into any contract of significance with the Controlling Shareholder (as defined under the Hong Kong Listing Rules) or any of its subsidiaries, nor had any contract of significance 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}	-47,425,600	794,489,724	27.954	0	Unknown	Foreign legal person
Shanghai Pharmaceutical (Group)	0	716,516,039	25.211	0	Nil	State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	42,467,200	322,413,498	11.344	0	Unknown	State-owned legal person and foreign legal person
China Securities Finance Corporation Limited	0	85,333,703	3.002	0	Nil	Unknown
Hong Kong Securities Clearing Company Limited ^{Note 2}	1,935,179	50,079,636	1.762	0	Unknown	Foreign legal person
Guosheng Group and Guosheng Asset	1,531,200	44,632,100	1.517	0	Unknown	State-owned legal person
Central Huijin Investment Ltd.	0	24,891,300	0.876	0	Nil	Unknown
NSSF 604 Combination	-234,900	24,251,106	0.853	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 413 Combination	6,089,944	11,160,000	0.393	0	Nil	Unknown

Note 1: Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 100,111,700 H Shares held by SIIC and its wholly-owned subsidiaries and 23,515,100 H Shares held by Guosheng Group and Guosheng Asset 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;

Note 2: 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 2020, 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	1,038,929,537(L)	48.82 (A shares)/ 10.89 (H shares)	36.56
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
BlackRock, Inc.	H shares	Interests of controlled corporation	56,553,192(L) 867,300(S)	6.15 0.09	1.99 0.03
Citigroup Inc.	H shares	Person having a security interest in shares/ interests of controlled corporation/approved lending agent	48,920,812(L) 2,869,700(S) 45,686,275(P)	5.32 0.31 4.97	1.72 0.10 1.61
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 1,038,929,537 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 100,111,700 H Shares were directly held by SIIC group, and 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi Group;

Report of the Board of Directors

- (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 2020, 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.

SHARE OPTION SCHEME

On 18 December 2019, the Company's 2019 share option incentive scheme (the "Option Incentive Scheme") was considered and 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 "Initial Options Grant Date"), pursuant to shareholders' authorization, the Board approved the grant of 25,680,000 share options to 211 participants. Due to the resignation of employee, the Company considered and approved at the meeting of the board on 10 February 2020 to adjust the number of the initial participants from 211 to 210 and the number of initial granted options was adjusted from 25.68 million to 25.60 million accordingly. On 15 December 2020 ("Reserved Options Grant Date", together with "Initial Options Grant Date" collectively referred to as "Grant Date"), pursuant to shareholders' authorization, the Board approved the grant of 2,730,000 share options to 28 participants.

In conclusion, as at 31 December 2020, 28,330,000 A-share share options were granted by the Company.

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.

Report of the Board of Directors

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

The participants under the Option Incentive Scheme, comprise 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	1.694%	0.017%
Li Yongzhong	Executive Director, vice president	39.00	1.377%	0.014%
Shen Bo	Executive Director, vice president, chief financial officer	39.00	1.377%	0.014%
Zhao Yong	Vice President	33.00	1.165%	0.012%
Mao Jianyi	Vice President	33.00	1.165%	0.012%
Gu Haoliang	Vice President	33.00	1.165%	0.012%
Liu Dawei ^{Note 1}	Vice President (resigned)	33.00	1.165%	0.012%
Zhang Yaohua	Vice President	33.00	1.165%	0.012%
Chen Jinzhu ^{Note 2}	Vice President, secretary to the Board, joint company secretary	33.00	1.165%	0.012%
Middle level management and core employees of the Company (201 persons in total, including the initial grant and reserved option grant)		2,509.00	88.563%	0.883%
Reserved shares		2,833.00	100.000%	1.000%
Total		2,509.00	88.563%	0.883%

Note 1: Mr. Liu Dawei resigned as the vice president of the Company on 26 January 2021 (for details, please refer to the Company's overseas regulatory announcement dated 27 January 2021) and his share options granted remained unchanged.

Note 2: Ms. Chen Jinzhu was appointed as the vice president of the Company on 4 March 2021 (for details, please refer to the Company's overseas regulatory announcement dated 5 March 2021) and her share options granted remained unchanged.

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

The number of A-share share options granted under the Option Incentive Scheme is 28,330,000, representing not more than approximately 1% of the total number of Shares of the Company in issue as of the date of this report.

Report of the Board of Directors

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 Option to the number of Share option granted
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

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 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 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.

Report of the Board of Directors

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 2020 are as follows:

Name	Position(s)	Number of options outstanding at the beginning of the Reporting Period (in 10,000 A Shares)	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	0	48.00
Li Yongzhong	Executive Director, vice president	39.00	0	0	0	0	0	39.00
Shen Bo	Executive Director, vice president, chief financial officer	39.00	0	0	0	0	0	39.00
Zhao Yong	Vice President	33.00	0	0	0	0	0	33.00
Mao Jianyi	Vice President	33.00	0	0	0	0	0	33.00
Gu Haoliang	Vice President	33.00	0	0	0	0	0	33.00
Liu Dawei	Vice President (resigned)	33.00	0	0	0	0	0	33.00
Zhang Yaohua	Vice President	33.00	0	0	0	0	0	33.00
Chen Jinzhu	Secretary to the Board	33.00	0	0	0	0	0	33.00
Middle level management and core employees of the Company (201 persons in total after adjustment) under the initial grant		2,244.00	0	0	0	0	-8	2,236.00
Middle level management and core employees (28 persons in total) under the reserved options grant		0	273.00	0	0	0	0	273.00
Total		2,568.00	273.00	0	0	0	-8	2,833.00

Note: Immediately prior to the Initial Options Grant Date (namely 18 December 2019), the closing price of the Company's A Shares was RMB18.07 per A Share; Immediately prior to the Reserved Options Grant Date (namely 14 December 2020), the closing price of the Company's A Shares was RMB19.22 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.

On 10 February 2020, due to the resignation of 1 employee, the Board approved that the above-mentioned employee is disqualified for options and the number of initial granted option of the Company was deducted by 80,000. For details, please refer to the Company's announcement Lin No. 2020-003.

On 15 December 2020, the Board approved the grant of 2,730,000 options to 28 participants.

As of 31 December 2020, no initial granted options and granted reserved options were exercised and cancelled.

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. As the valuation of options are subject to a number of assumptions and with regard to the limitation of the B-S model, the Company would like to remind all the shareholders and potential investors of the Company that the estimation of such value is subjective and uncertain.

Initial Grant

The Company estimated the fair value of shares options initially granted using B-S model on 19 December 2019 (Initial Options Grant Date). Particulars are as follows:

The initial 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 Initial Options 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)

According to the Rules 17.08 of the Hong Kong Listing Rules, there were 210 participants under the initial grant, among which, three of them were directors of the Company (the "Category One Grantees") and the rest 207 participants were employees working under employment contracts with the Company that are regarded as "continuous contracts" for the purposes of the Employment Ordinance (Chapter 57 of Hong Kong laws) (the "Category Two Grantees").

Report of the Board of Directors

The fair values of the first, second and third batches of the options granted to the Category One Grantees and the Category Two Grantees under the initial grant during the period for the year ended 31 December 2020 are set out below (Below value of options are calculated based on the current expected number of exercisable options, subject to subsequent adjustment according to actual conditions):

Category	Number of first batch share options	Value of first batch share options (RMB)	Number of second batch share options	Value of second batch share options (RMB)	Number of third batch share options	Value of third batch share options (RMB)
Category One Grantees	415,800	1,334,718.00	415,800	1,467,774.00	428,400	2,159,136.00
Category Two Grantees	8,032,200	25,783,362.00	8,032,200	28,353,666.00	8,275,600	41,709,024.00
Total	8,448,000	27,118,080.00	8,448,000	29,821,440.00	8,704,000	43,868,160.00

Reserved Options Grant

The Company estimated the fair value of reserved options granted using B-S model on 15 December 2020 (Reserved Options Grant Date). Particulars are as follows:

The options granted by Shanghai Pharmaceuticals on 15 December 2020 were vested in three batches. The fair values per share of the first, second and third batch of vested options are RMB3.37 per A Share, RMB3.83 per A Share, and RMB4.06 per A Share, respectively.

Based on various data on 15 December 2020, the values and descriptions of the parameters of the valuation model are as follows:

- (i) Market price of underlying shares: RMB19.00 per A Share (the closing price of the Company's Shares on the Reserved Options Grant Date is RMB19.00 per A Share)
- (ii) Exercise price: RMB20.16 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: 32.20%, 30.71% and 28.66% (using the Company's volatility rate in the past 2.5 years, 3.5 years, and 4.5 years)
- (v) Risk-free interest rates: 2.94%, 3.02%, and 3.09% (using the 2.5-year, 3.5-year, and 4.5-year benchmark deposit interest rate of government bonds)
- (vi) Expected dividend yield: 2.03% (using the Company's average dividend yield in the past three years)

All the participants of reserved options granted by the Company on the Reserved Options Grant Date are the Category Two Grantees.

Report of the Board of Directors

The fair values of the first, second and third batches of the options granted to the Category Two Grantees under the reserved options grant during the period for the year ended 31 December 2020 are set out (Below value of options are calculated based on the current expected number of exercisable options, subject to subsequent adjustment according to actual conditions):

Category	Number of first batch reserved options	Value of first batch reserved options (RMB)	Number of second batch reserved options	Value of second batch reserved options (RMB)	Number of third batch reserved options	Value of third batch reserved options (RMB)
Category Two Grantees	910,000	3,066,700	910,000	3,485,300	910,000	3,694,600
Total	910,000	3,066,700	910,000	3,485,300	910,000	3,694,600

(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".

Report of the Board of Directors

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 2020, 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 2020, 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 ordinary connected transactions for 2018, 2019 and 2020 under this agreement were RMB100 million, respectively.

Report of the Board of Directors

In 2020, 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: RMB'000

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2020 connected transaction	Annual cap for the 2020 connected transaction
During the period from January to December 2020	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	Housing, machinery leasing and property service	4,865.04	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 2020, 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:

Report of the Board of Directors

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2020 connected transaction	Annual cap for the 2020 connected transaction
During the period from January to December 2020	Finance Company	Deposit service provided by connected company	Deposit service (maximum daily balance)	29.38	30

Note: For details, please refer to Company's announcements Lin No. 2019-021, Lin No. 2019-054; as the Company 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 2020, 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:

Report of the Board of Directors

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2020 connected transaction	Annual cap for the 2020 connected transaction
During the period from January to December 2020	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	0.81	11
			Other commercial factoring services	/	1

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;

Report of the Board of Directors

- 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

The Company and Shanghai Shangshi and other parties jointly participated in the establishment of Shanghai Biomedical Industrial Equity Investment Fund Partnership (Limited Partnership)

On 29 October 2020, the Proposal Regarding the Proposed Participation in the Establishment of Shanghai Biomedical Industrial Equity Investment Fund and Related/Connected Transaction was considered and approved at the 14th meeting of the 7th session of the Board of Directors, and the Partnership Agreement was entered into on the same day. Shanghai Pharmaceuticals participated in the establishment of Shanghai Biomedical Industrial Equity Investment Fund Partnership (Limited Partnership) as one of the limited partners together with Shanghai Shangshi and other parties. Shanghai Pharmaceuticals contributed RMB1.5 billion, accounting for 21.43% (For details, please refer to Company's announcements Lin No. 2020-60 and Lin No. 2020-063).

Through the participation in the subject Fund, Shanghai Pharmaceuticals will obtain reasonable investment return while forming strategic synergies with the subject Fund in various aspects in the future to achieve a broader layout of leading innovative technologies and fields of biopharmaceuticals, deeper synergies and ecosystem construction in the pharmaceutical and medical industries, and more flexible and market-oriented capital operation, which will further help Shanghai Pharmaceuticals achieve its future strategies and development goals.

As Shanghai Shangshi is a controlling shareholder of the Company, it is a connected person of the Company. As such, the transaction will constitute a connected transaction of the Company. As the highest applicable percentage ratio of the transaction is more than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement.

SIGNIFICANT RELATED PARTIES

Save as disclosed above, significant connected party transactions which do not constitute connected transactions under the Hong Kong Listing Rules during the year are disclosed in Note VIII (5) to the financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Refer to the "2020 Corporate Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company for details.

INDUSTRY POLICIES

During the Reporting Period, the pharmaceutical industry ushered in greater challenges and opportunities under the dual influence of the COVID-19 epidemic and industry policies. On the one hand, the COVID-19 epidemic made negative impacts on the short-term results of enterprises, but with the domestic epidemic under good control, enterprises in the industry actively took measures and business quickly returned to normal; on the other hand, under the implementation of the Healthy China strategy, the policies of the pharmaceutical industry continued the main tone of “accelerating cost control and adjusting structure, encouraging innovation and promoting transformation”.

Driven by in the national top-level design and the relevant ministries and commissions, “three medical” linkage reform continues to deepen. On the pharmaceutical side, the Company improved drug registration and approval, strengthened drug quality control, encouraged innovation, and promoted the development of Chinese medicine industry; on the medical insurance side, the Company deepened payment reform, promoted DRG and DIP pilot, and reduced prices and controlled fees; and on the medical side, in addition to the epidemic prevention and control policies introduced in the first half of the year, the Company continued to promote the implementation of hierarchical diagnosis and treatment, and improved the level of medical services.

Category	Date	Department	Document	Content
Guiding policy	2020/02/25	The Central Committee of Communist Party of China and the State Council	The Opinions on Deepening the Reform of the Medical Insurance System of the Central Committee of Communist Party of China and the State Council (《中共中央國務院關於深化醫療保障制度改革意見》)	Promotion of reform of the health care system.
	2020/03/30	The State Administration for Market Regulation	Measures for the Administration of Drug Registration and Measures for the Supervision and Administration of Drug Production	Optimization of the drug review and approval process, classification management, etc.
Adjustments to the national medical insurance catalog	2020/12/28	The National Healthcare Security Administration and the Ministry of Human Resources and Social Security	The National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2020)	Medical insurance catalog adjustment and innovation encouragement will further help the rapid release of high-quality innovative drugs.
Consistency evaluation and volume-based procurement	2020/05/14	The National Medical Products Administration	Announcement on the Consistent Evaluation of the Quality and Efficacy of Chemical Injection Generic Drugs and other 2 documents	Official launch of the consistency evaluation of chemical drug injections.
	2021/01/28	The State Council	Opinions on Promoting the Normalization and Institutionalization of Centralized Quantity Procurement of Drugs	Deepening of the reform of the centralized quantity procurement system, as well as the centralized and volume-based procurement of drugs to move into a normalized phase.
Medical insurance payment reform	2020/10/29	The National Healthcare Security Administration	Notice on Pilot Work Program for total budget under regional point method and Diagnosis-Intervention Packet (DIP)	Further expansion of the DRGs payment pilot and the introduction of the DIP payment method.
	2020/11/04	The National Healthcare Security Administration	List of Pilot Cities for total budget under regional point method and Diagnosis-Intervention Packet (DIP)	Identification of 71 cities in 27 provinces for DIP pilot.

Report of the Board of Directors

Category	Date	Department	Document	Content
Construction of hierarchical diagnosis and treatment and the regional medical center	2020/05/08	The National Health Commission	Notice on Accelerating the Establishment of National Medical Centers and National Regional Medical Centers	Creation of a medical highland to improve the overall and regional medical service capacity.
	2020/07/17	The National Health Commission	Notice on the Issuance of Medical Consortium Management Measures (for Trial Implementation)	Promotion of the construction of hierarchical diagnosis and treatment system.
Internet medical	2020/05/08	The National Health Commission	Notice on Further Promoting the Development and Standardized Management of Internet Medical Services	Promotion of the development of Internet medical services and the standardized management.
	2020/11/02	The National Healthcare Security Administration	Guidelines on Active Promotion of Medical Insurance Payment for "Internet+" Medical Services	Support to the "Internet +" medical service model innovation.
Development of traditional Chinese medicine	2020/12/25	The National Medical Products Administration	Implementation Opinions on Promoting the Development of Traditional Chinese Medicine Inheritance and Innovation	Improvement of the review and approval mechanism of Chinese medicine, promotion of new drug R&D and industrial development of Chinese medicine.
	2021/02/09	General Office of the State Council	Notice on Several Policy Measures to Accelerate the Development of Chinese Medicine Features	The promotion of the development of the characteristics of Chinese medicine (through improving the vitality of the development of the Chinese medicine industry and other six aspects).
	2021/02/10	National Medical Products Administration, the National Administration of Traditional Chinese Medicine, the National Health Commission and the National Healthcare Security Administration	Announcement on the End of Pilot Work of Chinese Medicine Formula Granules	The implementation of the record management of Chinese medicine formula granules varieties heralds a new period of development of Chinese medicine formula granules.

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 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

"18 SPH 01" are issued to eligible investors. The due date of the corporate bonds of this tranche is 7 November 2020, 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 63.31% as at 31 December 2020, representing a decrease of 0.65 percentage point on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 6.08 times (2019: 5.46 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 24.32%.

During the Reporting Period, Shanghai Pharmaceuticals has a good liquidity. The balance of bank loans, bonds payable and extra short-term financing bill as at 31 December 2020 were RMB26.616 billion, RMB3.018 billion (including those due within 1 year) and RMB5.019 billion, respectively, of which the balance of loans in US Dollar amounted to RMB5.275 billion, the balance of loans in New Zealand Dollar amounted to RMB322 million, the balance of loans (including long and short-term bonds) at a fixed interest rate amounted to approximately RMB28.104 billion. The net amount of accounts receivable and notes receivable as at 31 December 2020 was RMB53.036 billion, representing an increase of 11.39% 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 2020, the balance of accounts payable and notes payable was RMB37.792 billion, representing an increase of 2.49% 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.

Report of the Board of Directors

MAJOR ASSETS RESTRICTION AT THE END OF THE REPORTING PERIOD

As at 31 December 2020, the Company's housing and buildings and machinery equipment with the book value of RMB204 million (original cost: RMB397 million), and 88,663.39 square meters of land use right (original cost of RMB24 million and book value of RMB19 million) were set as collateral for short-term borrowings of RMB413 million, long-term borrowings of RMB49 million and long-term borrowings due within one year of RMB2 million.

As at 31 December 2020, the Group pledged the accounts receivable with the book value of RMB859 million, receivables financing of RMB52 million and notes receivable of RMB30 million to the bank as a guarantee for short-term borrowings of RMB789 million.

As at 31 December 2020, borrowings of RMB87 million for bank collaterals and long-term borrowings due within one year of RMB4.67 million were obtained by pledging the accounts receivable with the book value of RMB92 million.

As at 31 December 2020, the balance of the Group's other monetary funds was RMB2,720 million, which was mainly the margin deposit for security for applying to the bank for issuing bank acceptance bills and letters of credit.

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 Pharma Sales Co., Ltd.	372.55	22 October 2020	22 January 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	464.06	22 October 2020	22 April 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	98.56	20 November 2020	20 February 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	555.24	20 November 2020	20 May 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	573.39	26 November 2020	26 May 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	160.41	23 December 2020	23 March 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	10.08	23 December 2020	23 June 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	568.88	26 August 2020	26 February 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	244.94	10 September 2020	10 March 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	431.61	21 September 2020	21 March 2021
The Group	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	6,449.96	27 September 2020	27 March 2021

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	366,604.00		2019/12/18	2020/3/18	Joint guarantee	Yes	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	Yes	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	Yes	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	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	372,547.00		2020/10/22	2021/1/22	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	464,056.43		2020/10/22	2021/4/22	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	98,562.52		2020/11/20	2021/2/20	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	555,235.24		2020/11/20	2021/5/20	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	573,392.82		2020/11/26	2021/5/26	Joint guarantee	No	No		No	No	Associate

Report of the Board of Directors

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		Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter Guarantee	Guarantee provided to related parties	Connected relationship
				Commencement date of guarantee	Expiry date of guarantee							
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	160,410.67	2020/12/23	2021/3/23	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	10,080.00	2020/12/23	2021/6/23	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	554,271.76	2020/8/26	2020/11/26	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	568,877.76	2020/8/26	2021/2/26	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	244,944.00	2020/9/10	2021/3/10	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	179,179.00	2020/9/21	2020/12/21	Joint guarantee	Yes	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	431,613.28	2020/9/21	2021/3/21	Joint guarantee	No	No		No	No	Associate
Shanghai Pharma Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	6,449,961.29	2020/9/27	2021/3/27	Joint guarantee	No	No		No	No	Associate

Report of the Board of Directors

Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)	10,663,131.77
Total remaining balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)	9,929,681.01

Guarantees provided by the Company and its subsidiaries to its subsidiaries

Total value guaranteed for its subsidiaries during the Reporting Period	4,680,016,547.45
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)	8,510,045,020.15

Total value guaranteed by the Company (including guarantees to subsidiaries)

Total value guaranteed (A+B)	8,519,974,701.16
Proportion of total value guaranteed in the Company's net assets (%)	18.79
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)	7,573,153,769.92
Amount of total value guaranteed exceeding 50% of net assets (E)	/
Total of value guaranteed for the above three items (C+D+E)	7,573,153,769.92
Details of possible joint settlement liabilities for undue guarantee	/
Details of guarantee	/

EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

Number of in-service employees of the parent company	162
Number of in-service employees of the major subsidiaries	47,974
Total number of in-service employees	48,136
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	299

Composition of professions

Type of profession	Number of staff in the profession
Production staff	13,913
Sales staff	20,022
Technical staff	5,983
Finance staff	1,926
Administrative staff	4,626
Others (Service staff)	1,666
Total	48,136

Report of the Board of Directors

Education level	
Type of education level	Number of persons
PhD	135
Master	1,674
University graduate	13,611
College graduate	15,732
Specialized secondary school (high school) graduate	5,380
Below specialized secondary school graduate	11,604
Total	48,136

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 or 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 IV (29) of financial statements.

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 middle-senior management's professional competence and leadership development project in forms of Internationalization Ability Development Class, Pharmacy Knowledge Popularization Class, 3 Major Theme Forums (medical professional class, management class, cultural general knowledge class) and etc. A corporate university – Shanghai Medicine University, continued to perform its 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 2020, Shanghai Medicine University took the lead in hosting the Ministry of Industry and Information Technology's training class on integration of small, medium and large private enterprises in the biomedical industry, which is influential in the national pharmaceutical industry.

In 2020, 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 three major theme forums. In 2020, a total of 3,614 people participated in 4 main programmes, 10 professional programmes, 3 special programmes, 2 rotation training programme, and 24 forum lectures on site, with a total of 89 online and offline courses for 732 hours. For main programmes, tailored curriculum systems were developed based on different stages and directions of talent development. 231 trainees participated in the Fledgling 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. We have set up classes to popularize pharmacy knowledge for middle and senior management and to develop internationalization ability, so as to provide leaders with the knowledge reserve of "knowing, loving and doing well in pharmacy" and to develop internationalization vision. 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 members of enterprises. The weekly online + offline business English training helps employees break through the language barrier and helps the Group realize its internationalization strategy.

Report of the Board of Directors

PUBLIC FLOAT

As at 31 December 2020, 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

In view that the Company intended to align the preparation of its financial statements in accordance with China Accounting Standards for Business Enterprises and PricewaterhouseCoopers Zhong Tian LLP, the domestic auditor of the Company, has been approved by the MOF and the CSRC and eligible to provide auditing services by using the China Standards on Auditing to the Mainland China incorporated issuers listed in Hong Kong, the Board proposed to cease the re-appointment of its overseas auditor, which was considered and approved at the 11th meeting of the seventh session of the Board of the Company for 2020 and the annual general meeting for 2019. The Board appointed PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor for 2020 to undertake other responsibilities of international auditor which are required by the Hong Kong Listing Rules as well.

PricewaterhouseCoopers has confirmed that there were no matters regarding the cessation of its re-appointment as the Company's overseas auditor that need to be brought to the attention of the Shareholders. There is no disagreement between the Company and PricewaterhouseCoopers regarding the cessation of its reappointment.

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:

1. 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;
2. it and its subsidiaries shall avoid any business or operations that may compete with the Company;
3. it shall avoid investing in any other companies or enterprises that compete with the business and operations of the Company; and
4. 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 2020.

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	52	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Ge Dawei	Vice Chairman, Non-Executive Director	Male	58	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Cho Man	Executive Director, President	Male	60	27 June 2019	27 June 2022	20,009 A Shares	20,009 A Shares ^{Note 1}	0	/	516.17	No
Li Yongzhong	Executive Director, Vice President	Male	51	27 June 2019	27 June 2022	0	0 ^{Note 2}	0	/	510.69	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	48	27 June 2019	27 June 2022	71,700 A Shares	71,700 A Shares ^{Note 3}	0	/	494.67	No
Li An	Non-Executive Director	Female	60	27 June 2019	27 June 2022	0	0	0	/	0	No
Cai Jiangnan	Independent Non-Executive Director	Male	64	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Hong Liang	Independent Non-Executive Director	Male	46	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Gu Zhaoyang	Independent Non-Executive Director	Male	55	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Manson Fok	Independent Non-Executive Director	Male	64	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Xu Youli	Chief Supervisor	Male	47	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Huan Jianchun	Employee Supervisor	Male	59	27 June 2019	27 June 2022	3,000 H Shares	3,000 H Shares	0	/	0	Yes
Xin Keng	Supervisor	Male	54	27 June 2019	27 June 2022	0	0	0	/	0	No
Zhao Yong	Vice President	Male	49	27 June 2019	27 June 2022	0	0	0	/	377.29	No
Mao Jianyi	Vice President	Male	53	27 June 2019	27 June 2022	0	0	0	/	340.67	No
Gu Haoliang	Vice President	Male	59	27 June 2019	27 June 2022	0	0	0	/	470.55	No
Zhang Yaohua	Vice President	Male	48	27 June 2019	27 June 2022	0	0	0	/	364.49	No
Chen Jinzhu	Vice President, Secretary to the Board of Directors, Joint Company Secretary	Female	35	29 August 2019	27 June 2022	0	0	0	/	220.82	No
Liu Dawei	No longer as Vice President	Male	41	27 June 2019	22 January 2021	0	0	0	/	321.52	No
Total	/	/	/	/	/	91,709 A Shares 3,000 H Shares	91,709 A Shares 3,000 H Shares	0	/	3,736.87	/

Note 1: As at the end of the Reporting Period, Mr. Cho Man also had an interest in 480,000 underlying A Shares of the Company in respect of the share options granted under the share option scheme of the Company.

Note 2: As at the end of the Reporting Period, Mr. Li Yongzhong also had an interest in 390,000 underlying A Shares of the Company in respect of the share options granted under the share option scheme of the Company.

Note 3: As at the end of the Reporting Period, Mr. Shen Bo also had an interest in 390,000 underlying A Shares of the Company in respect of the share options granted under the share option scheme of the Company.

Directors, Supervisors and Senior Management

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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); 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.

Directors, Supervisors and Senior Management

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 Tianda Pharmaceuticals Limited (a company listed on the Hong Kong Stock Exchange) (stock code 00455) and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the science and technology innovation board of the Shanghai Stock Exchange with stock codes 01349 and 688505, respectively). 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.

Li An

Ms. Li An obtained a bachelor's degree in Engineering from Shanghai University of Science and Technology and is a senior economist. 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 Shanghai Tunnel Engineering Co., Ltd. (a company listed on the Shanghai Stock Exchange) (stock code 600820) and Shanghai Electric Group Company Limited (a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange with stock codes 02727 and 601727, respectively). She previously served as the director of East China Construction Group Co., Ltd. (華東建築集團股份有限公司) (stock code 600629) and 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.

Directors, Supervisors and Senior Management

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), and Betta Pharmaceuticals Co., Ltd. (a company listed on the Shenzhen Stock Exchange) (stock code 300558). He previously served as the independent director of each of Harmonicare Medical Holdings Limited (stock code 01509) and Zhejiang DI'AN Diagnostics Co., Ltd. (stock code 300244), 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.

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). 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 served as the independent director of Shanghai Winner Information Technology Co., Inc. (stock code 300609) and previously worked at Shanghai Municipal People's Government, the Hong Kong Stock Exchange and Shanghai Everbright Law Firm, etc.

Directors, Supervisors and Senior Management

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, and an Outstanding Fellow of the Faculty of Business Administration 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 well-known 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. (stock code 600748).

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 Pharmaceutical (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.

Directors, Supervisors and Senior Management

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 manager 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.

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. (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 economist and 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 Xiamen Traditional Chinese Medicine 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.

Directors, Supervisors and Senior Management

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 vice president, 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.

Liu Dawei (Resigned)

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 previously served as vice president, 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; also as the executive director and general manager of Shanghai Pharmaceuticals (HK) Investment Limited, a subsidiary 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.

Directors, Supervisors and Senior Management

POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHAREHOLDER ENTITY

Name of personnel	Name of shareholder entities	Position held in the shareholder entity	Starting date of term of office	Expiry date of term of office
Zhou Jun	Shanghai Industrial Investment (Holdings) Co., Ltd.	Executive director	May 2012	Up to date
		President	September 2016	Up to date
	Shanghai Shangshi (Group) Co., Ltd.	Vice chairman and president	September 2016	Up to date
Ge Dawei	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director and president	February 2017	Up to date
	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice chairman and executive director	September 2017	Up to date
Li An	Shanghai Shengrui Investment Co., Ltd.	Executive director	January 2016	Up to date
Xu Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president	April 2016	Up to date
Xin Keng	Shenergy (Group) Co., Ltd.	Manager of financial management department	August 2009	Up to date

POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN OTHER ENTITIES

Name of personnel	Name of other entities	Position held in other entities	Starting date of term of office	Expiry date of term of office
Zhou Jun	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	November 2020
Cho Man	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Chairman	June 2013	Up to date
Cho Man	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	June 2013	Up to date
Cho Man	Zeus Investment Limited	Director	July 2016	Up to date
Cho Man	Shanghai Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
Cho Man	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
Cho Man	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in other entities	Starting date of term of office	Expiry date of term of office
Cho Man	Liaoning Herbepex Pharmaceutical (Group) Co., Ltd.	Chairman	May 2017	June 2020
Cho Man	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	Up to date
Cho Man	Cardinal Health (L) Co., Ltd.	Director	January 2018	Up to date
Cho Man	Shanghai SPH Tsumura Pharmaceutical Co., Ltd.	Director	July 2018	Up to date
Cho Man	SPH PHILILAB, INC	Director	October 2018	June 2020
Cho Man	Shanghai Pharmaceuticals Bio Therapeutics Technology Co., Ltd.	Chairman	May 2019	June 2020
Cho Man	SPH Project Biocad Limited	Director	May 2019	Up to date
Cho Man	China International Pharmaceutical (Holding) Corporation Limited	Director	May 2019	Up to date
Cho Man	SPH-Biocad (HK) Limited	Director	October 2019	Up to date
Cho Man	Shanghai Jiaolian Drug Development Co., Ltd.	Chairman	December 2019	June 2020
Cho Man	Shanghai Pharmaceutical Group (Benxi) Northern Pharma Co., Ltd.	Executive director	December 2019	June 2020
Cho Man	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)	Chairman	August 2020	Up to date
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	Director	April 2010	Up to date
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	General manager Director	October 2012 August 2014	Up to date Up to date
Li Yongzhong	Zeus Investment Limited	Director	July 2016	Up to date
Li Yongzhong	Shanghai Pharma Health Commerce Co., Ltd.	Chairman	August 2016	Up to date
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Director Chairman	April 2011 August 2016	Up to date Up to date
Li Yongzhong	Cardinal Health (L) Co., Ltd.	Director	January 2012 January 2018	Up to date Up to date

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in other entities	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 date
Li Yongzhong	Cardinal (China) Investment Co., Ltd.	Chairman	January 2018	Up to date
Li Yongzhong	SPH Cardinal (Shanghai) Pharma Co., Ltd.	Chairman	January 2018	Up to date
Li Yongzhong	SPH Bio Therapeutics Co., LTD	Director	June 2018	Up to date
Shen Bo	Shanghai Pharmaceutical Co., Ltd.	Supervisor	April 2010	June 2020
Shen Bo	SPH Bio Therapeutics Co., LTD	Director	December 2010	Up to date
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	Up to date
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	Up to date
Shen Bo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2013	Up to date
Shen Bo	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Director	July 2013	June 2020
Shen Bo	China International Pharmaceutical (Holding) Corporation Limited	Executive director	May 2014	Up to date
Shen Bo	Shanghai Hefeng Pharmaceutical Co., Ltd.	Chairman	November 2015	Up to date
Shen Bo	Shanghai Industrial Group Pharmaceutical Co. Ltd.	Executive director	October 2015	Up to date
Shen Bo	Shanghai Huarui Investment Co. Ltd.	Executive director	October 2015	Up to date
Shen Bo	TECHPOOL Bio-Pharma Co., Ltd.	Director	May 2016	Up to date
Shen Bo	Zeus Investment Limited	Director	July 2016	Up to date
Shen Bo	Shanghai Pharma Health Commerce Co., Ltd.	Director	August 2016	June 2020
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
Shen Bo	Xiamen Traditional Chinese Medicine Co., Ltd.	Director Chairman	June 2007 August 2016	Up to date April 2020

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in other entities	Starting date of term of office	Expiry date of term of office
Shen Bo	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	December 2017	Up to date
Shen Bo	Guangdong SPH Sunnic Medical Technology Co., Ltd. (廣東上藥桑尼克醫療科技有限公司)	Chairman	May 2018	October 2020
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chief supervisor	October 2018	February 2021
Shen Bo	SPH Bio Therapeutics (USA) Co., Ltd.	Chairman	February 2021	Up to date
Shen Bo	SPH Project Biocad Limited	Director	March 2019	June 2020
Shen Bo	SPH-Biocad (HK) Limited	Director, CEO	May 2019	Up to date
Shen Bo	Shanghai Pharmaceutical Imp. & Exp. Co., Ltd.	Executive director	October 2019	Up to date
Shen Bo	Shanghai SPH Biological Medicine Co., Ltd.	Director	December 2019	Up to date
Shen Bo	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)	Director	December 2019	June 2020
Shen Bo	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)	Vice chairman	August 2020	Up to date
Huan Jianchun	Shanghai Pharmaceutical Co., Ltd.	Supervisor	June 2020	Up to date
Zhao Yong	Shanghai Medicine University	Principal	July 2018	Up to date
Zhao Yong	Shanghai SPH Biological Medicine Co., Ltd.	Chairman	December 2019	Up to date
Zhao Yong	Shanghai Pharma Health Commerce Co., Ltd.	Director	June 2020	Up to date
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	Up to date
Gu Haoliang	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	June 2014	Up to date
Gu Haoliang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	August 2016	Up to date
Gu Haoliang	SPH Changzhou Pharmaceutical Co., Ltd.	Director	August 2016	June 2020
Gu Haoliang	Shanghai Pharma Sales Co., Ltd.	Chairman	September 2016	Up to date
Gu Haoliang	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Director	September 2016	Up to date

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in other entities	Starting date of term of office	Expiry date of term of office
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	January 2018	Up to date
Gu Haoliang	Shanghai Sine United Medicinal Herbs Co., Ltd.	General manager	August 2018	Up to date
Gu Haoliang	Shanghai Shangke Pharmaceutical Co., Ltd.	Chairman	December 2018	Up to date
Gu Haoliang	Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Director	March 2019	Up to date
		Chairman	June 2020	Up to date
Gu Haoliang	Sichuan Guojia Pharmaceutical Science & Technology Co., Ltd.	Director	December 2019	Up to date
Gu Haoliang	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	April 2020	Up to date
Gu Haoliang	SPH Industrial Marketing Management Co., Ltd. (上海醫藥集團工業營銷管理有限公司)	Executive director	November 2020	Up to date
		General manager	November 2020	Up to date
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	May 2017	Up to date
Zhang Yaohua	Shanghai Tsumura Pharmaceutical Co., Ltd.	Chairman	January 2018	Up to date
Zhang Yaohua	SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Chairman	October 2018	June 2020
Zhang Yaohua	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	May 2019	Up to date
Zhang Yaohua	Shanghai SPH Biological Medicine Co., Ltd.	Chief supervisor	December 2019	June 2020
		Director	June 2020	Up to date
Zhang Yaohua	SPH Materials Supply and Sales Co., Ltd.	Executive director	February 2020	Up to date
Zhang Yaohua	SPH PHILILAB, INC	Director	March 2020	Up to date
Zhang Yaohua	Shanghai SPH Innovational Pharmaceutical Co., Ltd. (上海上藥創新製藥有限公司)	Executive director	August 2020	Up to date
Chen Jinzhu	Shanghai Pharmaceuticals (HK) Investment Limited	Director, General manager	November 2020	Up to date
Chen Jinzhu	Shanghai Pharma Health Commerce Co., Ltd.	Director	June 2020	Up to date

Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in other entities	Starting date of term of office	Expiry date of term of office
Chen Jinzhu	Shanghai Ruijian Capital Management Co., Ltd.	Director	June 2020	Up to date
Liu Dawei	Shanghai Pharma Health Commerce Co., Ltd.	Director	March 2015	June 2020
Liu Dawei	Shanghai Healthcare Industry Equity Investment Fund	Member of the investment and decision-making committee	October 2015	Up to date
Liu Dawei	Shanghai Lianyi Investment Center	Member of the investment committee	September 2016	Up to date
Liu Dawei	Shanghai Ruijian Capital Management Co., Ltd.	Director	September 2016	June 2020
Liu Dawei	Shanghai Pharmaceuticals (HK) Investment Limited	Director	August 2017	November 2020
Liu Dawei	SPH Bio Therapeutics Co., LTD	Director	June 2018	October 2020
Liu Dawei	SPH Bio Therapeutics (Hong Kong) Co., Ltd.	Director	March 2019	June 2020
Liu Dawei	SPH Project Biocad Limited	Director	May 2019	October 2020
Liu Dawei	SPH Chromo AG	Director	August 2019	October 2020

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change situation	Reasons for changes
Chen Jinzhu	Vice president	Engagement	Work re-arrangement
Liu Dawei	Vice president	Resignation	Work re-arrangement

Corporate Governance Report

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 have 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 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 eight meetings, at which proposals were considered in relation to the Company's business results, financial accounts and budgets, policies formulation, profit distribution, grant of share option incentives, 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 of the Company. Please refer to the chapter headed "Report of the Board of Directors" in this annual report 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 two meetings, at which the performance review report on senior management and the proposal for appraisal of operating results and remuneration standards of the senior management 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 proposals were discussed in relation to the Company's business results, the self-appraisal report on internal control of the Company, summary of audit for the year and future work plan, audit schedule on financial report, connected transactions, alignment in the preparation of financial statements in accordance with China Accounting Standards for Business Enterprises and termination of re-appointment of overseas auditors, etc.

Corporate Governance Report

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 Three-year (2019-2021) Development Plan was discussed.

Nomination committee

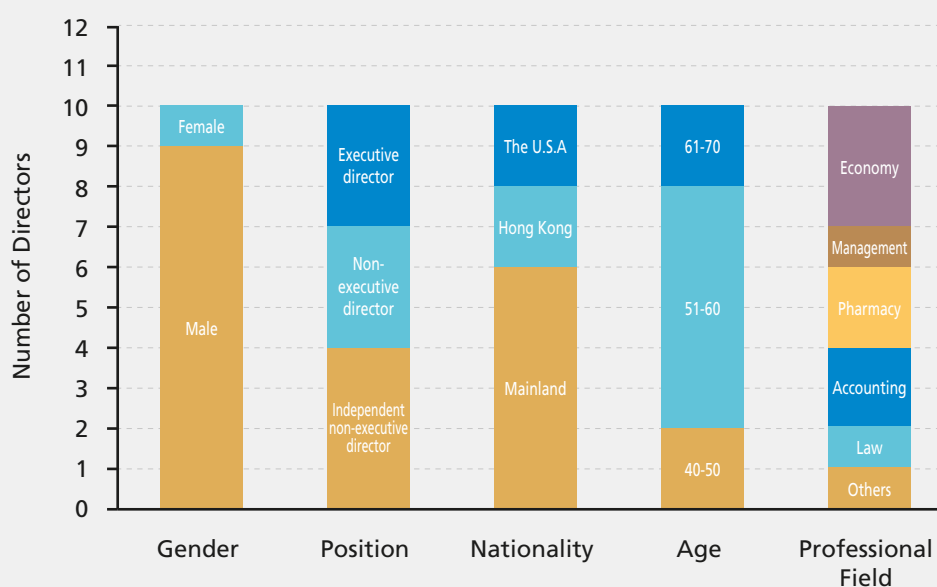
The nomination committee under the board of directors of the Company consists of three directors, including Mr. Cai Jiangnan (an independent non-executive director) acting as its convener/chairman, Mr. Cho Man (an executive director) and Mr. Hong Liang (an independent non-executive director). The nomination 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.

During the Reporting Period, the nomination committee held one meeting, at which proposal in relation to the review of the structure, size, composition and diversity of the Board 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, etc.

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 meeting for the year ended 31 December 2020:

Name of Director	Attendance/Numbers of Meetings					
	Board of Directors	Remuneration and assessment committee	Audit committee	Strategy committee	Nomination committee	General Meeting
Executive directors						
Mr. Cho Man	8/8				1/1	1/1
Mr. Li Yongzhong	8/8					1/1
Mr. Shen Bo	8/8					1/1
Non-executive directors						
Mr. Zhou Jun	8/8			1/1		1/1
Mr. Ge Dawei	8/8	2/2				1/1
Ms. Li An	8/8					0/1
Independent non-executive directors						
Mr. Cai Jiangnan	8/8			1/1	1/1	1/1
Mr. Hong Liang	8/8	2/2	5/5		1/1	1/1
Mr. Gu Zhaoyang	8/8	2/2	5/5			1/1
Mr. Manson Fok	8/8		5/5	1/1		0/1

Corporate Governance Report

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 2020 was set at RMB24.50 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.60 million (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the auditor of the Company, PricewaterhouseCoopers Zhong Tian LLP.

In 2020, a non-audit service fee of approximately RMB2.35 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 2020.

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 reporting 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 and monitor 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 2020, 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" in this annual report.

Corporate Governance Report

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 of not less than 15 hours in 2020, 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.

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 director is provided with necessary training 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 summary, latest information regarding the corporate governance and directors' responsibilities under the listing rules of two places and other applicable laws and regulations, 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 2019 annual general meeting, the 2020 first A share class meeting and the 2020 first H share class meeting held on 23 June 2020 has reviewed and passed the "Proposal in relation to Amendments to the Articles of Association and Rules of Procedure of the Shareholders' General Meeting". For the details of the amendments, please refer to the Company's circular for the annual general meeting and the 2020 first H share class meeting dated 8 May 2020.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

Shanghai Pharmaceuticals Holding Co., Ltd.

Financial Statements

For the year ended 31 December 2020

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English Translation for Reference Only

Auditor's Report

PwC ZT Shen Zi (2021) No.10006
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To the Shareholders of Shanghai Pharmaceuticals Holding Co., Ltd.,

Opinion

What we have audited

We have audited the accompanying financial statements of Shanghai Pharmaceuticals Holding Co., Ltd. (hereinafter "Shanghai Pharmaceuticals"), which comprise:

- the consolidated and company balance sheets as at 31 December 2020;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Shanghai Pharmaceuticals as at 31 December 2020, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

We are independent of Shanghai Pharmaceuticals in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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 and other receivables
- Inventory provisions

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment Refer to notes 2(30)(a)(iii) (Critical accounting estimates and judgements) and 4(20) (Goodwill) to the consolidated financial statements. At 31 December 2020, the Company had goodwill amounting to RMB13,356,842,316.05, against which a provision of RMB2,014,574,157.50 was set aside. In assessing the recoverable amounts of Shanghai Pharmaceuticals' cash generating unit (CGU) or CGUs that include goodwill, management engaged external valuation experts to assist in determining the discounted cash flows. Determination of discounted cash flows involved developing key assumptions, including: • compound annual growth rate within the budget period; • growth rates to extrapolate cash flows beyond the budget period; • gross margin; and • pre-tax discount rate. We identified goodwill impairment assessment as a key audit matter as of the magnitude of goodwill balance, estimation uncertainty of recoverable amounts, subjectivity and significance of management judgements applied.	We understood, evaluated and validated the design and operating effectiveness of the key internal controls over the goodwill. For the relevant CGU or CGUs, we compared the current year actual results with the year 2020 forecast included in the prior year forecast to consider whether management's cash flow forecasts were reliable. We compared the management's future cash flow forecasts with its historical data, budgets approved, and business plans developed. With the assistance of our valuation specialists, we performed the following procedures: • We assessed the valuation approaches and methodologies adopted in the cash flow forecasts by reference to industry practice; • Assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud of management's estimates involved in determining the recoverable amounts of its CGU or CGUs; • Comparing the compound annual growth rates within the budget period with the Shanghai Pharmaceuticals' 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;

Key Audit Matter	How our audit addressed the Key Audit Matter
	• Comparing the gross margin with the Shanghai Pharmaceuticals' past performance, taking into consideration of market trends; • 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 base date; and • We tested the mathematical accuracy of the calculations of discounted cash flows. We obtained the valuation reports issued by the external valuation experts engaged by the management and assessed the competence, capabilities and objectivity of these external valuation experts. 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
Impairment of trade receivables Refer to notes 2(30)(a)(v) (Critical accounting estimates and judgements) and 4 (Trade receivables) to the consolidated financial statements. At 31 December 2020, the Group held trade receivables amounting to RMB54,711,545,483.35, against which an impairment provision of RMB1,965,639,609.76 was set aside. Management applied expected credit loss (“ECL”) model under “Accounting standards for business enterprises No.22 – recognition and measurement of financial instruments” to measure the impairment provision against trade receivables at the reporting date. Management estimated the loss allowance of trade receivables based on the lifetime 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. Receivables without objective evidence of impairment are grouped based on shared credit risk characteristics. The collective provision was determined based on the historical credit loss rates to the respective aging category of gross carrying amount of receivables. The expected credit loss rates are adjusted to reflect current and forward- looking information. We identified impairment of trade receivables as a key audit matter as of the magnitude of trade receivables balance, estimation uncertainty of ECL and significance of management judgements applied.	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 these customers, and lawyers’ letters, where applicable. We assessed the Group’s methodology of estimating collective provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers’ repayment pattern and market condition. With the assistance of our credit review specialists, we performed the following procedures: - Assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud of management’s estimates involved in determining the expected credit loss; and - Evaluating 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory provisions Refer to notes 2(30)(a)(iv) (Critical accounting estimates and judgements) and 8 (Inventories) to the consolidated financial statements. At 31 December 2020, Shanghai Pharmaceuticals held inventories amounting to RMB25,251,044,642.72, against which a provision of RMB1,162,786,949.09 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 identified inventory provisions as a key audit matter as of the magnitude of inventories balance, estimation uncertainty of provisions, subjectivity of estimated probability of selling and significance of management judgements applied.	We understood, evaluated and validated the controls which management adopted to monitor inventory close to expiration dates and in making estimation of the probability of selling such inventories. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and management bias or fraud. 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

Management of Shanghai Pharmaceuticals is responsible for the other information. The other information comprises all of the information included in 2020 annual report of Shanghai Pharmaceuticals other than the financial statements and our auditor's report thereon.

Other Information (cont'd)

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Management and Those Charged with Governance for the Financial Statements

Management of Shanghai Pharmaceuticals is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Shanghai Pharmaceuticals' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Shanghai Pharmaceuticals' financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Shanghai Pharmaceuticals'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 these 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 Shanghai Pharmaceuticals to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Shanghai Pharmaceuticals 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 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.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

26 March 2021

Signing CPA LIU WEI
(Engagement Partner)

Signing CPA WANG RENZHI

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEET AS AT 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current assets					
Cash at bank and on hand	4(1)	22,296,232,678.85	18,152,817,741.94	4,579,604,820.98	3,688,306,798.50
Derivative financial assets	4(2)	501,339.00	3,027,011.42	-	-
Notes receivables	4(3)	290,539,262.58	274,119,544.70	-	-
Accounts receivables	4(4), 17(1)	52,745,905,873.59	47,339,803,537.21	-	-
Receivables financing	4(5)	2,485,373,691.07	2,187,059,525.49	-	-
Advances to suppliers	4(7)	2,389,930,684.70	1,937,456,121.28	790,551.35	482,514.35
Other receivables	4(6), 17(2)	2,009,456,454.89	2,202,960,796.71	18,765,161,811.48	16,676,400,517.51
Inventories	4(8)	24,088,257,693.63	24,877,356,781.61	-	-
Current portion of non-current assets	4(12)	105,325,100.98	23,257,721.60	-	-
Other current assets	4(9)	1,151,403,402.29	1,093,722,591.66	-	-
Total current assets		107,562,926,181.58	98,091,581,373.62	23,345,557,183.81	20,365,189,830.36
Non-current assets					
Long-term receivables	4(12)	169,846,933.41	265,642,096.94	-	-
Long-term equity investments	4(13), 17(3)	6,651,064,005.61	4,853,779,059.53	23,540,785,117.11	22,508,236,186.23
Other equity instrument investments	4(10)	33,051,720.32	194,183,980.82	-	-
Other non-current financial assets	4(11)	978,557,029.53	384,398,172.73	498,583,871.27	25,206,737.80
Investment properties	4(14)	235,288,086.77	292,319,211.54	-	-
Fixed assets	4(15)	10,490,715,695.26	9,445,675,117.04	65,896,189.09	55,394,368.16
Construction in progress	4(16)	1,737,203,979.54	1,649,896,366.49	42,409,498.05	17,811,606.35
Bearer biological assets	4(17)	405,818,258.87	410,145,018.27	-	-
Right-of-use assets	4(18)	1,992,650,919.19	1,622,096,400.05	92,534,928.16	5,485,517.64
Intangible assets	4(19)	5,195,253,776.03	3,930,371,809.89	126,712,343.54	90,518,114.22
Development costs	4(19)	223,825,636.29	211,593,325.81	-	-
Goodwill	4(20)	11,342,268,158.55	10,789,918,517.77	-	-
Long-term prepaid expenses	4(21)	415,320,475.59	394,799,913.53	1,049,175.12	901,352.01
Deferred tax assets	4(22)	1,359,363,370.67	1,222,507,639.85	-	-
Other non-current assets	4(24)	392,501,251.42	3,267,487,855.84	1,971,000.00	1,535,681.44
Total non-current assets		41,622,729,297.05	38,934,814,486.10	24,369,942,122.34	22,705,089,563.85
TOTAL ASSETS		149,185,655,478.63	137,026,395,859.72	47,715,499,306.15	43,070,279,394.21

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEET AS AT 31 December 2020 (CONTINUED)

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current liabilities					
Short-term borrowings	4(25)	20,139,185,856.91	23,138,687,189.75	1,201,180,284.72	2,703,229,875.00
Derivative financial liabilities	4(2)	9,314,855.96	1,724,460.87	-	-
Notes payables	4(26)	4,930,726,339.18	5,053,473,408.54	-	-
Accounts payables	4(27)	32,861,440,182.89	31,818,985,528.48	72,712,344.69	20,852,915.38
Contract liabilities	4(28)	1,310,837,272.06	1,534,199,122.71	4,207,189.17	4,207,189.17
Employee benefits payable	4(29)	1,273,965,868.83	1,090,856,663.84	40,364,926.49	43,277,332.24
Taxes payable	4(30)	1,478,067,469.53	1,215,420,806.49	5,011,664.49	10,500,289.31
Other payables	4(31)	12,142,797,539.60	9,565,692,034.58	11,406,637,449.64	11,442,314,213.85
Current portion of non-current liabilities	4(33)	8,968,037,785.73	1,188,602,322.14	3,045,389,022.24	23,996,517.76
Other current liabilities	4(34)	5,018,616,438.36	-	5,018,616,438.36	-
Total current liabilities		88,132,989,609.05	74,607,641,537.40	20,794,119,319.80	14,248,378,332.71
Non-current liabilities					
Long-term borrowings	4(35)	1,184,078,311.36	6,135,992,761.69	580,499,888.89	-
Debentures payable	4(36)	-	2,998,228,732.34	-	2,998,228,732.34
Lease liabilities	4(37)	1,501,021,800.19	1,155,638,865.78	68,304,958.71	-
Long-term payables	4(38)	353,574,673.96	415,627,976.40	-	-
Provisions	4(32)	25,760,655.02	70,923,169.00	-	-
Deferred income	4(39)	2,224,069,068.73	1,278,726,271.79	35,356,169.85	43,131,349.85
Long-term employee benefits payable	4(40)	46,411,122.61	48,095,893.55	-	-
Deferred tax liabilities	4(22)	832,375,455.83	809,599,134.48	5,859,736.77	5,859,736.77
Other non-current liabilities	4(41)	144,645,012.23	119,993,223.89	-	-
Total non-current liabilities		6,311,936,099.93	13,032,826,028.92	690,020,754.22	3,047,219,818.96
Total liabilities		94,444,925,708.98	87,640,467,566.32	21,484,140,074.02	17,295,598,151.67
Owners' equity					
Share capital	4(42)	2,842,089,322.00	2,842,089,322.00	2,842,089,322.00	2,842,089,322.00
Capital surplus	4(43),17(4)	15,897,587,875.18	15,720,601,835.88	18,969,516,229.49	18,847,858,307.71
Other comprehensive income	4(44),17(5)	(265,410,759.58)	(542,229,067.12)	292,608.91	(1,509,389.95)
Surplus reserve	4(45)	1,826,058,272.88	1,667,684,535.82	1,454,949,047.78	1,296,575,310.72
Undistributed profits	4(46),17(6)	25,054,352,978.09	21,970,908,120.34	2,964,512,023.95	2,789,667,692.06
Total equity attributable to equity owners of the Company		45,354,677,688.57	41,659,054,746.92	26,231,359,232.13	25,774,681,242.54
Minority interests		9,386,052,081.08	7,726,873,546.48	-	-
Total owners' equity		54,740,729,769.65	49,385,928,293.40	26,231,359,232.13	25,774,681,242.54
TOTAL LIABILITIES AND OWNERS' EQUITY		149,185,655,478.63	137,026,395,859.72	47,715,499,306.15	43,070,279,394.21

The accompanying notes form an integral part of these financial statements.

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE YEAR ENDED 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Revenue	4(47), 17(7)	191,909,156,160.88	186,565,796,464.05	183,701,052.91	144,724,761.78
Less: Cost of sales	4(47), 4(53), 17(7)	(164,473,961,224.35)	(159,751,669,602.13)	(2,067,947.37)	(2,070,222.18)
Taxes and surcharges	4(48)	(592,994,352.44)	(544,758,395.31)	(1,423,030.34)	(2,630,288.86)
Selling expenses	4(49), 4(53)	(12,864,843,852.81)	(12,855,723,141.99)	-	-
General and administrative expenses	4(50), 4(53)	(4,731,794,293.37)	(4,651,573,400.28)	(230,452,270.90)	(267,841,642.43)
Research and development expenses	4(51), 4(53)	(1,656,670,833.68)	(1,349,504,051.12)	(336,494,929.97)	(212,263,541.52)
Financial expenses - net	4(52)	(1,239,584,410.58)	(1,258,772,206.26)	(356,329,203.64)	(190,873,431.87)
Including: Interest expenses		(1,411,892,516.32)	(1,405,213,592.91)	(236,999,828.65)	(250,789,638.30)
Interest income		288,327,323.99	234,019,914.03	34,436,327.25	15,724,382.70
Add: Other income	4(56)	548,898,062.46	517,063,508.97	22,846,174.28	10,963,409.49
Investment income	4(57), 17(8)	976,194,502.02	653,782,285.09	2,308,203,863.58	2,329,286,891.66
Including: Share of profit of associates and joint ventures		1,009,547,230.32	765,185,781.64	244,351,099.64	169,551,305.84
Derecognition of financial assets at amortised cost		(43,904,615.06)	(23,650,663.43)	-	-
Profit arising from changes in fair value	4(58)	116,797,793.20	122,162,503.68	2,920,133.47	316,853.30
Credit impairment reversals/(losses)	4(55)	39,657,678.67	(211,071,663.93)	(5,245,958.47)	(15,195,401.28)
Asset impairment losses	4(54)	(898,616,318.25)	(1,093,122,105.55)	-	-
Gains on disposals of assets	4(59)	52,149,230.81	71,336,463.10	-	-
Operating profit		7,184,388,142.56	6,213,946,658.32	1,585,657,883.55	1,794,417,388.09
Add: Non-operating income	4(60)	192,725,699.31	152,850,639.14	-	237,201.91
Less: Non-operating expenses	4(61)	(201,631,278.24)	(104,330,648.69)	(1,920,512.92)	(2,133,117.68)
Total profit		7,175,482,563.63	6,262,466,648.77	1,583,737,370.63	1,792,521,472.32
Less: Income tax expenses	4(62)	(1,570,218,526.39)	(1,431,724,678.13)	-	-
Net profit		5,605,264,037.24	4,830,741,970.64	1,583,737,370.63	1,792,521,472.32
Including: Net profit of the acquiree in a business combination under common control before the combination date		Not applicable	Not applicable	Not applicable	Not applicable
Classified by continuity of operations					
Net profit from continuing operations		5,605,264,037.24	4,830,741,970.64	1,583,737,370.63	1,792,521,472.32
Net profit from discontinued operations		-	-	-	-
Classified by ownership of the equity					
Attributable to equity owners of the Company		4,496,216,958.55	4,080,993,663.50	Not applicable	Not applicable
Minority interests		1,109,047,078.69	749,748,307.14	Not applicable	Not applicable
Other comprehensive income, net of tax	4(44)	280,861,821.82	(57,013,218.47)	1,801,998.86	8,494.57
Attributable to equity owners of the Company		285,849,223.91	(49,590,108.10)	1,801,998.86	8,494.57
Other comprehensive income that will not be reclassified to profit or loss		3,119,302.65	31,871,487.50	-	-
Changes in fair value of other equity instrument investments		3,119,302.65	31,871,487.50	-	-
Other comprehensive income that will be reclassified to profit or loss		282,729,921.26	(81,461,595.60)	1,801,998.86	8,494.57
Shares of other comprehensive income of the investee accounted for using equity method that will be reclassified to profit or loss		2,694,251.87	12,792.42	1,801,998.86	8,494.57
Allowance of debt investments at FVOCI		337,169.80	1,150,856.65	-	-
Translation differences on translation of foreign currency financial statements		279,698,499.59	(82,625,244.67)	-	-
Attributable to minority interests		(4,987,402.09)	(7,423,110.37)	-	-
Total comprehensive income		5,886,125,859.06	4,773,728,752.17	1,585,539,369.49	1,792,529,966.89
Attributable to equity owners of the Company		4,782,066,182.46	4,031,403,555.40	Not applicable	Not applicable
Attributable to minority interests		1,104,059,676.60	742,325,196.77	Not applicable	Not applicable
Earnings per share	4(63)				
Basic earnings per share (RMB)		1.58	1.44	—	—
Diluted earnings per share (RMB)		1.58	1.44	—	—

The accompanying notes form an integral part of these financial statements.

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Cash flows from/(used in) operating activities					
Cash received from sales of goods or rendering of services		210,000,997,792.49	204,734,971,015.55	213,773,339.46	172,493,370.35
Refund of taxes and surcharges		66,658,069.67	67,469,075.55	-	-
Cash received relating to other operating activities	4(64)(a)	1,910,598,495.04	2,147,273,697.54	693,483,248.89	592,382,688.72
Sub-total of cash inflows		211,978,254,357.20	206,949,713,788.64	907,256,588.35	764,876,059.07
Cash paid for goods and services		(180,165,640,067.90)	(176,703,497,125.92)	(10,342,503.94)	(13,658,293.35)
Cash paid to and on behalf of employees		(7,748,774,301.34)	(7,621,938,109.28)	(182,925,213.73)	(185,289,878.80)
Payments of taxes and surcharges		(5,916,081,609.76)	(5,689,087,244.31)	(3,909,270.99)	(12,258,513.31)
Cash paid relating to other operating activities	4(64)(b)	(11,303,037,753.14)	(10,912,805,695.96)	(923,367,286.92)	(741,426,635.35)
Sub-total of cash outflows		(205,133,533,732.14)	(200,927,328,175.47)	(1,120,544,275.58)	(952,633,320.81)
Net cash flows from/(used in) operating activities	4(65)(a)	6,844,720,625.06	6,022,385,613.17	(213,287,687.23)	(187,757,261.74)
Cash flows (used in)/from investing activities					
Cash received from disposal of investments		4,172,903,129.92	905,438,744.31	4,010,242,036.27	905,140,612.47
Cash received from returns on investments		633,153,333.92	366,135,906.49	1,785,221,131.77	1,742,582,446.77
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		383,859,030.69	141,903,449.48	46,424.31	10,676.58
Net cash received from disposal of subsidiaries and other business units	4(65)(b)	110,133,270.06	65,902,875.89	-	-
Cash received relating to other investing activities	4(64)(c)	4,153,365,435.56	1,269,232,943.33	4,131,428,232.26	3,333,239,909.22
Sub-total of cash inflows		9,453,414,200.15	2,748,613,919.50	9,926,937,824.61	5,980,973,645.04
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(3,009,971,315.92)	(2,753,125,441.07)	(86,091,198.73)	(40,918,966.17)
Cash paid to acquire investments		(4,490,914,000.00)	(1,041,387,783.55)	(4,470,457,000.00)	(900,500,000.00)
Net cash paid to acquire subsidiaries and other business units	4(65)(b)	(2,155,788,274.13)	(759,587,820.46)	(125,720,000.00)	(41,916,666.67)
Cash paid relating to other investing activities	4(64)(d)	(1,502,417,019.54)	(2,778,790,415.67)	(7,147,672,972.76)	(4,327,185,264.85)
Sub-total of cash outflows		(11,159,090,609.59)	(7,332,891,460.75)	(11,829,941,171.49)	(5,310,520,897.69)
Net cash flows (used in)/from investing activities		(1,705,676,409.44)	(4,584,277,541.25)	(1,903,003,346.88)	670,452,747.35
Cash flows (used in)/from financing activities					
Cash received from capital contributions		141,546,446.55	28,537,000.00	-	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries		141,546,446.55	28,537,000.00	-	-
Cash received from borrowings		36,769,159,585.51	40,046,613,569.70	3,980,000,000.00	2,700,000,000.00
Cash received from issuance of debentures		12,495,812,500.00	-	12,495,812,500.00	-
Cash received relating to other financing activities	4(64)(e)	1,672,813,579.90	403,383,949.12	185,740,437.91	2,673,833,926.49
Sub-total of cash inflows		51,079,332,111.96	40,478,534,518.82	16,661,552,937.91	5,373,833,926.49
Cash repayments of borrowings		(47,575,479,978.03)	(38,340,306,510.03)	(12,400,000,000.00)	(2,600,000,000.00)
Cash payments for distribution of dividends, profits or interest expenses		(3,517,618,288.42)	(3,014,247,805.77)	(1,344,038,247.29)	(1,289,861,952.88)
Including: Cash payments for distribution of dividends or profits to minority shareholders of subsidiaries		(1,099,223,735.57)	(430,084,295.37)	-	-
Cash payments relating to other financing activities	4(64)(f)	(1,247,463,661.20)	(1,449,778,734.55)	(215,161,294.94)	(179,319,543.24)
Sub-total of cash outflows		(52,340,561,927.65)	(42,804,333,050.35)	(13,959,199,542.23)	(4,069,181,496.12)
Net cash flows (used in)/from financing activities		(1,261,229,815.69)	(2,325,798,531.53)	2,702,353,395.68	1,304,652,430.37
Effect of foreign exchange rate changes on cash and cash equivalents		(17,627,517.49)	(1,606,345.47)	5,224,362.93	(6,450,796.95)
Net increase/(decrease) in cash and cash equivalents	4(65)(a)	3,860,186,882.44	(889,296,805.08)	591,286,724.50	1,780,897,119.03
Add: Cash and cash equivalents at beginning of year		15,716,257,907.41	16,605,554,712.49	3,398,271,917.33	1,617,374,798.30
Cash and cash equivalents at end of year	4(65)(c)	19,576,444,789.85	15,716,257,907.41	3,989,558,641.83	3,398,271,917.33

The accompanying notes form an integral part of these financial statements.

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Attributable to equity owners of the Company						Minority interests	Total owners' equity
		Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserves	Undistributed profits		
Balance at 1 January 2019		2,842,089,322.00	15,845,033,453.86	-	(492,638,959.02)	1,488,432,388.59	19,245,253,845.74	7,399,513,745.79	46,327,683,796.96
Movements for the year ended 31 December 2019		-	(124,431,617.98)	-	(49,590,108.10)	179,252,147.23	2,725,654,274.60	327,359,800.69	3,058,244,496.44
Total comprehensive income									
Net profit		-	-	-	-	-	4,080,993,663.50	749,748,307.14	4,830,741,970.64
Other comprehensive income	4(44)	-	-	-	(49,590,108.10)	-	-	(7,423,110.37)	(57,013,218.47)
Total comprehensive income		-	-	-	(49,590,108.10)	-	4,080,993,663.50	742,325,196.77	4,773,728,752.17
Capital contribution and withdrawal by owners									
Capital contribution by owners		-	-	-	-	-	-	63,937,000.00	63,937,000.00
Amount recorded in owners' equity arising from share-based payment arrangements	4(43)	-	1,231,412.28	-	-	-	-	-	1,231,412.28
Others	4(43)	-	(125,663,030.26)	-	-	-	-	(76,865,221.26)	(202,528,251.52)
Profit distribution									
Appropriation to surplus reserves	4(45)	-	-	-	-	179,252,147.23	(179,252,147.23)	-	-
Profit distribution to equity owners	4(46)	-	-	-	-	-	(1,165,256,622.02)	(396,858,955.86)	(1,562,115,577.88)
Others	4(46)	-	-	-	-	-	(10,830,619.65)	(5,178,218.96)	(16,008,838.61)
Balance at 31 December 2019		2,842,089,322.00	15,720,601,835.88	-	(542,229,067.12)	1,667,684,535.82	21,970,908,120.34	7,726,873,546.48	49,385,928,293.40
Balance at 1 January 2020		2,842,089,322.00	15,720,601,835.88	-	(542,229,067.12)	1,667,684,535.82	21,970,908,120.34	7,726,873,546.48	49,385,928,293.40
Movements for the year ended 31 December 2020		-	176,986,039.30	-	276,818,307.54	158,373,737.06	3,083,444,857.75	1,659,178,534.60	5,354,801,476.25
Total comprehensive income									
Net profit		-	-	-	-	-	4,496,216,958.55	1,109,047,078.69	5,605,264,037.24
Other comprehensive income	4(44)	-	-	-	285,849,223.91	-	-	(4,987,402.09)	280,861,821.82
Total comprehensive income		-	-	-	285,849,223.91	-	4,496,216,958.55	1,104,059,676.60	5,886,125,859.06
Capital contribution and withdrawal by owners									
Capital contribution by owners		-	-	-	-	-	-	141,546,446.55	141,546,446.55
Amount recorded in owners' equity arising from share-based payment arrangements	4(43)	-	34,742,418.42	-	-	-	-	-	34,742,418.42
Others	4(43)	-	142,243,620.88	-	-	-	-	1,125,322,866.54	1,267,566,487.42
Profit distribution									
Appropriation to surplus reserves	4(45)	-	-	-	-	158,373,737.06	(158,373,737.06)	-	-
Profit distribution to equity owners	4(46)	-	-	-	-	-	(1,250,519,301.68)	(699,261,386.78)	(1,949,780,688.46)
Others	4(46)	-	-	-	-	-	(12,909,978.43)	(12,489,068.31)	(25,399,046.74)
Transfer within owners' equity									
Transfer from other comprehensive income to retained earnings	4(46)	-	-	-	(9,030,916.37)	-	9,030,916.37	-	-
Balance at 31 December 2020		2,842,089,322.00	15,897,587,875.18	-	(265,410,759.58)	1,826,058,272.88	25,054,352,978.09	9,386,052,081.08	54,740,729,769.65

The accompanying notes form an integral part of these financial statements.

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man_5 -

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 December 2020

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserves	Undistributed profits	Total owners' equity
Balance at 1 January 2019		2,842,089,322.00	18,846,626,895.43	-	(1,517,884.52)	1,117,323,163.49	2,341,654,988.99	25,146,176,485.39
Movements for the year ended 31 December 2019		-	1,231,412.28	-	8,494.57	179,252,147.23	448,012,703.07	628,504,757.15
Total comprehensive income								
Net profit		-	-	-	-	-	1,792,521,472.32	1,792,521,472.32
Other comprehensive income	17(5)	-	-	-	8,494.57	-	-	8,494.57
Total comprehensive income		-	-	-	8,494.57	-	1,792,521,472.32	1,792,529,966.89
Capital contribution and withdrawal by owners								
Capital contribution by owners		-	-	-	-	-	-	-
Amount recorded in owners' equity arising from share-based payment arrangements	17(4)	-	1,231,412.28	-	-	-	-	1,231,412.28
Profit distribution								
Appropriation to surplus reserves	17(6)	-	-	-	-	179,252,147.23	(179,252,147.23)	-
Profit distribution to equity owners	17(6)	-	-	-	-	-	(1,165,256,622.02)	(1,165,256,622.02)
Balance at 31 December 2019		2,842,089,322.00	18,847,858,307.71	-	(1,509,389.95)	1,296,575,310.72	2,789,667,692.06	25,774,681,242.54
Balance at 1 January 2020		2,842,089,322.00	18,847,858,307.71	-	(1,509,389.95)	1,296,575,310.72	2,789,667,692.06	25,774,681,242.54
Movements for the year ended 31 December 2020		-	121,657,921.78	-	1,801,998.86	158,373,737.06	174,844,331.89	456,677,989.59
Total comprehensive income								
Net profit		-	-	-	-	-	1,583,737,370.63	1,583,737,370.63
Other comprehensive income	17(5)	-	-	-	1,801,998.86	-	-	1,801,998.86
Total comprehensive income		-	-	-	1,801,998.86	-	1,583,737,370.63	1,585,539,369.49
Capital contribution and withdrawal by owners								
Capital contribution by owners		-	-	-	-	-	-	-
Amount recorded in owners' equity arising from share-based payment arrangements	17(4)	-	34,742,418.42	-	-	-	-	34,742,418.42
Others	17(4)	-	86,915,503.36	-	-	-	-	86,915,503.36
Profit distribution								
Appropriation to surplus reserves	17(6)	-	-	-	-	158,373,737.06	(158,373,737.06)	-
Profit distribution to equity owners	17(6)	-	-	-	-	-	(1,250,519,301.68)	(1,250,519,301.68)
Balance at 31 December 2020		2,842,089,322.00	18,969,516,229.49	-	292,608.91	1,454,949,047.78	2,964,512,023.95	26,231,359,232.13

The accompanying notes form an integral part of these financial statements.

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in RMB Yuan unless otherwise stated)

1 General Information

Shanghai Pharmaceuticals Holding Co., Ltd. (“the Company”) was formerly known as Shanghai No. 4 Pharmaceutical Co., Ltd. (“No. 4 Pharmaceutical”). In October 1993, Shanghai Pharmaceutical (Group) Corporation, now known as Shanghai Pharmaceutical (Group) Co., Ltd. (“Shanghai Pharmaceutical Group”) initiated solely and issued 15,000,000 ordinary shares (A shares) to public with par value of RMB1 per share upon the approval of the Hu Zheng Ban (1993) No. 119, a document issued by Shanghai Securities Management Office. After that, No. 4 Pharmaceutical was established through fundraising on 18 January 1994. On 24 March 1994, shares of No. 4 Pharmaceutical were listed on the Shanghai Stock Exchange, the stock code of which was 600849. In 1998, No. 4 Pharmaceutical was renamed as Shanghai Pharmaceutical Co., Ltd.

Under Regulatory Permission [2010] No. 132 the *Approval on Shanghai Pharmaceutical Co., Ltd. Issuing Shares to Purchase Assets from Shanghai Pharmaceutical (Group) Co., Ltd. and Merging with Shanghai Industrial Pharmaceutical Investment Co. Ltd. and Shanghai Zhongxi Pharmaceutical Co. Ltd.* approved by China Securities Regulatory Commission (“CSRC”), the Company merged with Shanghai Industrial Pharmaceutical Investment Co. Ltd. (“Shangshi Pharmaceutical”) and Shanghai Zhongxi Pharmaceutical Co. Ltd. (“Zhongxi Pharmaceutical”), and issued shares to purchase pharmaceutical assets from Shanghai Pharmaceutical Group, and issued shares to raise funds from Shanghai Shangshi (Group) Co., Ltd. (“Shanghai Shangshi”) and used the funds to purchase the pharmaceutical assets from Shanghai Industrial Holdings Limited (“Shangshi Holdings”). After the completion of above significant asset restructuring, the total share capital of the Company was increased to 1,992,643,338 shares. Shanghai Pharmaceutical Co., Ltd. was renamed as Shanghai Pharmaceuticals Holding Co., Ltd.. The Company’s stock code was changed from 600849 to 601607. The Company’s shares were referred to “Shanghai Pharmaceuticals”.

As at 17 June 2011, the Company has completed the issuance of 696,267,200 shares (including 32,053,200 of over allotment) listed overseas (H shares) at RMB1 per share to investors overseas. The shares were listed on the Stock Exchange of Hong Kong Limited on 20 May 2011, the stock of which was 02607, and the shares were referred to “Shanghai Pharmaceuticals”.

On 26 January 2018, the Company issued 153,178,784 H shares to overseas investors, and was listed on the Stock Exchange of Hong Kong.

On 31 December 2020, the Company’s share capital was RMB2,842,089,322.00 with a total share capital of 2,842,089,322 shares, in which, 1,923,016,618 (A shares) RMB-denominated ordinary shares listed in China, and 919,072,704 (H shares) overseas listed foreign shares.

The unified social credit code of the Company is 9131000013358488X7; the legal representative is Zhou Jun; the place of registration is No. 92 Zhangjiang Road, China (Shanghai) Pilot Free Trade Zone; industry of the Company is pharmaceuticals.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in RMB Yuan unless otherwise stated)

1 General information (Cont'd)

Business operations of the Company and its subsidiaries (hereinafter jointly referred to as “the Group”) are mainly as follows:

- research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;
- 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 and franchising of a network of retail pharmacy stores.

The controlling shareholder of the Company is Shanghai Pharmaceutical Group. On 30 June 2008, upon the formal approval of Assets Supervision and Administration Commission of Shanghai Municipal Government (“SASAC”), 60% of the equity in total was directly transferred to Shanghai Shangshi, in which Shanghai Industrial Investment (Group) Co., Ltd. and Shanghai Huayi (Group) Company, the original shareholder of Shanghai Pharmaceutical Group, held 30% of equity of Shanghai Pharmaceutical Group respectively. Shanghai Shangshi became the controlling shareholder of Shanghai Pharmaceutical Group. Shanghai Shangshi is a state-owned enterprise, and its actual controller is SASAC. Shanghai Industrial (Holdings) Co., Ltd. (“Shangshi Holdings”) is registered in Hong Kong, and its actual controller is SASAC. Shangshi Holdings is authorised to manage Shanghai Shangshi by SASAC. Therefore, the ultimate holding company is Shangshi Holdings.

Subsidiaries comprised in the consolidated financial statements are set out in Note 6. Subsidiaries which are included in the scope of consolidation in this period are disclosed in Note 5(1).

These financial statements are authorised for issue by the Board of Directors of the Company on 26 March 2021.

2 Significant accounting policies and accounting estimates

The Group applies the accounting policies and accounting estimates based on its business operating characteristics, including provision of expected credit loss (“ECL”) of receivables (Note 2(9)), valuation of inventories (Note 2(10)), valuation of investment properties (Note 2(12)), depreciation of fixed assets and amortisation of intangible assets (Note 2(13)), Note 2(17), Note 2(26)), recognition and measurement of revenue (Note 2(23)), etc.

Significant judgements, accounting estimates and key assumptions to determine the critical accounting policies are disclosed in Note 2(30).

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as “the Accounting Standard for Business Enterprises” or “CAS”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Rules on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance has come into force since 3 March 2014. Certain disclosures in the financial statements have been included to reflect the requirements under the new Hong Kong Companies Ordinance.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

2 Significant accounting policies and accounting estimates (Cont'd)

(2) Statement of compliance with the Accounting Standard for Business Enterprises

The financial statements of the Company for the year ended 31 December 2020 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company's financial position as at 31 December 2020 and their financial performance, cash flows and other information for the year ended 31 December 2020.

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December.

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. The financial statements are presented in RMB.

(5) Business combinations

(a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. If the merged party was acquired by the final control party from a third party in the previous year, then the consideration was measured based on carrying amount of assets and liabilities of the merged party (including the goodwill arising from acquisition by the final control party) in the final control party's consolidated financial statements. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

2 Significant accounting policies and accounting estimates (Cont'd)

(5) Business combinations (Cont'd)

(b) Business combinations involving enterprises not under common control (Cont'd)

When the Group becomes capable of exercising control over an investee not under common control due to additional investment or other reasons, the equity interest held in the acquiree before the acquisition date shall be remeasured at fair value on the acquisition date, with any difference between fair value and carrying amount recognised as investment income in the current period. Where the equity interest held in the acquiree before the acquisition date relates to other comprehensive income measured under the equity method and other changes in owners' equity except net profit or loss, other comprehensive income and profit distribution (hereinafter "other changes in owners' equity"), corresponding other comprehensive income and other changes in owners' equity (excluding other comprehensive income from changes arising from remeasurement on net liabilities or net assets of defined benefit plans of the acquiree) shall be transferred to income for the period in which the acquisition date falls.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realized before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests, net profit attributed to minority interests and total comprehensive incomes attributed to minority interests, and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. If the loss of current period shared by the minority shareholders of a subsidiary exceeds the minority shareholders' share of the beginning balance of owners' equity of the subsidiary, the balance shall be offset against the minority shareholders' equity. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

2 Significant accounting policies and accounting estimates (Cont'd)

(6) Preparation of consolidated financial statements (Cont'd)

If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

The difference between additional long-term equity investment for purchase of minority interests in subsidiaries and shares of net assets calculated at the proportion of increased part of shares which the Group is entitled to as of the date of purchase or consolidation is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Under the circumstance that the Group partially disposed its long-term equity investments in subsidiaries without losing control, the difference between disposal proceeds and shares of net assets which the Group is entitled to from disposal of long-term equity investment is treated as an adjustment to capital surplus (share premium) in the consolidated financial statements. If the capital surplus (share premium) is not sufficient to cover the difference, retained earnings are adjusted.

If an enterprise loses control over an investee due to the disposal of a portion of equity investment or other reasons, the remaining equity investment shall be remeasured at fair value in the consolidated financial statements at the date when control is lost. The sum of consideration received from the disposal of equity investment and the fair value of the remaining equity investment, net of the sum of the share of net assets of the former subsidiary based on continuous calculation since the acquisition date at previous proportion of shareholding and goodwill, is recognised as investment income for the current period when the control is lost. The other comprehensive income related to the original subsidiary is included in investment income for the current period or retained earnings at the date of losing control.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

2 Significant accounting policies and accounting estimates (Cont'd)

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

2 Significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments

A financial instrument refers to any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another. The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual provisions of financial instrument.

(a) Financial assets

(i) Classification and measurement

Based on the entity's business model for managing the financial assets and the contractual terms of the cash flows, the Group classifies its financial assets in the following measurement categories: 1) financial assets at amortised cost; 2) financial assets at fair value through OCI; and 3) financial assets at fair value through profit or loss.

At initial recognition, the Group measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss (FVPL), are expensed in profit or loss. In the case of a financial asset not at FVPL, transaction costs are directly attributable to the acquisition of the financial asset. The Group measures accounts receivables and notes receivables arising from sales of goods or provision of services at their transaction price, if the notes receivables and accounts receivables do not contain a significant financing component.

Debt instruments

Debt instruments held by the Group are instruments that meet the definition of financial liabilities from the perspective of the issuers, and are measured by the following three ways:

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met: it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest revenue of such financial asset is calculated by using the effective interest method. Such financial assets mainly include cash at bank and on hand, notes receivables, accounts receivables, other receivables, debt investments and long-term receivables, etc. Debt investments and long-term receivables due within 1 year (inclusive) at the balance sheet date are presented as the current portion of non-current assets; at acquiring date, debt investments with maturities within one year (inclusive) are presented as other current assets.

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2 Significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial asset (Cont'd)

(i) Classification and measurement (Cont'd)

Fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI if both of the following conditions are met: it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If a financial asset is measured at FVOCI, all movements in the fair value should be taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method, and foreign exchange gains and losses, which are recognised in profit or loss. Such financial assets are presented as other debt investments. The debt investments with maturity within one year (inclusive) since the balance sheet date are presented in current portion of non-current assets; at acquiring date, debts investments with maturity within one year (inclusive) are presented in other current assets and receivables financing.

Fair value through profit or loss (FVPL)

If the financial asset does not meet the criteria for amortised cost or FVOCI, it is measured at FVPL. At initial recognition, the Group designates part of financial assets as measured at FVPL in order to eliminate or significantly reduce an accounting mismatch. The financial assets with maturity more than one year and expected to be held for more than one year are presented in other non-current financial assets, and others are presented as financial assets held for trading.

Equity instruments

The Group measures its equity instruments that have no control, joint control or significant influence at FVPL and recognises such equity instruments as financial assets held for trading. The financial assets expected to be held for more than one year since the balance sheet date are presented in other non-current financial assets.

Besides, the Group designates part of financial assets which are not held for trading at FVOCI and presents them in other equity instruments investments. The dividend income is recognised in profit or loss.

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2 Significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial asset (Cont'd)

(ii) Impairment

The Group recognises a loss allowance for expected credit losses on a financial asset that is measured at amortised cost, FVOCI, a contract asset and a financial guarantee contract.

The measurement of expected credit loss reflects the probability-weighted estimate of the present value of the difference between contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive. The estimate is based on historical experience and other factors, including current situation and expectations of future events that are believed to be reasonable under the circumstances.

The Group assesses the expected credit losses at different stages respectively at each balance sheet date. At the first stage: in the case that the credit risk on financial instruments have not increased significantly since initial recognition, the Group measures the loss allowance of the financial instruments at an amount equal to 12-month expected credit losses; At the second stage: in the case that the credit risk on that financial instruments have increased significantly since initial recognition, but a credit impairment has not occurred, the Group measures the loss allowance for the financial instruments at an amount equal to the lifetime expected credit losses; At the third stage: in the case that the impairment loss has incurred since initial recognition, the Group measures the loss allowance for the financial instruments at an amount equal to the lifetime expected credit losses.

For financial instruments with low credit risk as at balance sheet date, the Group assumes the credit risk has not increased significantly since initial recognition, and measures the loss allowance for the financial instrument at an amount equal to 12-month expected credit losses.

For the financial instruments at the first stage and the second stage, and those with low credit risk, interest revenue is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. For the financial instruments at the third stage, interest revenue is calculated applying the effective interest rate to amortised cost (gross carrying amounts less the impairment provision).

The Group measures the loss allowance at an amount equal to lifetime expected credit losses for notes receivables, accounts receivables, receivables financing and contract assets resulting from transactions of daily operations such as sales of goods and provision of services, regardless of whether they contain a significant financing component or not. The Group also measures the loss allowance at an amount equal to lifetime expected credit losses for lease receivables.

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2 Significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial asset (Cont'd)

(ii) Impairment (Cont'd)

For receivables without objective evidence of impairment, they are grouped based on shared credit risk characteristics, and collective provision is determined based on the credit risk. The Group groups the financial assets as follows:

Group 1	Trade receivables
Group 2	Dividends receivables from related parties
Group 3	Interest receivables and receivables financing
Group 4	Guarantee deposits
Group 5	Compensation receivable from suppliers
Group 6	Receivables from intra-group companies

For accounts receivables on grouping basis, the Group estimates the expected credit losses by considering the historical credit loss experience, current situation and forecasts of economic conditions, and based on the comparison table between accounts receivables' aging and lifetime expected credit loss ratio. The expected credit loss ratio is based on the historical loss rates and is adjusted to reflect current and forward-looking information that might affect the ability of customers to settle the receivables. The Group reassesses the historical loss rates at each reporting date and considers the circumstances that lead to the modification of forward-looking information.

For lease receivables, notes receivables and receivables financing resulting from transactions of daily operations such as sales of goods and provision of services on grouping basis, the Group estimates the expected credit losses by considering the historical credit loss experience, current situation and forecasts of economic conditions, and based on the exposure at default and lifetime expected credit loss ratio.

For notes receivables, receivables financing not resulting from transactions of daily operation, other receivables and long-term receivables on grouping basis, the Group estimates the expected credit losses by considering the historical credit loss experience, current situation and forecasts of economic conditions, and based on the exposure at default and 12-month expected credit loss ratio or lifetime expected credit loss ratio.

Impairment losses (and reversal of impairment losses) is recognised in the statement of profit or loss. For debt investments measured at FVOCI, the Group recognises losses (and reversal of impairment losses) in the statement of profit or loss and adjusts OCI in the meanwhile.

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2 Significant accounting policies and accounting estimates (Cont'd)

(9) Financial instruments (Cont'd)

(a) Financial asset (Cont'd)

(iii) De - recognition

A financial asset is derecognised when any of the following condition is met: (1) the contractual rights to receive the cash flows from the financial asset expire; or (2) the financial asset has been transferred and all the risks and rewards of ownership of the financial asset have substantially been transferred to the transferee; or (3) The financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On de-recognition of other equity instruments investments, the difference between the carrying amount and the sum of the consideration received and the accumulated changes in fair value recognised directly in OCI, shall be transferred to retained earnings. On de-recognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the accumulated changes recognised in OCI, shall be recognised in profit or loss.

(b) Financial liability

Financial liabilities are classified into financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

The financial liabilities of the Group are mainly measured at amortised cost, including notes payables, accounts payables, other payables, borrowings, debentures payable and long-term payables, etc. The financial liability is measured at its fair value minus transaction costs at initial recognition and subsequently measured at effective interest rate method. Financial liability with maturity within one year (inclusive) is presented in current liability. Financial liability with maturity more than one year but is due within 1 year (inclusive) at the balance sheet date is presented in current portion of non-current liability. Other financial liabilities are presented in non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is based on quoted market prices at the balance sheet date. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique when it is applicable under current conditions and there are enough available data and other information to support. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and should maximize the use of relevant observable inputs. When related observable inputs cannot be acquired or are not feasible to be acquired, then unobservable inputs are used.

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2 Significant accounting policies and accounting estimates (Cont'd)

(10) Inventories

(a) Classification

Inventories include raw materials, goods in transit, turnover materials, finished goods, work in progress, consignments and consumable biological assets are stated at the lower of cost and net realisable value.

(b) Costing of inventories

Cost is determined using the first-in-first-out method or weighted average method. The Company uses the individual valuation method to determine the cost of shipping inventory for the inventory that cannot be used as a substitute and that is purchased or manufactured specifically for a specific project. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realizable values of inventories and method for making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

(e) Amortisation method of turnover materials

Turnover materials include low value consumables and packaging materials. Low value consumables and packaging materials are written off once used.

(11) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances; An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

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2 Significant accounting policies and accounting estimates (Cont'd)

(11) Long-term equity investments (Cont'd)

(a) Determination of investment cost

For long-term equity investment acquired through a business combination involving enterprises under common control, the investment cost is the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date. For long-term equity investments acquired through a business combination involving enterprises not under common control, the investment cost shall be the cost of combination.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition of related profit and loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost, and cash dividends or profit distributions declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is initially measured at that cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards in the contingencies are satisfied, the Group continues recognising the expected losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, other comprehensive income, and profit distribution, the Group records its proportionate share directly into capital surplus. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profit or loss arising from the intra-group transactions amongst the Group and its investees is eliminated in proportion to the Group's equity interests in the investees, and then based on which the investment income is recognised. For the loss on the intra-group transactions amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

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2 Significant accounting policies and accounting estimates (Cont'd)

(11) Long-term equity investments (Cont'd)

- (c) Basis for determining existence of control, joint control and significant influence over investees

Control is the power to govern an investee, so as to obtain variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

- (d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

- (e) Disposal of the long-term equity investments

When the Group ceases the use of the equity method, the Group shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. Any movements of equity are transferred to investment income in the period with the exception of net profit or loss, other comprehensive income and retained earnings shared by investees when the equity method is terminated. For a portion of long-term equity investment accounted for using the equity method by investee, the relevant other comprehensive income under equity method previously is determined as if the relevant assets or liabilities are derecognised directly by the investee if the equity method is applied to the residual part of the equity investments on a pro-rata basis according to the proportion of disposal; other owner's equity with the exception of net profit or loss, other comprehensive income and retained earnings shared by investees is transferred to investment income in the current period on a pro-rata basis.

- (f) Partial disposal of a subsidiary or other reason resulting in loss of control of a subsidiary

On disposal of a long-term equity investment in the Group's separate financial statements, the difference between the proceeds actually received and its carrying amount is recognised in profit or loss for the current period; meanwhile, for the remaining equity investment, it shall be recognised as a long-term equity investment at its carrying amount or other relevant financial assets at its fair value. If the remaining equity after disposal can exercise joint control or have a significant influence over the original subsidiary, it shall be accounted for in accordance with the relevant provisions of the transfer of the cost method to the equity method.

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2 Significant accounting policies and accounting estimates (Cont'd)

(12) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for long-term rental yields or for capital appreciation or both, are initially recognised at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss for the period in which they are incurred.

The Group applies the cost model for subsequent measurement of investment properties. Depreciation or amortisation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives. As for investment properties measured by cost model, depreciation policy on similar fixed assets is applicable to buildings for lease purpose, and amortisation policy on similar intangible assets is applicable to land use rights for lease purpose.

When an investment property is transferred to owner-occupied property, it is reclassified to fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is transferred to investment properties at the date of the transfer. The carrying amount before and after transfer is the same at the date of the transfer.

The residual values and useful lives of investment properties and the depreciation methods applied to the investment properties are reviewed, and adjusted as appropriate, at each balance sheet date.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

The carrying amount of investment properties shall be reduced to the recoverable amount if the recoverable amount is lower than the carrying amount. (Note2(19))

(13) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, motor vehicles, electronic equipment and other equipment

Fixed assets are recognised when the economic benefits associated with them are likely to flow into the Group and their costs can be measured reliably. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition. Fix assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.

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2 Significant accounting policies and accounting estimates (Cont'd)

(13) Fixed assets (Cont'd)

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	5-50 years	2%-10%	1.80%-19.60%
Machinery and equipment	4-20 years	2%-10%	4.50%-24.50%
Motor vehicles	4-14 years	2%-10%	6.43%-24.50%
Electronic equipment	3-14 years	2%-10%	6.43%-32.67%
Other equipment	2-20 years	2%-10%	4.50%-49.00%

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) The carrying amount of the fix assets shall be reduced to the recoverable amount if the recoverable amount is lower than the carrying amount (Note 2 (19)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(14) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. When the recoverable amount of a project under construction is lower than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2 (19)).

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2 Significant accounting policies and accounting estimates (Cont'd)

(15) Borrowing costs

The borrowing costs that are directly attributable to acquisition and construction of an asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of an asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

If the borrowing is specific to the qualifying asset, the borrowing costs eligible for capitalisation are the actual cost during the period of construction less any investment income or interest income on the temporary investment of the borrowings.

The amount of borrowing costs eligible for capitalisation, in cases where the funds are borrowed generally, should be determined based on the weighted average of the expenditures incurred in obtaining a qualifying asset. The costs incurred should first be allocated to the specific borrowings. The capitalisation rate relating to general borrowings should be the weighted average effective interest rate applicable to the entity's borrowings. The effective interest rate is the interest rate used when the future cash flows of the borrowings over the estimated remaining deposit period or a shorter applicable period are discounted into the initial recognised amount of the borrowings.

(16) Biological assets

Biological assets comprise bearer biological assets and consumable biological assets. A biological asset is initially measured at cost.

Expenditures incurred are included in the cost of the bearer biological assets before achieving the expected operation purpose. Subsequent expenditures such as maintenance or administration cost after achieving the expected operation purpose are recognised in profit or loss for the period in which they are incurred.

The actual expense of the consumable biological assets before closure constitutes the cost of the consumable biological assets, and the subsequent expenses such as management and protection after closure shall be recognised in profit or loss for the period.

Bearer biological assets are depreciated using the straight-line method over their estimated useful lives after achieving the expected operation purpose. The estimated useful life and the estimated net residual value of a bearer biological asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate if the useful life and the estimated net residual value differ from the previous estimates, or there are significant changes in the pattern in which the asset's economic benefits are expected to be realised, the Group will adjust the useful life, estimated net residual value, or the depreciation method as changes in accounting estimate.

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2 Significant accounting policies and accounting estimates (Cont'd)

(16) Biological assets (Cont'd)

At the end of each reporting period, bearer biological assets and consumable biological assets are reviewed and the carrying amount shall be reduced to the recoverable amount or net realisable value if the recoverable amount of bearer biological assets or the net realisable value of the consumable biological assets is lower than the carrying amount. The reduction is an impairment loss which is recognised in profit or loss. Once the provision for bearer biological assets impairment is made, it will not be reversed; when the factor of depreciation of consumable biological asset disappears, it shall be reversed within the amount of provision for depreciation originally withdrawn, and the reversal amount shall be recognised in profit or loss for the period.

(17) Intangible assets

Intangible assets include land use rights, business network, brands, know-how, patent rights and software, etc., and are measured at cost method. Intangible assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Business network

Business network is amortised using the straight-line method over its estimated useful lives.

(c) Brands and trademarks

Brands acquired in a business combination are recognised at fair value at the acquisition date. 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.

(d) Know-how

Know-how is amortised using the straight-line method over its estimated useful lives.

(e) Patent rights

Patent rights are amortised using the straight-line method over its protection period as stipulated by the laws.

(f) Software

Software is amortised using the straight-line method over its estimated useful lives.

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2 Significant accounting policies and accounting estimates (Cont'd)

(17) Intangible assets (Cont'd)

(g) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

(h) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(i) Impairment of intangible assets

When the recoverable amount of an intangible asset is lower than its carrying amount, the carrying amount is reduced to the recoverable amount (Note 2 (19)).

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2 Significant accounting policies and accounting estimates (Cont'd)

(18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

(19) Impairment of long-term assets

Fixed assets, construction in progress, right of use assets, intangible assets with finite useful lives, bearer biological assets, investment properties carries at cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets that are not yet available for their intended use are tested for impairment at least annually, irrespective of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are 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 the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows. For intangible assets with uncertain useful life, the useful life of intangible assets shall be reviewed at least annually. If there is any indication that the useful life of the intangible asset is finite, the intangible asset shall be amortised over its estimated useful lives in the future periods.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits and termination benefits, etc.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs and short-term paid absence, etc. The short-term employee benefits actually occurred are recognised as a liability in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary benefits are measured at fair value.

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(All amounts in RMB Yuan unless otherwise stated)

2 Significant accounting policies and accounting estimates (Cont'd)

(20) Employee benefits (Cont'd)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include the premiums or contributions on basic pensions and unemployment insurance, both of which belong to defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(c) Termination benefits

The Group provides compensation for terminating the employment relationship with employees before the end of the employment contracts or as an offer to encourage employees to accept voluntary redundancy before the end of the employment contracts. The Group recognises a liability arising from compensation for termination of the employment relationship with employees, with a corresponding charge to profit or loss for the current period at the earlier of the following dates: 1) when the Group cannot unilaterally withdraw an employment termination plan or a curtailment proposal; 2) when the Group recognises costs or expenses for a restructuring that involves the payment of termination benefits.

Early retirement benefits

The Group offers early retirement benefits to those employees who accept early retirement arrangements. The early retirement benefits refer to the salaries and social security contributions to be paid to and for the employees who accept voluntary retirement before the normal retirement date prescribed by the State, as approved by the management. The Group pays early retirement benefits to those early retired employees from the early retirement date until the normal retirement date. The Group accounts for the early retirement benefits in accordance with the treatment for termination benefits, in which the salaries and social security contributions to be paid to and for the early retired employees from the off-duty date to the normal retirement date are recognised as liabilities with a corresponding charge to the profit or loss for the current period. The differences arising from the changes in the respective actuarial assumptions of the early retirement benefits and the adjustments of benefit standards are recognised in profit or loss in the period in which they occur.

The termination benefits expected to be settled within one year since the balance sheet date are classified as current liabilities.

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2 Significant accounting policies and accounting estimates (Cont'd)

(21) Profit distribution

Proposed cash profit distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(22) Provisions

Provisions for product warranties, onerous contracts and etc., are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the best estimate for the current period.

The provisions expected to be settled within one year since the balance sheet date are classified as current liabilities.

(23) Revenue recognition

Sales are recognised when control of goods or provision of services has been transferred. The amount of revenue is determined in accordance with the fair value of the consideration received or receivable.

(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 due from the obligation of transfer goods is presented as contract liabilities in the balance sheet.

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

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2 Significant accounting policies and accounting estimates (Cont'd)

(23) Revenue recognition (Cont'd)

(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 collection. For the remaining part of the services, a contract asset is recognised. The Group recognises the loss provision using the expected credit loss model (Note2(9)) 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.

(24) Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc., excluding capital invested in the Group by the government as a business owner.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

For the policy loans with favourable interest rates, the Group records the loans at the actual amounts and calculates the interests by loan principals and the favourable interest rates. The fiscal interest discounts directly received by the Group offset the relevant borrowing expenses.

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2 Significant accounting policies and accounting estimates (Cont'd)

(25) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(26) Lease

A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as the lessee

At the commencement date, the Group shall recognise the right-of-use asset and measure the lease liability at the present value of the lease payments during the lease term that are not paid at that date. Lease payments include fixed payments, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lessee exercises an option to terminate the lease. Rents that are variable based on the revenue are not included in the lease payments and are recognised in the profit or loss of the period when the revenue is earned. Lease liabilities that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current liabilities.

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**NOTES TO THE FINANCIAL STATEMENTS
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2 Significant accounting policies and accounting estimates (Cont'd)

(26) Lease (Cont'd)

The Group as the lessee (Cont'd)

Right-of-use assets of the Group include buildings, machinery and equipment and etc.. Right-of-use assets are measured initially at cost which consists of the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date and any initial direct costs, less any lease incentives received. If there is reasonable certainty that the Group will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise the asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of the right-of-use asset is reduced to the recoverable amount when the recoverable amount is lower than the carrying amount.

For short-term leases with a term of twelve months or less and leases of an individual asset (when new) of low value, the Group may, instead of recognising right-of-use assets and lease liabilities, recognise on a straight-line basis over the period of the lease, and either capitalise as part of the cost of related assets, or charge as an expense for the current period.

The Group shall account for a lease modification as a separate lease if both: (1) the modification increases the scope of the lease by adding the right to use of one or more underlying assets; (2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

For a lease modification that is not accounted for as a separate lease, the Group shall redetermine the lease term at the effective date of the lease modification, and remeasure the lease liability by discounting the revised lease payments using a revised discount rate, except that the contract changes directly resulting from COVID-19 are accounted for by applying the practical expedient. For a lease modification which decreases the scope of the lease or shortens the lease term, the Group decreases the carrying amount of the right-of-use asset, and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. For other leases which lead to the remeasurement of lease liabilities, the Group correspondingly adjusts the carrying amount of the right-of-use asset.

For the rental waivers as a result of COVID-19 and for the period ended 30 June 2021 only, the Group applies the practical expedient and records the undiscounted waivers in profit or loss when the agreement is reached to dismiss the original payment obligation with corresponding adjustment of lease liabilities.

The Group as the lessor

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

When a lease is changed, the Group regards it as a new lease from the effective date of the change, and treats the advance or receivable lease payments related to the lease before the change as the receipts for the new lease.

(a) Operating leases

Rental income from an operating lease is recognised on a straight-line basis over the period of the lease. Rental income that are variable based on the revenue of the lessee is recognised when the revenue is earned.

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2 Significant accounting policies and accounting estimates (Cont'd)

(26) Lease (Cont'd)

(b) Finance lease

At the commencement date, lease payments receivable is recognised as long-term receivables and the relevant asset is derecognised. Finance lease receivables due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current assets.

(27) Share-based payment

Share-based payment are categorised into equity-settled share-based payment transaction and cash-settled share-based payment transaction. The share-based payment transaction implemented by the Group is accounted for as equity-settled.

The equity-settled share-based payments in exchange for employee services shall be measured at the fair value of the equity instruments granted to the employees. Where the equity-settled share-based payments are exercisable immediately after the grant is completed, the payments shall be recognised in profit or loss for the current period at the fair value of the equity instruments at the grant date, with capital surplus increased accordingly; where the equity-settled share-based payments are exercisable after the service in the waiting period is completed or specified performance conditions are met, the service obtained in the current period shall be recognised in profit or loss for the current period at the fair value of the equity instruments at the grant date based on the best estimate on the quantity of exercisable equity instruments made by the Group in accordance with the latest changes in the number of exercisable employees, satisfaction of specified performance conditions and other subsequent information at each balance sheet date within the waiting period.

Where the equity-settled share-based payments cannot be exercised in the end, its costs or expenses shall not be recognised by the Group unless that the payments are exercisable under the market conditions or non-exercisable conditions. In this regard, whether the market conditions or non-exercisable conditions are satisfied or not, the payments are deemed to be exercisable only when the non-market conditions among all of the exercisable conditions are satisfied.

When the Group modifies the terms of the share-based payment plan, if the modification increases the fair value of the granted equity instruments, the Group shall recognise the increase in services received based on the difference between the fair value of the equity instruments before and after the modification on the modification date. If the Group revises the exercisable conditions in a manner favourable to employees, the Group shall account for the payment according to the revised exercisable conditions; if the Group revises the exercisable conditions in a manner unfavourable to employees, the Group shall not consider that in the accounting, unless the Group cancels part or all of the granted equity instruments. If the Group cancels the granted equity instruments, the payments shall be accelerated for exercise on the cancellation date, and the amount that should have been recognised during the remaining waiting period shall be immediately included in profit or loss for the current period, and capital surplus shall be also recognised.

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2 Significant accounting policies and accounting estimates (Cont'd)

(28) Held for sale and discontinued operations

A non-current asset or a disposal group is classified as held for sale when all of the following conditions are satisfied: (1) the non-current asset or the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such non-current asset or disposal group; (2) the Group has entered a legally enforceable sales agreement with other party and obtained relevant approval, and the sales transaction is expected to be completed within one year.

Non-current assets (except for financial assets, investment properties measured at fair value and deferred tax assets) that meet the recognition criteria for held for sale are recognised at the amount equal to the lower of the fair value less costs to sell and the carrying amount. Any excess of the original carrying amount over the fair value less costs to sell is recognised as asset impairment losses.

Such non-current assets and assets and liabilities included in disposal groups classified as held for sale are classified as current assets and current liabilities respectively, and are separately presented in the balance sheet.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale, and is separately identifiable and satisfies one of the following conditions: (1) it represents a separate major line of business or geographical area of operations; (2) it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; and (3) it is a subsidiary acquired exclusively with a view to resale.

The net profit from discontinued operations in the income statement includes operating profit or loss and disposal gains or losses of discontinued operations.

(29) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.

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2 Significant accounting policies and accounting estimates (Cont'd)

(30) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

(a) Critical accounting judgements and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Useful life of fixed assets

The management of the Group reviews the estimated useful lives, residual values and depreciation method of fixed assets at each financial year-end. The estimated useful lives are determined by reference to the Group's business model, asset management policy and expected lifespan of the assets. 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 residual values).

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

(ii) 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, which may also result in impairment of intangible assets. 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.

(iii) Accounting estimates on impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 4(20)).

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the growth rate that is used in the calculation of the future cash flows of asset groups and groups of asset groups, and the revised growth rate is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

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2 Significant accounting policies and accounting estimates (Cont'd)

(30) Critical accounting estimates and judgements (Cont'd)

(a) Critical accounting estimates and key assumptions (Cont'd)

(iii) Accounting estimates on impairment of goodwill (Cont'd)

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual gross margin is higher or the pre-tax discount rate is lower than management's estimates, the impairment loss of goodwill previously recognised is not allowed to be reversed by the Group.

(iv) 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, selling expense and related tax. 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.

(v) Measurement of expected credit loss

The loss allowances for trade receivables are based on assumptions about risk of default and expected credit loss rates. The Group determines the expected credit loss rates based on the probability of default and default loss rate. The Group makes judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's history, existing market conditions as well as forward looking estimates at the end of each reporting period. When considering forward-looking information, the Group takes into account different macroeconomic scenarios. The Group regularly monitors and reviews important macroeconomic assumptions and parameters related to the calculation of expected credit losses, including the risk of economic downturn, external market environment, technological environment, changes in customer profile, Gross Domestic Product ("GDP") and Consumer Price Index ("CPI"), etc. The key macroeconomic parameters are set differently in favourable, benchmark and unfavourable economic scenario. For the mostly used parameter GDP, are 8.60%, 6.86% and 4.80% respectively. The Group monitors and reviews assumptions related to the calculation of expected credit losses on a regular basis. For the year ended 31 December 2020, the Group had considered the uncertainties arising from COVID-19 and updated relevant assumptions and parameters accordingly.

(vi) Current and deferred income tax

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.

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2 Significant accounting policies and accounting estimates (Cont'd)

(30) Critical accounting estimates and judgements (Cont'd)

- (a) Critical accounting estimates and key assumptions (Cont'd)
- (vi) Current and deferred income tax (Cont'd)

As stated in Note 3(2), some subsidiaries of the Group are high-tech enterprises. The “High-Tech Enterprise Certificate” is effective for three years. Upon expiration, application for high-tech enterprise assessment should be submitted again to relevant government authorities. Based on the past experience of reassessment for high-tech enterprises upon expiration and the actual condition of the subsidiaries, the Group considers that the subsidiaries are able to obtain the qualification for high-tech enterprises in future years, and therefore a preferential tax rate of 15% is used to calculate the corresponding deferred income tax. If some subsidiaries cannot obtain the qualification for high-tech enterprises upon expiration, then the subsidiaries are subject to a statutory tax rate of 25% for the calculation of the income tax, which further influences the recognised deferred tax assets, deferred tax liabilities and income tax expenses.

Deferred tax assets are recognised for the deductible losses that can be carried forward to subsequent years to the extent that it is probable that the taxable profit will be available in the future period against which the deductible losses can be utilised. Taxable profit that will be available in the future period includes the taxable income that will be realised through normal production and operation and the taxable income that will be increased in the future period upon the reversal of taxable temporary differences incurred in the previous period. Estimates and judgements are required to determine the time and amount of taxable profit in the future period. Any difference between the actual amounts and the estimate may result in adjustment to the carrying amount of deferred tax assets.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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2 Significant accounting policies and accounting estimates (Cont'd)

(30) Critical accounting estimates and judgements (Cont'd)

(b) Critical judgments in applying the accounting policies

(i) Classification of financial assets

Critical judgements involved in the classification of financial assets include the business model within which they are held and their contractual cash flow characteristics.

The Group use judgement when it assesses its business model for managing financial assets on financial assets grouping basis. The assessment is determined by relevant evidence such as how the performance the financial assets are evaluated and reported to the Group's key management personnel; the risks that affect the performance of the business model and the financial assets held within that business model and the way in which those risks are managed; and how managers of the business are compensated etc.

When the Group assesses contractual cash flows are consistent with a basic lending arrangement, critical judgements used are as below: the possibility of changes in time schedule or amount of the principal during the lifetime due to reasons such as repayment in advance, whether the interest only reflects consideration for the time value of money, for the credit risk associated with the instrument during the term of the instrument and for other basic lending risks and costs, as well as a profit margin. For example, prepayments represent unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract.

(ii) Factors in determining a significant increase in credit risk

The Group considers the 30 days past due as main indicator in determining a significant increase in credit risk. Also, the Group considers a significant increase in credit risk if there is significant change in one or several indicators as below, such as significant change in the operating results of the borrower, business conditions of the borrower and internal or external credit rating for the borrower; and significant decrease in the value of collateral or the credit rating of the guarantor.

The Group considers the 90 days past due as main indicator that a financial asset is credit-impaired (i.e. the default of the financial asset occurs). Also, the Group considers that a financial asset is credit-impaired if one or several indicators as below is met, significant financial difficulty of the borrower; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(31) Significant changes in accounting policies

In 2020, the Ministry of Finance issued the *Circular on Accounting Regulations of Rental Waivers Against COVID-19* (Cai Kuai [2020] No. 10) and *Questions and Answers on the Implementation of Accounting Standards for Business Enterprises* (published on 11 December 2020). The Group and the Company have applied the practical expedient in the above circular for the preparation of the financial statements for the year ended 31 December. There is no significant influence on the Group and the Company's financial statements.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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3 Taxation

(1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Taxation basis	Tax rate
Income tax (a)	Taxable income	16.5%, 25%, 30%
Value-added tax ("VAT")	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	3%, 5%, 6%, 9%, 10%, 13%
City maintenance and construction tax	The payment amount of VAT and consumption tax	1%, 5%, 7%

- (a) Pursuant to the Circular on Income Tax Policy Concerning Deductions for Equipment and Appliances (Cai Shui [2018] No. 54) issued by the State Taxation Administration and relevant regulations, during the period from 1 January 2018 to 31 December 2020, the cost of newly purchased equipment with the original cost less than RMB 5 million can be fully deducted against taxable profit in the next month after the asset is put into use, instead of being depreciated annually for tax filing.

(2) Preferential tax rate policy and approval documents

Enterprise income tax

The actual income tax rate applicable to the Company was 25% for the year ended 31 December 2020 and 31 December 2019.

Some subsidiaries of the Group enjoy preferential enterprise income tax policies, and the main preferential policies are as follows:

Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Shanghai Sine Tianping Pharmaceutical Co., Ltd., Shanghai Sine Jinzhu Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Sine Yan'an Pharmaceutical Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Gansu Sine Tiansen Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Shanghai Zhongxi Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd., Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., Shanghai New Asiatic Medicine Industry Minhang Co., Ltd., SPH Changzhou Pharmaceutical Factory Co., Ltd., SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd., SPH Kony (Changzhou) Co., Ltd., Shanghai Huayu Pharmaceutical Co., Ltd., Shanghai Xingling Sci.&Tech. Pharmaceutical Co., Ltd., Zhejiang Jiuxu Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Zhonghua Nantong Pharmaceutical Co., Ltd., Qingdao Shanghai Pharmaceutical Growful Pharmaceutical Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Liaoning SPH Herbapex Pharmaceutical (group) Co., Ltd., Techpool Bio-Pharma Co., Ltd., Nantong Changyou Pharmaceutical Technology Co., Ltd., Beijing Health Link Information Technology Ltd., SPH Shengxiang Health Pharmaceutical Co., Ltd., Shandong Sine Pharmaceutical Co., Ltd., Shanghai Haichang Medical Plastic Plant, Tianjin Jinjin Pharmaceutical Co., Ltd., SPH Yihe (Benxi) Medical Technology Co., Ltd., Shanghai Leiyunshang Pharmaceutical Co., Ltd., Shanghai Huiyong Pharmaceutical Research Co., Ltd. were approved by relevant local tax authorities as the High-technological Enterprise. Under the relevant regulations of Article 28 of the Corporate Income Tax Law of the People's Republic of China, the income tax rate applicable to companies for the year ended 31 December 2020 was 15%.

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3 Taxation (Cont'd)

(2) Preferential tax rate policy and approval documents (Cont'd)

SPH Keyuan Xinhai Pharmaceutical Enshi Co., Ltd., SPH Cardinal Health (Sichuan) Pharmaceutical Co., Ltd., SPH Cardinal Health (Chongqing) Pharmaceutical Co., Ltd., SPH Ke Yuan Xinhai Pharmaceutical Tongliao Co., Ltd., Chongqing SPH Huiyuan Pharmaceutical Co., Ltd., Chongqing Tianbao Pharmaceutical Co., Ltd., SPH Guizhou Pharmaceutical Co., Ltd., SPH Qian dongnan Pharmaceutical Co., Ltd., SPH Bijie Pharmaceutical Co., Ltd., SPH Liupanshui Pharmaceutical Co., Ltd., SPH Anshun Pharmaceutical Co., Ltd., SPH Qiannan Pharmaceutical Co., Ltd., SPH Zunyi Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Sichuan Biological Products Co., Ltd., SPH Chongqing Yiyao Pharmacy Co., Ltd., SPH Cardinal Health (Chengdu) Pharmacy Co., Ltd., Chifeng Mysun Pharmaceutical Co., Ltd., Chifeng Aike Pharmaceutical Technology Co., Ltd. were recognised by relevant local tax authorities as Encouraging Enterprises in the western region. For handling preferential policies of enterprise income tax (Guo Jia Shui Wu Zong Ju [2018] 23) issued by the State Administration of Taxation, the companies above enjoyed a preferential CIT rate of 15% for the period.

The subsidiary, SPH (Dali) Chinese Yew Biology Co., Ltd is engaged in breeding and planting of forest, and collection of forest products. In accordance with the Paragraph 1, Article 86 of the *Regulation on the Implementation of the Enterprise Income Tax Law*, the income tax rate applicable to the above company was 0% for the the year ended 31 December 2020 with the exemption from enterprise income tax.

The subsidiaries, Shaanxi SPH Medical Instruments Co., Ltd., Luoyang Kangxin Pharmacy Limited, SPH Keyuan Xinhai Qiqihar Pharmaceutical Co., Ltd., Shanghai Qiyi Dental Equipment Co., Ltd., Beijing Xinhai Keyuan Pharmacies Co., Ltd., Beijing Heanchangtai Drug Store Co., Ltd., SPH Keyuan (Jilin) Pharmacy Limited, SPH Keyuan Xinhai (Jilin) Medical Equipment Co., Ltd., SPH Keyuan Xinhai (Beijing) Biological Products Co., Ltd., Beijing Xinhai Chengkang Pharmacy Limited, SPH Jinzhou Pharmaceutical Co., Ltd., Shanghai Shangyi Kangge Medical Equipment Co., Ltd. Shanghai Lei's Hanguang Traditional Chinese Chinede Medicine Clinic Co., Ltd., SPH Huayu (Linyi) Traditional Chinese Medicine Resource Co., Ltd., Shandong SPH Traditional Chinese Medicine Tablets Co., Ltd., Shanghai Leiyunshang Nanxiang Medicine Co., Ltd., Shanghai Dental Materials Factory Changshu Branch, Shanghai Xinde Traditional Chinese Medicine Company, Jilin SPH Keyuan Pharmacy Limited, Wuhan Kehaiyuan Pharmacy Chain Co., Ltd., SPH Keyuan Xinhai Shengyunyian Pharmaceutical Co., Ltd., and SPH Keyuan (Heilongjiang) Pharmacy Limited are identified as micro and small enterprises. In accordance with the related regulations of the *Notice of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises* (Cai Shui [2019] No. 13) released by the Ministry of Finance and the State Administration, the above companies, the sales of which per month is below RMB0.1 million (inclusive), are exempted from value-added tax (VAT); the annual taxable income that is not more than RMB1 million shall be included in its taxable income at the reduced rate of 25%, with the applicable enterprise income tax rate of 20%; and the annual taxable income that is not less than RMB1 million nor more than RMB3 million shall be included in its taxable income at the reduced rate of 50%, with the applicable enterprise income tax rate of 20%.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB Yuan unless otherwise stated)

4 Notes to consolidated financial statement items

(1) Cash at bank and on hand

	31 December 2020	31 December 2019
Cash on hand	8,093,286.77	6,265,520.26
Cash at bank	19,568,351,503.08	15,709,992,387.15
Others	2,719,787,889.00	2,436,559,834.53
	<u>22,296,232,678.85</u>	<u>18,152,817,741.94</u>
Including: cash at bank and on hand overseas	<u>511,342,819.86</u>	<u>292,847,011.48</u>

As at 31 December 2020, there was no restricted cash at bank and on hand in the cash at bank of the Group (31 December 2019: Nil); other cash balances of RMB 1,227,360,620.42 were pledged as collateral by the Group for the purpose of bank acceptance notes (31 December 2019: RMB 1,352,661,766.45); other cash balances of RMB 13,700,800.22 were pledged as collateral by the Group for the purpose of letters of credit (31 December 2019: RMB 4,337,855.20); other cash balances of RMB 1,410,000,000.00 were time deposits due over three months (31 December 2019: RMB 1,010,000,000.00); other restricted cash balances were RMB 68,726,468.36 (31 December 2019: RMB 69,560,212.88).

(2) Derivative financial assets and derivative financial liabilities

	31 December 2020	31 December 2019
Derivative financial assets		
—forward foreign exchange contract(i)	<u>501,339.00</u>	<u>3,027,011.42</u>
Derivative financial liabilities		
—forward foreign exchange contract (i)	<u>9,314,855.96</u>	<u>1,724,460.87</u>

- (i) As at 31 December 2020 and 31 December 2019, the derivatives financial assets and derivative financial liabilities were mainly forward foreign exchange contracts held by the Group.

(3) Notes receivables

	31 December 2020	31 December 2019
Trade acceptance notes	294,978,651.31	278,630,344.59
Less: Provision for bad debts	<u>(4,439,388.73)</u>	<u>(4,510,799.89)</u>
	<u>290,539,262.58</u>	<u>274,119,544.70</u>

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4 Notes to the consolidated financial statements (Cont'd)

(3) Notes receivables (Cont'd)

- (a) As at 31 December 2020, notes receivable pledged as collateral for the Group's short-term borrowings(Note 4(25)(b)) were listed as follows:

Trade acceptance notes	<u>29,954,716.41</u>
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- (b) As at 31 December 2020, the Group had no notes receivable which had been endorsed or discounted but were not yet due.

The Group had endorsed or discounted few trade acceptance notes for the year ended 31 December 2020, and thus still classified them as financial assets at amortised cost. Besides, certain bank acceptance notes of the Group were discounted and endorsed for the purpose of daily treasury management. Therefore, bank acceptance notes of the Company were classified to financial assets at fair value through other comprehensive income, included in receivables financing (Note 4(5)).

- (c) Provision for bad debts

For the notes receivables, regardless of whether there is a significant financing component, the Group calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

- (i) As at 31 December 2020, the Group had no notes receivable for which the related provision for bad debts was provided on the individual basis.

- (ii) As at 31 December 2020, notes receivable for which the related provision for bad debts were provided on the grouping basis were analysed as follows:

Group - trade acceptance notes:

As at 31 December 2020, the Group measured the provision for bad debts of trade acceptance notes based on the lifetime expected credit losses, and the related amount was RMB 4,439,388.73 (31 December 2019: RMB4,510,799.89).

- (iii) As at 31 December 2020, the Group had no notes receivable written off.

(4) Accounts receivables

	31 December 2020	31 December 2019
Accounts receivables	54,711,545,483.35	49,403,487,044.33
Less: Provision for bad debts	<u>(1,965,639,609.76)</u>	<u>(2,063,683,507.12)</u>
	<u>52,745,905,873.59</u>	<u>47,339,803,537.21</u>

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 usually within 360 days are granted to customers depending on customers' credit quality.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(4) Accounts receivables (Cont'd)

(a) The aging analysis of accounts receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	52,680,636,068.07	47,723,708,246.84
1-2 years	999,396,493.42	658,692,999.02
Above 2 years	1,031,512,921.86	1,021,085,798.47
	<u>54,711,545,483.35</u>	<u>49,403,487,044.33</u>

(b) As at 31 December 2020, the top five accounts receivables based on the balance of the debtors are summarized and analyzed as follows:

	Account Balance	Amount of bad debt provision	% of total balance
Total top five accounts receivables	<u>3,638,726,131.42</u>	<u>(37,396,982.78)</u>	<u>6.65%</u>

(c) Accounts receivables derecognised due to the transfer of financial assets were analysed as follows:

For the year ended 31 December 2020, the Group carried out factoring without recourse to a few accounts receivables. As at 31 December 2020, the balance of accounts receivables that was derecognised due to factoring without resource was RMB 924,538,934.35 (31 December 2019: RMB687,484,234.11). The provision for bad debts was RMB 10,582,512.90 (31 December 2019: RMB8,680,923.25), and related expenses were RMB 7,461,115.73 (31 December 2019: RMB2,753,687.45)

As at 31 December 2020, accounts receivables with carrying amount of RMB 859,070,788.12, receivables financing of RMB 51,555,157.77 (Note 4(5)) and notes receivables of RMB 29,954,716.41 (Note 4(3)) were pledged as collateral for the Group's short-term borrowings of RMB 788,672,761.86 (Note 4(25)(b)).

As at 31 December 2020, accounts receivables with carrying amount of RMB 92,055,677.00 was pledged as collateral for the Group's long-term borrowings of RMB 87,131,177.00 (Note 4(35)) and current portion of long-term borrowings RMB 4,669,217.36 (Note 4(33)).

As at 31 December 2019, accounts receivables with carrying amount of RMB1,055,492,062.85 and receivables financing of RMB130,497,231.64 were pledged as collateral for the Group's short-term borrowings of RMB1,026,173,384.01 (Note 4(25)(b)).

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NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (Cont'd)

(4) Accounts receivables (Cont'd)

(d) Provision for bad debts

For the accounts receivables, regardless of whether there is a significant financing component, the Group calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

(i) As at 31 December 2020, the analysis of provision for bad debts for individual accounts receivables is as follows:

	Accounts balance	Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Accounts receivable 1	138,388,888.93	100.00%	(138,388,888.93)	Through assessment, provision on an individual basis
Accounts receivable 2	121,872,433.17	100.00%	(121,872,433.17)	Through assessment, provision on an individual basis
Accounts receivable 3	37,501,313.97	100.00%	(37,501,313.97)	Through assessment, provision on an individual basis
Accounts receivable 4	32,232,157.69	100.00%	(32,232,157.69)	Through assessment, provision on an individual basis
Others	231,129,883.21	100.00%	(231,129,883.21)	Through assessment, provision on an individual basis
	<u>561,124,676.97</u>		<u>(561,124,676.97)</u>	

(ii) The aging analysis of accounts receivables on grouping basis is as follows:

31 December 2020			
	Accounts balance	Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount
within 6 months	47,279,499,120.70	0.90%	(424,148,613.63)
6 – 12 months	5,378,437,278.22	2.98%	(160,434,543.53)
1 – 2 years	811,429,003.66	17.12%	(138,876,371.83)
above 2 years	681,055,403.80	100.00%	(681,055,403.80)
	<u>54,150,420,806.38</u>		<u>(1,404,514,932.79)</u>
31 December 2019			
	Accounts balance	Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount
within 6 months	42,699,726,610.65	1.00%	(425,655,846.49)
6 – 12 months	4,842,400,728.25	4.21%	(203,691,711.83)
1 – 2 years	586,417,840.86	27.18%	(159,394,084.23)
above 2 years	718,644,081.82	100.00%	(718,644,081.82)
	<u>48,847,189,261.58</u>		<u>(1,507,385,724.37)</u>

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4 Notes to the consolidated financial statements (Cont'd)

(4) Accounts receivables (Cont'd)

(d) Provision for bad debts (Cont'd)

- (iii) For the year ended 31 December 2020, the provision for bad debts on an individual basis amounted to RMB47,981,147.53 (for the year ended 31 December 2019: RMB241,571,860.98). RMB43,154,253.31 (for the year ended 31 December 2019: RMB2,776,584.91) was collected or reversed, and the relevant balance was RMB 43,154,253.31 (for the year ended 31 December 2019: RMB2,776,584.91). The significant amounts collected or reversed were as follows:

	Reasons for reversal/collection	Basis and appropriateness for determining the original provision for bad debts	Amount of reversal/collection	Collection method
Accounts receivable 1	Collection in the current period	Through assessment, provision on an individual basis	19,714,335.60	Cash
Accounts receivable 2	Collection in the current period	Through assessment, provision on an individual basis	8,876,824.00	Cash
Others	Collection in the current period	Through assessment, provision on an individual basis	14,563,093.71	Cash
			<u>43,154,253.31</u>	

- (e) For the year ended 31 December 2020, no accounts receivable was written off by the Group.

(5) Receivables financing

	31 December 2020	31 December 2019
Receivables financing	<u>2,485,373,691.07</u>	<u>2,187,059,525.49</u>

Certain bank acceptance notes of the Group are discounted and endorsed for the purpose of daily treasury management, and are qualified for derecognition. Therefore, such bank acceptance notes are classified to financial assets at fair value through other comprehensive income.

The Group had no bank acceptance notes with provision for impairment made on an individual basis. As at 31 December 2020, the Group measured the provision for bad debts based on the lifetime expected credit losses, and the related amount was RMB 6,099,046.32 (31 December 2019: RMB5,345,115.47). The Group believes that its bank acceptance notes are not exposed to significant credit risk and will not cause significant losses from non-performance by these banks.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(5) Receivables financing (Cont'd)

As at 31 December 2020, notes receivable endorsed or discounted but unmatured were as follows:

	derecognised	not derecognised
Bank acceptance notes	<u>2,267,159,102.88</u>	<u>51,555,157.77</u>

As at 31 December 2020, accounts receivables with carrying amount of RMB 859,070,788.12 (Note 4(4)), receivables financing of RMB 51,555,157.77 and notes receivables of RMB 29,954,716.41 (Note 4(3)) were pledged as collateral for the Group's short-term borrowings of RMB 788,672,761.86 (Note 4(25)(b)).

As at 31 December 2019, accounts receivables with carrying amount of RMB1,055,492,062.85 and receivables financing of RMB130,497,231.64 were pledged as collateral for the Group's short-term borrowings of RMB1,026,173,384.01 (Note 4(25)(b)).

(6) Other receivables

	31 December 2020	31 December 2019
Compensation receivable from suppliers	898,984,431.58	1,047,916,911.76
Guarantees (including deposits)	608,212,971.13	637,742,998.60
Receivables from enterprises	246,570,143.33	254,505,921.15
Reserves	58,241,521.59	46,861,520.88
Dividends receivable	44,005,948.00	49,862,267.17
Others	<u>895,205,846.59</u>	<u>865,377,352.93</u>
	<u>2,751,220,862.22</u>	<u>2,902,266,972.49</u>
Less: Provision for bad debts	<u>(741,764,407.33)</u>	<u>(699,306,175.78)</u>
	<u>2,009,456,454.89</u>	<u>2,202,960,796.71</u>

(a) The aging analysis of other receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	1,745,563,072.69	1,888,570,486.34
1-2 years	248,577,727.58	288,389,607.98
Above 2 years	<u>757,080,061.95</u>	<u>725,306,878.17</u>
	<u>2,751,220,862.22</u>	<u>2,902,266,972.49</u>

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NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (Cont'd)

(6) Other receivables (Cont'd)

- (b) As at 31 December 2020, the analysis of provision for bad debts for individual other receivables is as follows:

	Accounts balance	The third stage Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Other receivable 1	120,000,000.00	100.00%	(120,000,000.00)	Unable to collect
Other receivable 2	46,195,001.60	100.00%	(46,195,001.60)	Unable to collect
Other receivable 3	34,033,754.45	100.00%	(34,033,754.45)	Unable to collect
Other receivable 4	33,375,018.03	100.00%	(33,375,018.03)	Unable to collect
Others	256,516,023.71	100.00%	(256,516,023.71)	Unable to collect
	<u>490,119,797.79</u>		<u>(490,119,797.79)</u>	

- (c) As at 31 December 2020, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

	31 December 2020			31 December 2019		
	Accounts balance	Provision for bad debts	% of total balance	Accounts balance	Provision for bad debts	% of total balance
	Amount	Amount		Amount	Amount	
Compensation receivable from suppliers	816,146,887.31	(7,008,376.77)	0.86%	1,007,950,395.42	(7,602,405.71)	0.75%
Guarantees (including deposits)	606,399,374.31	(3,055,720.85)	0.50%	637,742,998.60	(3,188,714.99)	0.50%
Receivables from enterprises	92,129,121.04	(1,939,117.55)	2.10%	76,953,042.91	(704,702.70)	0.92%
Reserves	57,368,999.35	(489,395.69)	0.85%	45,747,971.44	(251,341.68)	0.55%
Dividends receivable	44,005,948.00	(110,014.87)	0.25%	49,862,267.17	(124,655.67)	0.25%
Others	<u>342,728,623.25</u>	<u>(2,559,725.27)</u>	0.75%	<u>293,097,957.39</u>	<u>(1,956,943.60)</u>	0.67%
	<u>1,958,778,953.26</u>	<u>(15,162,351.00)</u>		<u>2,111,354,632.93</u>	<u>(13,828,764.35)</u>	

The first stage - Expected credit loss rate within the next 12 months on grouping basis

The third stage - Expected credit loss rate throughout the lifetime on grouping basis

Compensation receivable from suppliers	71,193,130.86	(34,143,561.39)	47.96%	31,330,803.43	(21,313,226.58)	68.03%
Receivables from enterprises	49,449,836.62	(38,910,655.07)	78.69%	47,677,372.52	(30,399,318.02)	63.76%
Reserves	872,522.24	(703,872.67)	80.67%	1,113,549.44	(1,020,049.06)	91.60%
Others	<u>180,806,621.45</u>	<u>(162,724,169.41)</u>	90.00%	<u>198,736,066.83</u>	<u>(165,626,009.25)</u>	83.34%
	<u>302,322,111.17</u>	<u>(236,482,258.54)</u>		<u>278,857,792.22</u>	<u>(218,358,602.91)</u>	

As at 31 December 2020 and 31 December 2019, the Group has no other receivables in the second stage.

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4 Notes to the consolidated financial statements (Cont'd)

(6) Other receivables (Cont'd)

- (d) For the year ended 31 December 2020, RMB 3,366,878.65 and RMB 49,737,411.56 were made in the provision for bad debts of other receivables in the first stage and the third stage, which were mainly about loss provision of other receivables newly included in the current period and the affects that other receivables transferring from the first stage to the third stage made to the ECL due to the changes of loss rate in the current period.

For the year ended 31 December 2020, the Group had no important reversal of provision for bad debts in the first stage, and had important reversal of provision for bad debts on an individual basis of RMB 8,612,766.66, and the relevant balance was RMB 23,938,433.90.

	Reasons for reversal/collection	Basis and appropriateness for determining the original provision for bad debts	Amount of reversal/collection	Collection method
Other receivable 1	Collection in the current period	Through assessment, provision on an individual basis	21,934,267.24	Cash
Others	Collection in the current period	Through assessment, provision on an individual basis	2,004,166.66	Cash
			<u>23,938,433.90</u>	

- (e) For the year ended 31 December 2020, no other receivables were written off by the Group.

- (f) As at 31 December 2020, the top five receivables based on the balance of the debtors are summarized and analyzed as follows:

	Nature	Balance	Aging	% of total balance	Provision for bad debts
Other receivable 1	Current accounts	120,000,000.00	Above 5 years	4.36%	(120,000,000.00)
Other receivable 2	Current accounts	66,942,041.28	Within 3 years	2.43%	(10,781,636.55)
Other receivable 3	Current accounts	65,705,094.26	Within 3 year	2.39%	(2,779,767.92)
Other receivable 4	Current accounts	46,195,001.63	Within 2 years	1.68%	(46,195,001.63)
Other receivable 5	Current accounts	46,070,672.24	Within 1 year	1.67%	(239,567.50)
		<u>344,912,809.41</u>		<u>12.53%</u>	<u>(179,995,973.60)</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(7) Advances to suppliers

(a) The aging analysis of advances to suppliers was analysed as follows:

	31 December 2020		31 December 2019	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,354,950,696.73	98.54%	1,906,170,769.03	98.39%
Above 1 year	34,979,987.97	1.46%	31,285,352.25	1.61%
	<u>2,389,930,684.70</u>	<u>100.00%</u>	<u>1,937,456,121.28</u>	<u>100.00%</u>

As at 31 December 2020, advances to suppliers aged over 1 year were RMB 34,979,987.97 (31 December 2019: RMB 31,285,352.25), which were mainly advances of raw materials.

(b) As at 31 December 2020, the top five advances to suppliers based on the balance of the debtors are summarized and analyzed as follows:

	Amount	% of total balance
Total top five advances to suppliers	<u>366,226,600.42</u>	<u>15.32%</u>

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4 Notes to the consolidated financial statements (Cont'd)

(8) Inventories

(a) The inventory is classified as follows:

	31 December 2020			31 December 2019		
	Accounts balance	Provision for decline in the value of inventories	Carrying amount	Accounts balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	1,897,476,386.53	(75,006,390.75)	1,822,469,995.78	1,910,620,521.71	(63,287,867.81)	1,847,332,653.90
Goods in transit	12,092,761.39	-	12,092,761.39	17,912,470.65	-	17,912,470.65
Turnover materials	36,669,411.73	-	36,669,411.73	49,100,528.60	-	49,100,528.60
Consigned processing materials	17,446,245.29	-	17,446,245.29	10,802,978.91	-	10,802,978.91
Work in progress	762,286,703.09	(22,923,200.49)	739,363,502.60	767,411,437.57	(23,154,410.33)	744,257,027.24
Finished goods	22,524,111,330.41	(1,064,857,357.85)	21,459,253,972.56	22,954,582,298.93	(747,904,462.70)	22,206,677,836.23
Consumable biological assets	961,804.28	-	961,804.28	1,273,286.08	-	1,273,286.08
	<u>25,251,044,642.72</u>	<u>(1,162,786,949.09)</u>	<u>24,088,257,693.63</u>	<u>25,711,703,522.45</u>	<u>(834,346,740.84)</u>	<u>24,877,356,781.61</u>

(b) The analysis of the provision for decline in the value of inventories is as follows:

	31 December 2019	Provision in the current year	Decrease in the current year	31 December 2020
Raw materials	63,287,867.81	12,066,458.78	(347,935.84)	75,006,390.75
Work in progress	23,154,410.33	286,589.70	(517,799.54)	22,923,200.49
Finished goods	747,904,462.70	384,219,346.74	(67,266,451.59)	1,064,857,357.85
	<u>834,346,740.84</u>	<u>396,572,395.22</u>	<u>(68,132,186.97)</u>	<u>1,162,786,949.09</u>

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4 Notes to the consolidated financial statements (Cont'd)

(9) Other current assets

	31 December 2020	31 December 2019
Taxes prepaid and to be deducted	963,933,001.12	863,290,102.57
Input VAT to be certified	187,470,401.17	230,432,489.09
	<u>1,151,403,402.29</u>	<u>1,093,722,591.66</u>

(10) Other equity instrument investments

	31 December 2020	31 December 2019
Equity instrument investments(i)	<u>33,051,720.32</u>	<u>194,183,980.82</u>

	31 December 2020	31 December 2019
Equity instrument investments		
Listed shares		
—Tianda Pharmaceuticals Limited ("Tianda Pharma")	33,051,720.32	43,221,497.67
— China Isotope & Radiation Corporation ("CIRC")	-	150,962,483.15
	<u>33,051,720.32</u>	<u>194,183,980.82</u>

	31 December 2020	31 December 2019
Tianda Pharma		
—Cost	87,851,852.85	87,851,852.85
—Accumulated changes in fair value	(54,800,132.53)	(44,630,355.18)
	<u>33,051,720.32</u>	<u>43,221,497.67</u>

	31 December 2020	31 December 2019
CIRC		
—Cost(ii)	-	147,263,900.89
—Accumulated changes in fair value	-	3,698,582.26
	<u>-</u>	<u>150,962,483.15</u>

(i) The Group, out of strategic investment concern, designated such equity investments as financial assets at fair value through other comprehensive income under other equity instrument investments.

(ii) For the year ended 31 December 2020, the Group disposed of the equity instrument of CIRC at a price of RMB 162,898,349.07, due to strategy change. The dividend income recognised in 2020 was RMB 237,255.42. The accumulated other comprehensive income of RMB 9,030,916.37 was converted into undistributed profits (Note4(46)).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(11) Other non-current financial assets

	31 December 2020	31 December 2019
Equity instrument investments		
—Listed common shares(a)	399,348,474.70	260,673,130.03
—Unlisted common shares(b)	579,208,554.83	123,725,042.70
	<u>978,557,029.53</u>	<u>384,398,172.73</u>

The details of other non-current financial assets are as below:

	31 December 2020	31 December 2019
(a) Listed common shares		
—Cost	183,820,089.22	142,906,089.22
—Accumulated changes in fair value	236,522,097.00	116,104,197.44
—Accumulated differences on translation of foreign currency financial statements	(20,993,711.52)	1,662,843.37
	<u>399,348,474.70</u>	<u>260,673,130.03</u>
(b) Unlisted common shares		
—Cost	480,344,261.62	30,944,261.62
—Accumulated changes in fair value	98,864,293.21	92,780,781.08
	<u>579,208,554.83</u>	<u>123,725,042.70</u>

(12) Long-term receivables

	31 December 2020	31 December 2019
Cost –		
Deposits receivable (Note) -total amount	347,134,140.71	382,906,820.79
Less: Provision for bad debts	(1,405,582.14)	(1,458,561.93)
Unrealised finance income		
– Deposits receivable	(70,556,524.18)	(92,548,440.32)
Current portion of long-term receivables	(105,325,100.98)	(23,257,721.60)
	<u>169,846,933.41</u>	<u>265,642,096.94</u>

Note: the amounts are deposits with over one year of collection period that the Group pays. As at 31 December 2020 and 31 December 2019, long-term receivables of the Group were all in the first stage.

(13) Long-term equity investments

	31 December 2020	31 December 2019
Joint ventures(a)	2,141,911,219.40	831,151,591.95
Associates(b)	4,590,203,146.89	4,103,677,828.26
	<u>6,732,114,366.29</u>	<u>4,935,829,420.21</u>
Less: Provision for impairment of long-term equity investments	(81,050,360.68)	(81,050,360.68)
	<u>6,651,064,005.61</u>	<u>4,853,779,059.53</u>

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4 Notes to the consolidated financial statements (Cont'd)

(13) Long-term equity investments (Cont'd)

(a) Joint ventures

	Changes during the current year									31 December 2020	Impairment balance
	31 December 2019	Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjust- ment	Other equity changes	Cash dividends declared	Provision for impairment	Others		
SPH-BIOCAD(HK) Limited	-	1,420,475,280.00	-	(5,021,144.37)	-	-	-	-	(112,612,083.71)	1,302,842,051.92	-
Shanghai Hutchison Pharmaceutical Co., Ltd.	513,887,967.33	-	-	230,650,511.29	-	-	(250,000,000.00)	-	-	494,538,478.62	-
Jiangxi Nanhua Medicines Co., Ltd	260,818,816.10	-	-	37,478,394.36	-	-	-	-	-	298,297,210.46	-
Shanghai Fimet Medical Instrument Co., Ltd	16,443,571.68	-	-	2,804,828.53	-	-	(1,610,639.16)	-	-	17,637,761.05	-
Others	40,001,236.84	1,847,160.00	(14,065,200.00)	1,837,082.93	-	-	(1,024,562.42)	-	-	28,595,717.35	(1,747,365.36)
	<u>831,151,591.95</u>	<u>1,422,322,440.00</u>	<u>(14,065,200.00)</u>	<u>267,749,672.74</u>	<u>-</u>	<u>-</u>	<u>(252,635,201.58)</u>	<u>-</u>	<u>(112,612,083.71)</u>	<u>2,141,911,219.40</u>	<u>(1,747,365.36)</u>

Related information of equity in joint ventures is set forth in Note 6(2).

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4 Notes to the consolidated financial statements (Cont'd)

(13) Long-term equity investments (Cont'd)

(b) Associates

	31 December 2019	Changes during the current year							31 December 2020	Impairment balance
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjust- ment	Other equity changes(ii)	Cash dividends declared	Provision for impairment		
Shanghai Roche Pharmaceuticals Ltd.	1,195,931,998.78	-	-	261,192,594.16	-	-	(141,087,226.59)	-	1,316,037,366.35	-
Shanghai Fudan- Zhangjiang Bio- Pharmaceutical Co., Ltd. (iii)	253,100,063.34	-	-	33,182,821.22	2,694,251.87	130,935,389.30	(14,709,979.20)	-	405,202,546.53	-
Shanghai Industrial Group Finance Co., Ltd.	378,821,575.99	-	-	20,694,901.25	-	-	(7,187,755.47)	-	392,328,721.77	-
Shanghai Lianyi Investment Center (limited Partnership)	171,889,754.42	40,000,000.00	-	65,437,219.89	-	-	(5,523,314.30)	-	271,803,660.01	-
SINO-AMERICAN Shanghai Squibb Pharmaceutical Ltd.	266,904,388.24	-	-	113,711,559.73	-	-	(130,858,835.00)	-	249,757,112.97	-
Shanghai Good Health Capital LLP	237,930,915.59	-	-	(14,948,834.54)	-	-	-	-	222,982,081.05	-
Shanghai Tsumura Pharmaceuticals Co., Ltd.	193,797,620.18	-	-	17,028,320.30	-	-	(3,032,800.00)	-	207,793,140.48	-
Shanghai Bracco Sine Pharmaceutical Co., Ltd.	136,528,069.79	-	-	47,579,198.38	-	-	-	-	184,107,268.17	-
Shangshi Commercial Factoring Co., Ltd.	150,393,980.03	-	-	11,063,720.61	-	-	(3,584,793.93)	-	157,872,906.71	-
Hangzhou Huqing Yutang Pharmaceutical Co., Ltd.	139,039,321.79	-	-	26,317,197.98	-	-	(20,419,840.00)	-	144,936,679.77	-
A.M.Pappas Life Science Venture V,LP	60,759,309.07	33,066,937.85	-	93,660,863.50	-	-	(79,176,999.37)	-	108,310,111.05	-
Shanghai Ajinomoto Amino Acid Co., Ltd.	91,201,379.66	-	-	14,045,436.49	-	-	(2,458,726.44)	-	102,788,089.71	-
Oncternal Therapeutics, Inc(iii)	67,067,358.12	15,320,293.66	-	(13,636,302.75)	-	18,625,933.00	-	-	(1,857,908.24) 85,519,373.79	-

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4 Notes to the consolidated financial statements (Cont'd)

(13) Long-term equity investments (Cont'd)

(b) Associates (Cont'd)

	31 December 2019	Changes during the current year								31 December 2020	Impairment balance
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI Adjust- ment	Other equity changes(ii)	Cash dividends declared	Provision for impairment	Others		
Chengdu Wesker Biomedical Co., Ltd.	-	85,000,000.00	-	(279,257.26)	-	-	-	-	-	84,720,742.74	-
Shanghai Leiyunshang Northern Area Medicine General Co., Ltd.	60,502,826.82	-	-	(1,149.76)	-	-	-	-	-	60,501,677.06	-
Chongqing Pharmaceuticals Shanghai Medicine Sales Co., Ltd.	49,038,003.34	-	-	5,402,472.75	-	-	(1,862,000.00)	-	-	52,578,476.09	-
Shanghai Chest Medical Instruments Co., Ltd.	41,878,389.97	-	-	(1,486,037.94)	-	-	-	-	-	40,392,352.03	-
Sichuan Greentech Bio-technology Co., Ltd.	32,092,883.41	-	-	7,020,193.35	-	-	-	-	-	39,113,076.76	-
Shanghai Sine Promod Pharmaceutical Co., Ltd.	28,885,173.00	-	-	1,970,191.33	-	-	(3,041,545.80)	-	-	27,813,818.53	-
Tianjin Modern Innovative Tcm Technology Co., Ltd.	19,877,232.09	-	-	(2,075,833.28)	-	-	-	-	-	17,801,398.81	-
Sichuan Guojia Medical Technology Co., Ltd.	197,769,961.59	-	-	-	-	-	-	-	(197,769,961.59)	-	-
Other investments	330,267,623.04	42,889,549.29	(2,500,000.00)	55,918,282.17	-	1,504,448.72	(10,237,356.71)	-	-	417,842,546.51	(79,302,995.32)
	<u>4,103,677,828.26</u>	<u>216,276,780.80</u>	<u>(2,500,000.00)</u>	<u>741,797,557.58</u>	<u>2,694,251.87</u>	<u>151,065,771.02</u>	<u>(423,181,172.81)</u>	<u>-</u>	<u>(199,627,869.83)</u>	<u>4,590,203,146.89</u>	<u>(79,302,995.32)</u>

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4 Notes to the consolidated financial statements (Cont'd)

(13) Long-term equity investments (Cont'd)

(b) Associates (Cont'd)

- (i) Related information of equity in the associates is set forth in Note 6(2).
- (ii) Other equity changes mainly resulted from the issuance of shares of Shanghai Fudan-Zhangjiang Bio-pharmaceutical Co., Ltd during current period, which led to change in capital surplus.
- (iii) Shanghai Fudan-Zhangjiang Bio-pharmaceuticals Co., Ltd is a domestic and Hong Kong listed company. ONCTERNAL THERAPEUTICS, INC. is listed on NASDAQ. As at 31 December 2020, the fair value of the above mentioned equity investments exceeds the carrying amount.

(14) Investment properties

	Buildings	Land use rights	Total
Cost			
31 December 2019	441,146,039.16	75,183,543.08	516,329,582.24
Transfer from fixed assets	1,105,687.23	-	1,105,687.23
Disposal	(1,998,676.00)	-	(1,998,676.00)
Translation difference	(225,947.54)	-	(225,947.54)
Disposal of subsidiaries	-	(52,040,250.00)	(52,040,250.00)
31 December 2020	<u>440,027,102.85</u>	<u>23,143,293.08</u>	<u>463,170,395.93</u>
Accumulated depreciation			
31 December 2019	(212,309,089.50)	(11,701,281.20)	(224,010,370.70)
Depreciation	(10,877,892.30)	(368,530.56)	(11,246,422.86)
Transfer from fixed assets	(293,335.82)	-	(293,335.82)
Disposal	1,056,729.76	-	1,056,729.76
Translation difference	106,059.24	-	106,059.24
Disposal of subsidiaries	-	6,505,031.22	6,505,031.22
31 December 2020	<u>(222,317,528.62)</u>	<u>(5,564,780.54)</u>	<u>(227,882,309.16)</u>
Closing net book amount			
31 December 2020	<u>217,709,574.23</u>	<u>17,578,512.54</u>	<u>235,288,086.77</u>
31 December 2019	<u>228,836,949.66</u>	<u>63,482,261.88</u>	<u>292,319,211.54</u>

For the year ended 31 December 2020, the depreciation and amortisation of investment properties amounted to RMB11,246,422.86 (for the year ended 31 December 2019: RMB13,553,438.55).

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4 Notes to the consolidated financial statements (Cont'd)

(15) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
Cost						
31 December 2019	8,552,512,039.89	4,851,896,043.30	409,087,741.13	883,935,088.09	705,809,528.69	15,403,240,441.10
Increase in the current year						
Addition	45,363,051.28	287,492,393.79	32,490,727.55	77,835,139.68	53,274,709.76	496,456,022.06
Transfers from construction in progress	582,818,791.74	567,446,643.25	8,399,937.24	130,200,687.20	34,295,108.03	1,323,161,167.46
Business combinations involving enterprises not under common control	40,392,581.53	604,817.23	2,432,244.05	1,540,090.98	1,706,105.54	46,675,839.33
Transfers from other non-current assets	544,766,773.21	-	-	-	-	544,766,773.21
Translation difference	(13,854,115.11)	(13,024,306.51)	(2,348,991.62)	(357,425.24)	(215,241.04)	(29,800,079.52)
Decrease in the current year						
Disposal	(313,848,782.43)	(114,637,397.61)	(31,301,101.52)	(52,269,820.48)	(36,129,985.50)	(548,187,087.54)
Transfer to investment properties	-	(780,807.86)	-	-	-	(780,807.86)
Transfer to construction in progress	(1,105,687.23)	-	-	-	-	(1,105,687.23)
31 December 2020	9,437,044,652.88	5,578,997,385.59	418,760,556.83	1,040,883,760.23	758,740,225.48	17,234,426,581.01
Accumulated depreciation						
31 December 2019	(2,325,794,412.26)	(2,264,868,839.09)	(281,453,943.51)	(534,141,855.85)	(427,125,628.22)	(5,833,384,678.93)
Increase in the current year						
Depreciation charge	(338,683,682.94)	(429,287,199.56)	(40,213,271.17)	(128,620,660.54)	(77,046,549.94)	(1,013,851,364.15)
Translation difference	1,488,630.54	2,631,285.74	901,699.67	337,553.10	65,331.69	5,424,500.74
Decrease in the current year						
Disposals	41,480,242.38	95,496,959.94	28,171,765.77	47,826,372.63	25,410,111.80	238,385,452.52
Transfer to construction in progress	-	463,605.00	-	-	-	463,605.00
Transfer to investment properties	293,335.82	-	-	-	-	293,335.82
31 December 2020	(2,621,215,886.46)	(2,595,564,187.97)	(292,593,749.24)	(614,598,590.66)	(478,696,734.67)	(6,602,669,149.00)

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4 Notes to the consolidated financial statements (Cont'd)

(15) Fixed assets (Cont'd)

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
Accumulated impairment						
31 December 2019	(72,629,508.30)	(46,167,124.41)	(927,526.13)	(2,199,369.14)	(2,257,117.15)	(124,180,645.13)
Increase in the current year						
Impairment charge	(7,071,604.75)	(7,452,108.47)	(51,503.24)	(776,628.93)	(422,547.85)	(15,774,393.24)
Others	(6,518,618.94)	-	-	-	-	(6,518,618.94)
Decrease in the current year						
Disposal	-	5,119,181.57	287,956.50	9,627.30	15,155.19	5,431,920.56
31 December 2020	(86,219,731.99)	(48,500,051.31)	(691,072.87)	(2,966,370.77)	(2,664,509.81)	(141,041,736.75)
Carrying amount						
31 December 2020	6,729,609,034.43	2,934,933,146.31	125,475,734.72	423,318,798.80	277,378,981.00	10,490,715,695.26
31 December 2019	6,154,088,119.33	2,540,860,079.80	126,706,271.49	347,593,863.10	276,426,783.32	9,445,675,117.04

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4 Notes to the consolidated financial statements (Cont'd)

(15) Fixed assets (Cont'd)

As at 31 December 2020, buildings, machinery and equipment with a carrying amount of RMB 203,620,909.75 (a cost of RMB 397,171,870.97) and 88,663.39 square metres of land use rights (a cost of RMB 23,877,141.23, a carrying amount of RMB 19,036,227.92) (Note 4(19)) were pledged as collateral for short-term borrowings of RMB 413,452,248.96 (Note 4(25)(a)), long-term borrowings of RMB 49,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB 2,000,000.00 (Note 4(33)).

As at 31 December 2019, buildings, machinery and equipment with a carrying amount of RMB221,983,506.93 (a cost of RMB395,015,703.01) and 78,576.72 square metres of land use rights (a cost of RMB21,418,792.50, a carrying amount of RMB17,728,606.93) (Note 4(19)) were pledged as collateral for short-term borrowings of RMB350,937,968.80 (Note 4(25)(a)), long-term borrowings of RMB51,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB19,874,109.00 (Note 4(33)).

For the year ended 31 December 2020, depreciation charged to fixed assets amounted to RMB 1,013,851,364.15 (for the year ended 31 December 2019: RMB882,445,922.85), of which RMB 415,297,569.53, RMB 214,032,664.02, RMB 300,786,505.97 and RMB 83,734,624.63 (for the year ended 31 December 2019: RMB408,529,923.23, RMB157,959,308.94, RMB243,880,520.34 and RMB72,076,170.34) were charged to cost of sales, selling expenses, general and administrative expenses and research and development expenses respectively.

For the year ended 31 December 2020, the costs of fixed assets transferred from construction in progress amounted to RMB 1,323,161,167.46 (for the year ended 31 December 2019: RMB967,253,167.15).

(a) Temporarily idle fixed assets

As at 31 December 2020, the Group had no material temporarily idle fixed assets (31 December 2019: Nil).

(b) Fixed assets with pending certificates of ownership:

	Carrying amount	Reasons for not obtaining certificates of ownership yet
Buildings	<u>114,976,421.35</u>	Still in the process

(16) Construction in progress

	31 December 2020			31 December 2019		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Construction in progress	<u>1,740,439,064.45</u>	<u>(3,235,084.91)</u>	<u>1,737,203,979.54</u>	<u>1,659,644,728.40</u>	<u>(9,748,361.91)</u>	<u>1,649,896,366.49</u>

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4 Notes to the consolidated financial statements (Cont'd)

(16) Construction in progress(Cont'd)

(a) Changes in major construction projects

Names	Budget' 0000	31 December 2019	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2020	% of Budget	Project progress	Accumul ative amount of capitalis ed borrowin g costs	Capitalise d borrowing costs in the current year	Capitali sation rate in the current year	Sources of funds
Qingchunbao-Deqing subsidiary	145,627.00	743,619,120.74	341,350,223.67	(662,233,126.20)	-	422,736,218.21	77.33%	77.33%	-	-	-	Self- owned funds
Industrial Innovation and Upgrade of GBE50 and Artificial Musk	57,972.00	94,807,987.99	216,081,000.31	-	-	310,888,988.30	53.63%	53.63%	-	-	-	Self- owned funds
Huaxi Medicine Industrial Park	15,900.00	-	142,387,151.61	-	(14,563,346.88)	127,823,804.73	71.89%	71.89%	-	-	-	Self- owned funds
Building Installation of Northern Pharmaceuticals	92,656.00	27,048,434.82	37,656,364.50	(1,878,095.34)	(2,812,642.36)	60,014,061.62	49.85%	49.85%	-	-	-	Self- owned funds
Technical Project of TCM Granule	4,850.00	-	33,870,089.97	-	-	33,870,089.97	69.84%	69.84%	-	-	-	Self- owned funds
Shanghai Pharmaceutical Jinshan Green Pharmaceutical Quality Base	59,814.00	-	31,563,479.26	-	-	31,563,479.26	5.28%	5.28%	-	-	-	Self- owned funds
Xinyi-Laboratory Renovation	4,428.60	13,204,984.02	16,587,128.31	-	-	29,792,112.33	67.27%	67.27%	-	-	-	Self- owned funds
Chinese herbal medicine deep processing project	19,985.00	-	20,718,226.21	-	-	20,718,226.21	20.37%	20.37%	-	-	-	Self- owned funds
Dispensing Granule Project of Haohushi SPH Hunan	8,754.00	35,351,967.03	148,238.08	(17,063,131.28)	-	18,437,073.83	96.08%	96.08%	-	-	-	Self- owned funds
Pharmaceutical Industrial Base	11,427.21	78,442,451.01	19,042,606.65	(95,981,298.32)	-	1,503,759.34	85.31%	85.31%	-	-	-	Self- owned funds
Penicillin Solid Oral Dosage form Plant of Sudan Medicine	3,499.00	27,956,517.41	3,487,610.33	(18,029,520.95)	(13,414,606.79)	-	100.00%	100.00%	-	-	-	Self- owned funds
High-rack Warehouse Expansion	2,553.00	18,080,539.39	4,897,648.56	(22,978,187.95)	-	-	90.00%	100.00%	-	-	-	Self- owned funds
Others	—	621,132,725.99	719,603,292.10	(504,997,807.42)	(152,646,960.02)	683,091,250.65			-	-	-	
		<u>1,659,644,728.40</u>	<u>1,587,393,059.56</u>	<u>(1,323,161,167.46)</u>	<u>(183,437,556.05)</u>	<u>1,740,439,064.45</u>			<u>-</u>	<u>-</u>	<u>-</u>	

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(16) Construction in progress (Cont'd)

(b) Provision for impairment of construction in progress

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Others	<u>(9,748,361.91)</u>	<u>-</u>	<u>6,513,277.00</u>	<u>(3,235,084.91)</u>

- (c) As at 31 December 2020, the progress of the construction in progress in the Group was estimated by the proportion of expenditures incurred to budgeted amount.

(17) Bearer biological assets

	Mature biological assets	Immature biological assets	Total
Cost			
31 December 2019	285,952,211.03	144,277,825.16	430,230,036.19
Increase in the current year	-	3,168,886.77	3,168,886.77
Transfer from immature biological assets	25,866,162.00	-	25,866,162.00
Transfer to mature biological assets	-	(25,866,162.00)	(25,866,162.00)
31 December 2020	<u>311,818,373.03</u>	<u>121,580,549.93</u>	<u>433,398,922.96</u>
Accumulated depreciation			
31 December 2019	(20,085,017.92)	-	(20,085,017.92)
Depreciation charge	(7,495,646.17)	-	(7,495,646.17)
31 December 2020	<u>(27,580,664.09)</u>	<u>-</u>	<u>(27,580,664.09)</u>
Carrying amount			
31 December 2020	<u>284,237,708.94</u>	<u>121,580,549.93</u>	<u>405,818,258.87</u>
31 December 2019	<u>265,867,193.11</u>	<u>144,277,825.16</u>	<u>410,145,018.27</u>

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4 Notes to the consolidated financial statements (Cont'd)

(18) Right-of-use assets

	Buildings	Machinery and equipment	Other equipment	Total
Cost				
31 December 2019	3,076,134,904.94	39,139,084.41	778,298.85	3,116,052,288.20
Increase in the current year				
New lease contracts	1,062,340,900.62	852,525.97	-	1,063,193,426.59
Decrease in the current year				
Changes in leases	(143,355,442.06)	-	-	(143,355,442.06)
Translation difference	2,193,069.56	-	-	2,193,069.56
31 December 2020	3,997,313,433.06	39,991,610.38	778,298.85	4,038,083,342.29
Accumulated amortisation				
31 December 2019	(1,465,827,056.22)	(16,451,294.44)	(356,241.12)	(1,482,634,591.78)
Increase in the current year				
Amortisation charge	(633,614,586.02)	(7,342,023.19)	(339,037.54)	(641,295,646.75)
Decrease in the current year				
Changes in leases	89,656,063.33	-	-	89,656,063.33
Translation difference	163,048.47	-	-	163,048.47
31 December 2020	(2,009,622,530.44)	(23,793,317.63)	(695,278.66)	(2,034,111,126.73)
Accumulated impairment				
31 December 2019	(11,321,296.37)	-	-	(11,321,296.37)
Impairment charge	-	-	-	-
31 December 2020	(11,321,296.37)	-	-	(11,321,296.37)
Carrying amount				
31 December 2020	1,976,369,606.25	16,198,292.75	83,020.19	1,992,650,919.19
31 December 2019	1,598,986,552.35	22,687,789.97	422,057.73	1,622,096,400.05

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4 Notes to the consolidated financial statements (Cont'd)

(19) Intangible assets

	Land use rights	Business network	Trademarks and brands	Proprietary technology and patents	License	Software	Others	Total
Cost								
31 December 2019	1,826,906,963.85	1,976,054,594.17	685,225,287.33	796,685,113.23	-	584,219,318.13	39,549,105.04	5,908,640,381.75
Increase in the current year								
Purchase	575,887,573.66	-	-	12,422,899.76	55,847,188.55	35,028,679.55	6,886,121.20	686,072,462.72
Transfer from R&D expenditures	-	-	-	29,663,459.49	-	-	-	29,663,459.49
Business combinations involving enterprises not under common control	13,825,187.50	434,976,012.50	-	-	-	3,338,465.92	-	452,139,665.92
Transfer from construction in progress	-	-	-	-	-	27,484,965.38	135,000.00	27,619,965.38
Transfer from other non-current assets	555,845,000.00	-	-	-	-	-	-	555,845,000.00
Translation difference	-	1,357,490.50	13,753,480.22	(4,268,048.03)	-	254,375.65	4,279.68	11,101,578.02
Decrease in the current year								
Disposals	(12,436,198.12)	-	-	(7,179,740.79)	-	(52,353,676.23)	(359,284.80)	(72,328,899.94)
31 December 2020	2,960,028,526.89	2,412,388,097.17	698,978,767.55	827,323,683.66	55,847,188.55	597,972,128.40	46,215,221.12	7,598,753,613.34
Accumulated amortisation								
31 December 2019	(359,417,128.34)	(861,276,476.21)	(32,382,199.40)	(267,555,282.40)	-	(302,411,696.94)	(30,446,772.99)	(1,853,489,556.28)
Increase in the current year								
Amortization charge	(58,450,099.63)	(228,081,356.94)	(7,879,644.41)	(55,809,614.88)	-	(115,526,604.33)	(14,141,837.57)	(479,889,157.76)
Decrease in the current year								
Disposals	3,102,735.64	-	-	106,578.80	-	51,855,376.13	359,284.80	55,423,975.37
31 December 2020	(414,764,492.33)	(1,089,357,833.15)	(40,261,843.81)	(323,258,318.48)	-	(366,082,925.14)	(44,229,325.76)	(2,277,954,738.67)
Accumulated impairment								
31 December 2019	(7,684,303.04)	(2,854,166.67)	(30,575,718.00)	(81,867,731.04)	-	(304,706.47)	(1,492,390.36)	(124,779,015.58)
Impairment charge	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	60,236.94	-	60,236.94
Translation difference	-	-	(826,320.00)	-	-	-	-	(826,320.00)
31 December 2020	(7,684,303.04)	(2,854,166.67)	(31,402,038.00)	(81,867,731.04)	-	(244,469.53)	(1,492,390.36)	(125,545,098.64)
Carrying amount								
31 December 2020	2,537,579,731.52	1,320,176,097.35	627,314,885.74	422,197,634.14	55,847,188.55	231,644,733.73	493,505.00	5,195,253,776.03
31 December 2019	1,459,805,532.47	1,111,923,951.29	622,267,369.93	447,262,099.79	-	281,502,914.72	7,609,941.69	3,930,371,809.89

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4 Notes to the consolidated financial statements (Cont'd)

(19) Intangible assets (Cont'd)

For the year ended 31 December 2020, the amortization of intangible assets amounted to RMB 479,889,157.76 (for year ended 31 December 2019: RMB427,030,375.36).

As at 31 December 2020, certificates of ownership for land use rights with a carrying amount of RMB 949,849,119.61 (a cost of RMB 969,366,004.08) (31 December 2019: a carrying amount of RMB42,032,309.85 (a cost of RMB44,383,212.08)) was still in progress.

As at 31 December 2020, 88,663.39 square meters of land use rights (a cost of RMB 23,877,141.23, a carrying amount of RMB19,036,227.92) and buildings, machinery and equipment with a carrying amount of RMB 203,620,909.75 (a cost of RMB 397,171,870.97) (Note 4(15)) were pledged as collateral for short-term borrowings of RMB413,452,248.96 (Note 4(25)(a)), long-term borrowings of RMB 49,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB 2,000,000.00 (Note 4(33)).

As at 31 December 2019, 78,576.72 square metres of land use rights (a cost of RMB21,418,792.50, a carrying amount of RMB17,728,606.93) and buildings, machinery and equipment with a carrying amount of RMB221,983,506.93 (a cost of RMB395,015,703.01) (Note 4(15)) were pledged as collateral for short-term borrowings of RMB350,937,968.80 (Note 4(25)(a)), long-term borrowings of RMB51,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB19,874,109.00 (Note 4(33)).

The R&D expenditures of the Group are listed as follows:

	31 December 2019	Increase in the current year	Decrease in the current year		31 December 2020
			Amount recognised in profit or loss	Amount recognised as intangible assets	
R&D project	<u>211,593,325.81</u>	<u>1,698,566,603.65</u>	<u>(1,656,670,833.68)</u>	<u>(29,663,459.49)</u>	<u>223,825,636.29</u>

For the year ended 31 December 2020, the R&D expenditures of the Group were RMB 1,698,566,603.65 (for the year ended 31 December 2019: RMB1,399,381,017.16) in total, of which, RMB1,656,670,833.68 (for the year ended 31 December 2019: RMB1,349,504,051.12) was recognised in profit or loss, RMB3,567,574.27 (for the year ended 31 December 2019: Nil) was recognised as intangible assets, and RMB 38,328,195.70 (for the year ended 31 December 2019: RMB49,876,966.04) was included in the ending balance of the development costs.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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4 Notes to the consolidated financial statements (Cont'd)

(20) Goodwill

	31 December 2019	Increase in the current year	Decrease in the current year	Others	31 December 2020
Goodwill -					
Shanghai Pharmaceutical Co., Ltd.'s subsidiaries	2,717,599,601.12	1,037,038,936.79	-	-	3,754,638,537.91
China Health System Ltd. and its subsidiaries	2,870,085,225.01	-	(459,309.60)	-	2,869,625,915.41
Shanghai Pharmaceuticals (HK) Investment Limited's subsidiaries	2,676,288,350.76	-	-	-	2,676,288,350.76
TECHPOOL Bio-Pharma Co., Ltd and its subsidiaries	1,399,888,707.64	-	-	-	1,399,888,707.64
Zeus Investment Limited and its subsidiaries	1,018,970,547.85	-	-	26,513,435.36	1,045,483,983.21
Big Global Limited and its subsidiaries	445,109,447.21	-	-	-	445,109,447.21
Shanghai Traditional Chinese Medicine Co., Ltd.'s subsidiaries	322,265,997.71	-	-	-	322,265,997.71
Liaoning International Pharmaceutical Trading Co., Ltd. and its subsidiaries	229,814,182.41	617,770.53	-	-	230,431,952.94
Star Fountain Global Ltd. and its subsidiaries	188,057,733.96	-	-	-	188,057,733.96
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.'s subsidiaries	159,340,834.18	-	-	-	159,340,834.18
SPH Kony (Changzhou) Co., Ltd.	107,285,726.91	-	-	-	107,285,726.91
Others	158,425,128.21	-	-	-	158,425,128.21
	<u>12,293,131,482.97</u>	<u>1,037,656,707.32</u>	<u>(459,309.60)</u>	<u>26,513,435.36</u>	<u>13,356,842,316.05</u>
Less: Provision for impairment (a) -					
Zeus Investment Limited and its subsidiaries	(928,448,539.22)	-	-	(25,091,662.51)	(953,540,201.73)
Big Global Limited and its subsidiary	(97,257,120.00)	(347,852,327.21)	-	-	(445,109,447.21)
Star Fountain Global Ltd. and its subsidiaries	(188,057,733.96)	-	-	-	(188,057,733.96)
Shanghai Pharmaceutical Co., Ltd.'s subsidiaries	(142,240,678.55)	-	-	-	(142,240,678.55)
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.'s subsidiaries	(39,470,053.42)	(76,161,755.30)	-	-	(115,631,808.72)
Shanghai Traditional Chinese Medicine Co., Ltd.'s subsidiaries	-	(60,074,523.57)	-	-	(60,074,523.57)
China Health System Ltd. and its subsidiaries	(1,038,013.89)	-	-	-	(1,038,013.89)
Others	(106,700,826.16)	(2,180,923.71)	-	-	(108,881,749.87)
	<u>(1,503,212,965.20)</u>	<u>(486,269,529.79)</u>	<u>-</u>	<u>(25,091,662.51)</u>	<u>(2,014,574,157.50)</u>
	<u>10,789,918,517.77</u>	<u>551,387,177.53</u>	<u>(459,309.60)</u>	<u>1,421,772.85</u>	<u>11,342,268,158.55</u>

Goodwill recognised in the current year arose from the purchase of Sichuan Guojia Medical Technology Co., Ltd. (Note 5(1))

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4 Notes to the consolidated financial statements (Cont'd)

(20) Goodwill (Cont'd)

(a) Impairment

The Group's goodwill was allocated to the asset groups and groups of asset groups at acquisition date and the allocation of goodwill has not changed for the year ended 31 December 2020. The goodwill allocated to the asset groups and groups of asset groups are summarised by operating segments (Note 7) as follows:

	31 December 2020	31 December 2019
Production-		
TECHPOOL Bio-Pharma Co., Ltd and its subsidiaries	1,399,888,707.64	1,399,888,707.64
Zeus Investment Limited and its subsidiaries	1,045,483,983.21	1,018,970,547.85
Big Global Limited and its subsidiary	445,109,447.21	445,109,447.21
Star Fountain Global Ltd. and its subsidiaries	188,057,733.96	188,057,733.96
Chongqing SPH Huiyuan Pharmaceutical Co., Ltd. and its subsidiaries	164,543,389.88	164,543,389.88
Others	482,313,293.23	482,313,293.23
Distribution-		
Distribution business of Shanghai Pharmaceutical Co., Ltd and Cardinal Health (L) Co., Ltd.	5,998,616,053.62	4,961,577,116.83
Distribution business of China Health System Ltd. and Liaoning International Pharmaceutical Trading Co., Ltd.	3,100,057,868.35	3,099,899,407.42
Taizhou Shangyao Medicine Co., Ltd.	136,595,896.08	136,595,896.08
Others	75,432,707.05	75,432,707.05
Retail and others	320,743,235.82	320,743,235.82
	<u>13,356,842,316.05</u>	<u>12,293,131,482.97</u>

When conducting a goodwill impairment test, the Group compares the book value of the relevant assets or groups of asset groups (including goodwill) with its recoverable amount. If the recoverable amount is lower than the book value, the relevant difference is recognised in the current profit and loss.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(20) Goodwill (Cont'd)

(a) Impairment (Cont'd)

The Group determines the growth rate and gross margin rates based on historical experience and forecasts of market development. The growth rates during the budget period are based on the five-year budget approved by the management, together with the constant growth rates thereafter. The constant growth rates are in accordance with the estimated data in industry report and does not exceed long-term average growth of each product. The Group uses interest rates before tax that reflects the specific risks of the relevant asset groups and groups of asset groups.

For the year ended 31 December 2020, the main assumptions applied in calculating discounted future cash flows are as follows:

	Production	Distribution
Growth rates within budget period	-21%~19%	5%~8%
Growth rates beyond the budget period	0%~2%	2%
Gross margin rates	8%~81%	6%~9%
Discount rates before tax	11%~20%	13%~14%

For the year ended 31 December 2019, the main assumptions applied in calculating discounted future cash flows are as follows:

	Production	Distribution
Growth rates within budget period	-12%~14%	6%~8%
Growth rates beyond the budget period	0%~3%	2%~3%
Gross margin rates	10%~91%	6%~8%
Discount rates before tax	12%~19%	13%~14%

The Group determines the growth rates and gross margin rates based on historical experience and forecasts on market development and uses interest rates before tax that reflects the specific risks of the relevant asset groups and groups of asset groups. The constant growth rates are the weighted average growth rates based on the estimated cashflow of five-year budget, and is in accordance with the estimated data in industry reports and does not exceed long-term average growth of each product.

(21) Long-term prepaid expenses

	31 December 2019	Increase in the current year	Amortisation in the current year	Others	31 December 2020
Improvement and maintenance expenditures of right-of-use assets	341,115,715.46	67,721,653.71	(48,193,789.86)	(3,987,355.74)	356,656,223.57
Others	53,684,198.07	128,050,394.93	(112,465,484.24)	(10,604,856.74)	58,664,252.02
	<u>394,799,913.53</u>	<u>195,772,048.64</u>	<u>(160,659,274.10)</u>	<u>(14,592,212.48)</u>	<u>415,320,475.59</u>

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4 Notes to the consolidated financial statements (Cont'd)

(22) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offset

	31 December 2020		31 December 2019	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment	2,746,572,309.99	675,603,294.23	2,704,915,525.60	638,690,653.89
Accrued expenses	1,363,227,688.89	303,906,227.12	1,214,842,728.27	271,588,405.81
Elimination of intra-group unrealised profit	1,054,089,451.57	190,908,341.71	908,524,409.07	168,229,418.61
Deferred income	156,886,490.91	28,708,625.34	205,248,133.02	41,994,810.85
Lease Liabilities	1,411,871,344.67	352,075,355.05	1,377,456,050.33	341,489,551.93
Others	626,283,559.44	139,511,983.51	349,767,846.18	71,757,678.48
	<u>7,358,930,845.47</u>	<u>1,690,713,826.96</u>	<u>6,760,754,692.47</u>	<u>1,533,750,519.57</u>
Including:				
Expected to be recovered within one year (inclusive)		1,207,464,229.17		1,088,227,372.27
Expected to be recovered after one year		<u>483,249,597.79</u>		<u>445,523,147.30</u>
		<u>1,690,713,826.96</u>		<u>1,533,750,519.57</u>

(b) Deferred tax liabilities before offset

	31 December 2020		31 December 2019	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Changes in fair value of other non-current financial assets	76,458,829.60	19,114,707.40	69,224,369.84	17,306,092.46
Differences between the fair value of the identifiable net assets and the carrying amount of the acquiree entity arising from business combinations not under common control	3,119,044,304.88	779,761,076.22	2,984,139,203.56	746,034,800.89
Right-of-use assets	1,335,507,793.04	332,842,808.24	1,290,521,396.78	320,086,083.12
Others	128,029,281.04	32,007,320.26	152,543,843.06	37,415,037.73
	<u>4,659,040,208.56</u>	<u>1,163,725,912.12</u>	<u>4,496,428,813.24</u>	<u>1,120,842,014.20</u>
Including:				
Expected to be recovered within one year (inclusive)		174,045,349.30		184,241,529.70
Expected to be recovered after one year		<u>989,680,562.82</u>		<u>936,600,484.50</u>
		<u>1,163,725,912.12</u>		<u>1,120,842,014.20</u>

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4 Notes to the consolidated financial statements (Cont'd)

(22) Deferred tax assets and deferred tax liabilities (Cont'd)

(c) Deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2020	31 December 2019
Deductible losses	<u>3,839,112,363.63</u>	<u>2,856,198,191.38</u>

(d) Deductible losses that are not recognised as deferred tax assets will be expired in following years:

	31 December 2020	31 December 2019
2020	Not applicable	146,335,403.82
2021	247,030,714.77	316,331,508.52
2022	702,162,260.57	702,643,486.40
2023	765,728,664.40	765,728,664.40
2024	925,159,128.24	925,159,128.24
2025	<u>1,199,031,595.65</u>	<u>Not applicable</u>
	<u>3,839,112,363.63</u>	<u>2,856,198,191.38</u>

(e) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	31 December 2020		31 December 2019	
	Offsetting amount	Amount after offset	Offsetting amount	Amount after offset
Deferred tax assets	(331,350,456.29)	1,359,363,370.67	(311,242,879.72)	1,222,507,639.85
Deferred tax liabilities	331,350,456.29	832,375,455.83	311,242,879.72	809,599,134.48

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4 Notes to the consolidated financial statements (Cont'd)

(23) Asset impairment

	31 December 2019	Increase in the current year	Reverse in the current year	Others	31 December 2020
Provision for bad debts of notes receivables	4,510,799.89	-	(71,411.16)	-	4,439,388.73
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	4,510,799.89	-	(71,411.16)	-	4,439,388.73
Provision for bad debts of accounts receivables	2,063,683,507.12	47,981,147.53	(132,759,889.65)	(13,265,155.24)	1,965,639,609.76
Including: Provision for bad debts on individual basis	556,297,782.75	47,981,147.53	(43,154,253.31)	-	561,124,676.97
Provision for bad debts on grouping basis	1,507,385,724.37	-	(89,605,636.34)	(13,265,155.24)	1,404,514,932.79
Provisions for bad debts of receivables financing	5,345,115.47	753,930.85	-	-	6,099,046.32
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	5,345,115.47	753,930.85	-	-	6,099,046.32
Provision for bad debts of other receivables	699,306,175.78	53,104,290.21	(8,612,766.66)	(2,033,292.00)	741,764,407.33
Provision for impairment of long-term receivables	1,458,561.93	-	(52,979.79)	-	1,405,582.14
Subtotal	2,774,304,160.19	101,839,368.59	(141,497,047.26)	(15,298,447.24)	2,719,348,034.28
Provision for decline in the value of inventories	834,346,740.84	396,572,395.22	-	(68,132,186.97)	1,162,786,949.09
Provision for impairment of long-term equity investment	81,050,360.68	-	-	-	81,050,360.68
Provision for impairment of fixed assets	124,180,645.13	15,774,393.24	-	1,086,698.38	141,041,736.75
Provision for impairment of construction in progress	9,748,361.91	-	-	(6,513,277.00)	3,235,084.91
Provision for impairment of intangible assets	124,779,015.58	-	-	766,083.06	125,545,098.64
Provision for impairment of goodwill	1,503,212,965.20	486,269,529.79	-	25,091,662.51	2,014,574,157.50
Provision for impairment of right-of-use assets	11,321,296.37	-	-	-	11,321,296.37
Subtotal	2,688,639,385.71	898,616,318.25	-	(47,701,020.02)	3,539,554,683.94
	5,462,943,545.90	1,000,455,686.84	(141,497,047.26)	(62,999,467.26)	6,258,902,718.22

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4 Notes to the consolidated financial statements (Cont'd)

(24) Other non-current assets

	31 December 2020	31 December 2019
Prepayment for construction costs	229,243,839.71	772,692,998.90
Prepayment for business combination	-	1,692,714,300.00
Prepayment for land cost	-	555,845,000.00
Others	163,257,411.71	246,235,556.94
	<u>392,501,251.42</u>	<u>3,267,487,855.84</u>

(25) Short-term borrowings

	31 December 2020	31 December 2019
Mortgaged (a)	413,452,248.96	350,937,968.80
Pledged (b)	788,672,761.86	1,026,173,384.01
Guaranteed (c)	515,374,649.00	190,150,000.00
Credit	18,347,191,403.34	21,491,799,802.45
Interest accrued	74,494,793.75	79,626,034.49
	<u>20,139,185,856.91</u>	<u>23,138,687,189.75</u>

- (a) As at 31 December 2020, short-term borrowings of RMB413,452,248.96 and long-term borrowings of RMB49,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB2,000,000.00 (Note 4(33)) were secured by buildings, and machinery and equipment (Note 4(15)) with a carrying amount of RMB203,620,909.75 (a cost of RMB 397,171,870.97), and 88,663.39 square metres of land use rights (a cost of RMB 23,877,141.23, a carrying amount of RMB 19,036,227.92) (Note 4(19));

As at 31 December 2019, short-term borrowings of RMB350,937,968.80 and long-term borrowings of RMB51,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB19,874,109.00 (Note 4(33)) were secured by buildings, and machinery and equipment (Note 4(15)) with a carrying amount of RMB221,983,506.93 (a cost of RMB395,015,703.01), and 78,576.72 square metres of land use rights (a cost of RMB21,418,792.50, a carrying amount of RMB17,728,606.93) (Note 4(19));

- (b) As at 31 December 2020, pledged bank borrowings of RMB788,672,761.86 were secured by accounts receivables with a carrying amount of RMB859,070,788.12 (Note 4(4)(c)) and receivables financing with a carrying amount of RMB51,555,157.77 (Note 4(5)) and notes receivables with a carrying amount of RMB29,954,716.41 (Note 4(3));

As at 31 December 2019, pledged bank borrowings of RMB1,026,173,384.01 were secured by accounts receivables with a carrying amount of RMB1,055,492,062.85 (Note 4(4)(c)) and receivables financing with a carrying amount of RMB130,497,231.64 (Note 4(5));

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4 Notes to the consolidated financial statements (Cont'd)

(25) Short-term borrowings (Cont'd)

- (c) As at 31 December 2020, guaranteed borrowings of RMB263,424,649.00 (31 December 2019: RMB5,350,000.00) were mainly secured by the minority shareholders of subsidiaries of the Group.

As at 31 December 2020, guaranteed borrowings of RMB251,950,000.00 (31 December 2019: RMB184,800,000.00) were secured by the Group together with the minority shareholders of subsidiaries of the Group.

- (d) As at 31 December 2020, the range of interest rate of short-term borrowings was 1.39% to 5.44% (31 December 2019: 2.85% to 5.66%).

(26) Notes payables

	31 December 2020	31 December 2019
Trade acceptance	1,350,669,048.51	1,595,106,459.35
Bank acceptance	3,580,057,290.67	3,458,366,949.19
	<u>4,930,726,339.18</u>	<u>5,053,473,408.54</u>

(27) Accounts payables

	31 December 2020	31 December 2019
Purchase payable	<u>32,861,440,182.89</u>	<u>31,818,985,528.48</u>

- (i) As at 31 December 2020, accounts payables aged over one year were RMB 3,047,578,404.20 (31 December 2019: RMB2,295,213,016.16).

- (ii) The aging analysis of accounts payables is as follows:

	31 December 2020	31 December 2019
Within 1 year	29,813,861,778.69	29,523,772,512.32
1-2 years	1,979,227,176.14	1,498,504,062.73
Above 2 years	1,068,351,228.06	796,708,953.43
	<u>32,861,440,182.89</u>	<u>31,818,985,528.48</u>

(28) Contract liabilities

	31 December 2020	31 December 2019
Advance received from customers	<u>1,310,837,272.06</u>	<u>1,534,199,122.71</u>

For the year ended 31 December 2020, contract liabilities included in the period beginning with carrying amount of RMB 1,481,596,921.61 (31 December 2019: RMB1,312,999,984.58) were transferred to revenue, all of which were income from sales of goods.

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4 Notes to the consolidated financial statements (Cont'd)

(29) Employee benefits payable

	31 December 2020	31 December 2019
Short-term employee benefits payable(a)	1,251,034,314.90	1,064,758,750.20
Defined contribution plans payable(b)	18,277,864.13	21,848,567.36
Termination benefits payable(c)	4,653,689.80	4,249,346.28
	<u>1,273,965,868.83</u>	<u>1,090,856,663.84</u>

(a) Short-term employee benefits payable

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Wages and salaries, bonus, allowances and subsidies	878,219,919.26	6,365,768,132.29	(6,185,328,418.57)	1,058,659,632.98
Staff welfare	-	318,675,966.11	(318,675,966.11)	-
Social security contributions	14,231,399.41	298,107,124.27	(298,295,519.77)	14,043,003.91
Including: Medical insurance	13,227,246.89	272,476,905.49	(272,835,314.82)	12,868,837.56
Work injury insurance	396,747.85	5,520,364.22	(5,583,861.95)	333,250.12
Maternity insurance	607,404.67	20,109,854.56	(19,876,343.00)	840,916.23
Housing funds	3,538,819.69	345,239,475.10	(344,342,415.74)	4,435,879.05
Labor union funds and employee education funds	42,361,348.35	124,469,389.07	(123,698,229.53)	43,132,507.89
Others	126,407,263.49	68,200,749.28	(63,844,721.70)	130,763,291.07
	<u>1,064,758,750.20</u>	<u>7,520,460,836.12</u>	<u>(7,334,185,271.42)</u>	<u>1,271,034,314.90</u>

(b) Defined contribution plans payable

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Basic pensions	20,579,723.90	236,612,080.73	(239,954,872.15)	17,236,932.48
Unemployment insurance	1,268,843.46	8,844,923.06	(9,072,834.87)	1,040,931.65
	<u>21,848,567.36</u>	<u>245,457,003.79</u>	<u>(249,027,707.02)</u>	<u>18,277,864.13</u>

(c) Termination benefits payable

	31 December 2020	31 December 2019
Termination benefits payable (current portion)	<u>4,653,689.80</u>	<u>4,249,346.28</u>

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4 Notes to the consolidated financial statements (Cont'd)

(30) Taxes payable

	31 December 2020	31 December 2019
Enterprise income tax payable	682,453,006.19	716,991,334.48
Unpaid VAT	631,845,484.87	371,420,678.91
City maintenance and construction tax payable	43,180,466.80	21,810,084.35
Withholding of personal income tax for employees	35,311,481.39	28,354,252.26
Educational surcharge payable	31,642,637.91	17,859,700.13
Property tax payable	15,257,843.09	18,503,881.78
Land appreciation tax payable	672,477.18	669,889.79
Others	37,704,072.10	39,810,984.79
	<u>1,478,067,469.53</u>	<u>1,215,420,806.49</u>

(31) Other payables

	31 December 2020	31 December 2019
Accrued expenses	4,781,905,479.29	3,843,836,053.34
Deposits and guarantees payable	2,664,660,271.79	2,762,550,489.91
Accounts received from other companies	2,421,207,763.18	683,913,486.30
Payables for equity acquisition	571,919,011.10	610,413,637.45
Engineering equipment expenses payable	315,703,915.67	386,738,312.09
Dividends payable to minority shareholders	186,122,799.07	99,519,576.04
Others	1,201,278,299.50	1,178,720,479.45
	<u>12,142,797,539.60</u>	<u>9,565,692,034.58</u>

(a) As at 31 December 2020, other payables aged over one year were RMB2,423,073,182.52 (31 December 2019: RMB1,660,015,499.22).

(32) Provisions

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Pending litigations	65,179,971.91	20,017,458.02	(65,179,972.00)	20,017,457.93
Others	5,743,197.09	-	-	5,743,197.09
	<u>70,923,169.00</u>	<u>20,017,458.02</u>	<u>(65,179,972.00)</u>	<u>25,760,655.02</u>

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4 Notes to the consolidated financial statements (Cont'd)

(33) Current portion of non-current liabilities

	31 December 2020	31 December 2019
Current portion of long-term borrowings (Note 4(35))	5,293,115,880.39	606,329,457.13
Current portion of debentures payable (Note 4(36))	3,017,668,077.27	18,534,246.58
Current portion of lease liabilities (Note 4(37))	574,568,034.23	560,871,935.10
Current portion of long-term payables (Note 4(38))	82,685,793.84	2,866,683.33
	<u>8,968,037,785.73</u>	<u>1,188,602,322.14</u>

(34) Other current liabilities

	31 December 2020	31 December 2019
Super & Short-term Commercial Paper ("SCP")	<u>5,018,616,438.36</u>	<u>-</u>

(a) Details of the SCP are as follows:

	31 December 2019	Issue for the year	Interest accrued	Amortisation of discount	Repayment for the year	31 December 2020
2020 SCP stage 1	-	2,498,125,000.00	45,184,426.23	1,875,000.00	(2,545,184,426.23)	-
2020 SCP stage 2	-	2,499,375,000.00	9,863,013.70	625,000.00	(2,509,863,013.70)	-
2020 SCP stage 3	-	2,499,375,000.00	15,410,958.90	625,000.00	(2,515,410,958.90)	-
2020 SCP stage 4	-	2,499,375,000.00	12,000,000.00	625,000.00	-	2,512,000,000.00
2020 SCP stage 5	-	2,499,562,500.00	6,616,438.36	437,500.00	-	2,506,616,438.36
	-	<u>12,495,812,500.00</u>	<u>89,074,837.19</u>	<u>4,187,500.00</u>	<u>(7,570,458,398.83)</u>	<u>5,018,616,438.36</u>

	Face value	Issuing date	Debenture maturity	Issuing amount	Coupon rate
2020 SCP stage 1	2,500,000,000.00	26 February 2020	270 days	2,498,125,000.00	2.45%
2020 SCP stage 2	2,500,000,000.00	27 April 2020	90 days	2,499,375,000.00	1.60%
2020 SCP stage 3	2,500,000,000.00	22 July 2020	90 days	2,499,375,000.00	2.50%
2020 SCP stage 4	2,500,000,000.00	16 October 2020	90 days	2,499,375,000.00	2.40%
2020 SCP stage 5	2,500,000,000.00	19 November 2020	63 days	2,499,562,500.00	2.30%

Upon receipt of Notice of Acceptance of Registration (Zhong Shi Xie Zhu (2020) SCP37), the Company was authorized to issue SCP with limitation to amount of RMB5,000,000,000 by National Association of Financial Market Institution Investors in the PRC.

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4 Notes to the consolidated financial statements (Cont'd)

(35) Long-term borrowings

	31 December 2020	31 December 2019
Mortgaged (a)	51,122,651.00	70,996,760.00
Guaranteed	-	68,500,000.00
Credit	6,330,070,917.27	6,401,200,163.93
Pledged (b)	91,800,394.36	189,054,277.00
Interest accrued	4,200,229.12	12,571,017.89
	<u>6,477,194,191.75</u>	<u>6,742,322,218.82</u>
Less: Current portion of long-term borrowings		
Mortgaged (a)	(2,000,000.00)	(19,874,109.00)
Guaranteed	-	(1,000,000.00)
Credit	(5,282,246,433.91)	(503,494,806.24)
Pledged (b)	(4,669,217.36)	(69,389,524.00)
Interest accrued	(4,200,229.12)	(12,571,017.89)
	<u>(5,293,115,880.39)</u>	<u>(606,329,457.13)</u>
	<u>1,184,078,311.36</u>	<u>6,135,992,761.69</u>

- (a) As at 31 December 2020, short-term borrowings of RMB413,452,248.96 (Note 4(25)(a)) and long-term borrowings of RMB49,122,651.00 and current portion of long-term borrowings of RMB2,000,000.00 (Note 4(33)) were secured by buildings, and machinery and equipment with a carrying amount of RMB203,620,909.75 (a cost of RMB397,171,870.97) (Note 4(15)), and 88,663.39 square meters of land use rights (a cost of RMB23,877,141.23, a carrying amount of RMB19,036,227.92) (Note 4(19)).

As at 31 December 2019, short-term borrowings of RMB350,937,968.80 (Note 4(25)(a)) and long-term borrowings of RMB51,122,651.00 (Note 4(33)) and current portion of long-term borrowings of RMB19,874,109.00 were secured by buildings, and machinery and equipment with a carrying amount of RMB221,983,506.93 (Note 4(15)) (a cost of RMB395,015,703.01), and 78,576.72 square meters of land use rights (a cost of RMB21,418,792.50, a carrying amount of RMB17,728,606.93) (Note 4(19)).

- (b) As at 31 December 2020, pledged bank borrowings of RMB87,131,177.00 and current portion of long-term borrowings RMB4,669,217.36 (Note 4(33)) were secured by account receivables with a carrying amount of RMB92,055,677.00 (Note 4(4)).

As at 31 December 2019, pledged bank borrowings of RMB119,664,753.00 and current portion of long-term borrowings of RMB69,389,524.00 (Note 4(33)) were secured by long-term receivables with a carrying amount of RMB206,210,749.24.

- (c) As at 31 December 2020, the range of interest rate of long-term borrowings was 1.40% to 5.70% (31 December 2019: 2.91% to 5.70%).

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4 Notes to the consolidated financial statements (Cont'd)

(36) Debentures payable

	31 December 2019	Interest accrued	Amortisation of discount	Repayment for the year	Transfer into current portion of non-current liabilities	31 December 2020
Corporate debentures in 2018 (Stage 1)	<u>2,998,228,732.34</u>	<u>18,483,606.56</u>	<u>955,738.37</u>	<u>-</u>	<u>(3,017,668,077.27)</u>	<u>-</u>

Details of the debentures are as follows:

	Face value	Issuing date	Debenture maturity	Issuing amount
Corporate debentures in 2018 (Stage 1)	<u>3,000,000,000.00</u>	7 November 2018	3 years	<u>2,997,000,000.00</u>

- (a) Upon the approval of the document Zheng Jian Xu Ke [2018] No. 1341 issued by the China Securities Regulatory Commission Licensing, the Company issued corporate debentures on 7 November 2018. The interest is annually calculated and paid at simple interest rate, at an annual interest rate of 4.10%, which is payable every year.

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4 Notes to the consolidated financial statements (Cont'd)

(37) Lease liabilities

	31 December 2020	31 December 2019
Lease liabilities	2,075,589,834.42	1,716,510,800.88
Less: Current portion of non-current liabilities (Note4(33))	<u>(574,568,034.23)</u>	<u>(560,871,935.10)</u>
	<u>1,501,021,800.19</u>	<u>1,155,638,865.78</u>

- (a) As at 31 December 2020, future cash outflows to which the Group was potentially exposed that were not included in the lease liabilities comprise the following:

As at 31 December 2020, payments for leases not yet commenced to which the Group was committed amounted to RMB16,830,377.16(As at 31 December 2019: RMB45,681,207.48 (Note 14(3))).

(38) Long-term payables

	31 December 2020	31 December 2019
Long-term payables for acquisition of subsidiaries	396,789,264.74	380,013,384.22
Payables for forest use rights	39,471,203.06	38,481,275.51
	<u>436,260,467.80</u>	<u>418,494,659.73</u>
Less: Current portion of long-term payables	<u>(82,685,793.84)</u>	<u>(2,866,683.33)</u>
	<u>353,574,673.96</u>	<u>415,627,976.40</u>

(39) Deferred income

	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020	Reasons
Compensation for demolition and construction	889,644,961.74	954,143,587.41	(15,743,963.08)	1,828,044,586.07	Relocation and demolition
Scientific research funds and specific funds (a)	<u>389,081,310.05</u>	<u>104,630,134.36</u>	<u>(97,686,961.75)</u>	<u>396,024,482.66</u>	Others
Total	<u>1,278,726,271.79</u>	<u>1,058,773,721.77</u>	<u>(113,430,924.83)</u>	<u>2,224,069,068.73</u>	

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4 Notes to the consolidated financial statements (Cont'd)

(39) Deferred income(Cont'd)

(a) Government grants

	31 December 2019	Increase in the current year	Amount included in other income	Amount deducted against general and administrative expenses	31 December 2020	Asset related/ Income related
Scientific research funds and specific funds	389,081,310.05	104,630,134.36	(54,283,331.51)	(43,403,630.24)	396,024,482.66	Asset related/ Income related

The government grants recognised in profit or loss or deducted against related expenses by the Group in the current year are set out as follows:

	Amount recognised in profit or loss for the year	Items reported in profit or loss for the year
Government grants		
Scientific research funds and specific funds	54,283,331.51	Other income
Scientific research funds and specific funds	43,403,630.24	General and administrative expenses
	<u>97,686,961.75</u>	

(40) Long-term employee benefits payable

	31 December 2020	31 December 2019
Termination benefits payable	51,064,812.41	52,345,239.83
Less: To be paid within one year (Note 4(29)(c))	<u>(4,653,689.80)</u>	<u>(4,249,346.28)</u>
	<u>46,411,122.61</u>	<u>48,095,893.55</u>

Termination benefits payable to be paid within one year is disclosed in employee benefits payable.

(41) Other non-current liabilities

	31 December 2020	31 December 2019
Medical reserve funds	100,317,717.82	87,993,983.02
Government loan	40,000.00	40,000.00
Others	<u>44,287,294.41</u>	<u>31,959,240.87</u>
	<u>144,645,012.23</u>	<u>119,993,223.89</u>

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4 Notes to the consolidated financial statements (Cont'd)

(42) Share capital

	31 December 2019	Change in the current year				31 December 2020
		Issue new shares	Unlock non-tradable shares	Others	Subtotal	
Shares subject to trading restriction - Ordinary shares denominated in RMB	81,600.00	-	-	-	-	81,600.00
Shares not subject to trading restriction - Ordinary shares denominated in RMB	1,922,935,018.00	-	-	-	-	1,922,935,018.00
Foreign shares listed overseas	919,072,704.00	-	-	-	-	919,072,704.00
	2,842,007,722.00	-	-	-	-	2,842,007,722.00
	2,842,089,322.00	-	-	-	-	2,842,089,322.00

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4 Notes to the consolidated financial statements (Cont'd)

(42) Share capital (Cont'd)

	31 December 2018	Change in the current year				31 December 2019
		Issue new shares	Unlock non-tradable shares	Others	Subtotal	
Shares subject to trading restriction - Ordinary shares denominated in RMB	81,600.00	-	-	-	-	81,600.00
Shares not subject to trading restriction - Ordinary shares denominated in RMB	1,922,935,018.00	-	-	-	-	1,922,935,018.00
Foreign shares listed overseas	919,072,704.00	-	-	-	-	919,072,704.00
	2,842,007,722.00	-	-	-	-	2,842,007,722.00
	2,842,089,322.00	-	-	-	-	2,842,089,322.00

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4 Notes to the consolidated financial statements (Cont'd)

(43) Capital surplus

	31 December 2019	Increase in the current year(a)	Decrease in the current year (b)	31 December 2020
Share premium	16,314,977,783.96	-	(8,822,150.14)	16,306,155,633.82
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	34,816,670.59	151,065,771.02	-	185,882,441.61
Share-based payment(c)	1,231,412.28	34,742,418.42	-	35,973,830.70
Others	(630,424,030.95)	-	-	(630,424,030.95)
	<u>15,720,601,835.88</u>	<u>185,808,189.44</u>	<u>(8,822,150.14)</u>	<u>15,897,587,875.18</u>
	31 December 2018	Increase in the current year(a)	Decrease in the current year (b)	31 December 2019
Share premium	16,399,940,814.22	-	(84,963,030.26)	16,314,977,783.96
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	34,816,670.59	-	-	34,816,670.59
Share-based payment(c)	-	1,231,412.28	-	1,231,412.28
Others	(589,724,030.95)	-	(40,700,000.00)	(630,424,030.95)
	<u>15,845,033,453.86</u>	<u>1,231,412.28</u>	<u>(125,663,030.26)</u>	<u>15,720,601,835.88</u>

- (a) For the year ended 31 December 2020 and 2019, the increase of the capital surplus was mainly the share of changes in equity other than comprehensive income and profit distribution of investees under the equity method and amount recorded in owners' equity arising from equity-settled share-based payment arrangements.
- (b) For the year ended 31 December 2020 and 2019, the decrease of the capital surplus was mainly the difference between the consideration paid in transaction of the Group and its minority shareholders and identifiable net assets of the subsidiaries based on continuous calculation from the acquisition date at proportion of shareholding after transaction.
- (c) Share-based payment
- (i) Summary

According to the 2019 Stock Option Incentive Plan of Shanghai Pharmaceuticals Holding Co., Ltd. ("Incentive Plan") approved by the resolution of the 2019 first extraordinary shareholders' meeting held on 18 December 2019, the Company would grant stock options to its directors, senior management, middle management and core technical and business backbones ("incentive recipients"), and it was estimated that approximately 28.42 million stock options would be granted. On 19 December 2019, 25,680,000.00 stock options were granted for the first time ("Granting in 2019").

Pursuant to the Proposal of Granting Reserved Stock Options to Incentive Recipients approved by resolutions of the 15th meeting of the 7th Board of Directors and the 12th meeting of the 7th Board of Supervisors held on 15 December 2020, the Company granted a total of 27,300.00 million stock options to incentive recipients ("Granting in 2020").

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4 Notes to the consolidated financial statements (Cont'd)

(43) Capital surplus (Cont'd)

(c) Share-based payment (Cont'd)

(i) Summary (Cont'd)

The Company's and incentive recipients' performance will be assessed in the above Incentive Plan. The percentage of stock options can be exercised is 33%, 33% and 34% respectively since working for 2 years, 3 years and 4 years from the granting date.

(ii) Statement of changes in stock options during the year

	2020	2019
Number of outstanding stock options issued at the beginning of the year	25,680,000.00	-
Number of stock options granted in the current year	2,730,000.00	25,680,000.00
Number of stock options exercised in the current year	-	-
Number of stock options expired in the current year	(80,000.00)	-
Number of outstanding stock options issued at the end of the year	<u>28,330,000.00</u>	<u>25,680,000.00</u>
Share-based payment expenses in the current year	34,742,418.42	1,231,412.28
Accumulated share-based payment expenses	35,973,830.70	1,231,412.28

(iii) Method for determining the fair value of stock options at the grant date

The Group adopts the Black-Scholes option pricing model to determine the fair value of stock options. The main parameters are as follows:

	Granting in 2020	Granting in 2019
Exercise price of stock options	RMB 20.16	RMB 18.41
Current price of the underlying stocks	RMB 19.00	RMB 18.08
Estimated volatility of the share price	28.65% to 32.18%	29.14% to 34.76%
Estimated dividend yields	2.03%	1.72%
Risk-free interest rate	2.92% to 3.06%	2.75% to 2.95%

The validity period of options is from the registration date of granting to the date of exercise or cancellation of all options in each batch and shall not exceed 5 years.

Validity period of options

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4 Notes to the consolidated financial statements (Cont'd)

(44) Other comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2020 income statement				
	31 December 2019	Converted from OCI into retained earnings	31 December 2020	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Attributable to the Company after tax	Attributable to minority shareholders
Other comprehensive income items which will not be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified to profit and loss								
Changes in fair value of other equity instrument investments	(44,899,472.37)	(9,030,916.37)	(50,811,086.09)	3,119,302.65	-	-	3,119,302.65	-
Other comprehensive income items which will be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(2,370,211.78)	-	324,040.09	2,694,251.87	-	-	2,694,251.87	-
Provision for impairment of receivables financing	4,024,979.47	-	4,362,149.27	753,930.85	-	(132,343.07)	337,169.80	284,417.98
Differences arising from translation of foreign currency financial statements	(498,984,362.44)	-	(219,285,862.85)	274,426,679.52	-	-	279,698,499.59	(5,271,820.07)
	<u>(542,229,067.12)</u>	<u>(9,030,916.37)</u>	<u>(265,410,759.58)</u>	<u>280,994,164.89</u>	<u>-</u>	<u>(132,343.07)</u>	<u>285,849,223.91</u>	<u>(4,987,402.09)</u>

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4 Notes to the consolidated financial statements (Cont'd)

(44) Other comprehensive income (Cont'd)

	Other comprehensive income in the balance sheet		Other comprehensive income for the year ended 31 December 2019 income statement				
	31 December 2018	31 December 2019	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Attributable to the Company after tax	Attributable to minority shareholders
Other comprehensive income items which will not be reclassified to profit or loss							
Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified to profit and loss							
Changes in fair value of other equity instrument investments	(76,770,959.87)	(44,899,472.37)	31,871,487.50	-	-	31,871,487.50	-
Other comprehensive income items which will be reclassified to profit or loss							
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(2,383,004.20)	(2,370,211.78)	12,792.42	-	-	12,792.42	-
Provision for impairment of receivables financing	2,874,122.82	4,024,979.47	1,512,951.71	-	(328,640.22)	1,150,856.65	33,454.84
Differences arising from translation of foreign currency financial statements	(416,359,117.77)	(498,984,362.44)	(90,081,809.88)	-	-	(82,625,244.67)	(7,456,565.21)
	<u>(492,638,959.02)</u>	<u>(542,229,067.12)</u>	<u>(56,684,578.25)</u>	<u>-</u>	<u>(328,640.22)</u>	<u>(49,590,108.10)</u>	<u>(7,423,110.37)</u>

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4 Notes to the consolidated financial statements (Cont'd)

(45) Surplus reserve

	31 December 2019	Increase in the current year (b)	Decrease in the current year	31 December 2020
Statutory surplus reserve	1,549,921,408.26	158,373,737.06	-	1,708,295,145.32
Discretionary surplus reserve	117,763,127.56	-	-	117,763,127.56
	<u>1,667,684,535.82</u>	<u>158,373,737.06</u>	<u>-</u>	<u>1,826,058,272.88</u>

	31 December 2018	Adjustment (b)	1 January 2019	Increase in the current year	Decrease in the current year	31 December 2019
Statutory surplus reserve	1,370,680,272.72	(11,011.69)	1,370,669,261.03	179,252,147.23	-	1,549,921,408.26
Discretionary surplus reserve	117,763,127.56	-	117,763,127.56	-	-	117,763,127.56
	<u>1,488,443,400.28</u>	<u>(11,011.69)</u>	<u>1,488,432,388.59</u>	<u>179,252,147.23</u>	<u>-</u>	<u>1,667,684,535.82</u>

(a) According to the Company Law of the People's Republic of China and the Company's articles of association, the Company draws a statutory surplus reserve at 10% of the annual net profit. When the cumulative amount of the statutory surplus reserve reaches more than 50% of the registered capital, it might no longer be drawn. The statutory surplus reserve can be used to make up for losses or increase share capital after approval. According to the resolution of the Board of Directors, the Company drew a statutory surplus reserve of RMB158,373,737.06 at 10% of net profit of 2020 (for the year ended 31 December 2019: 10% of net profit, RMB179,252,147.23 in total)

(b) On 1 January 2019, due to the first implement of the new leasing standard, surplus reserve was decreased by RMB11,011.69.

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4 Notes to the consolidated financial statements (Cont'd)

(46) Undistributed profits

	For the year ended 31 December 2020	For the year ended 31 December 2019
Undistributed profits at the beginning of the year (before adjustment)	21,970,908,120.34	19,330,643,209.50
Adjustment(a)	-	(85,389,363.76)
Undistributed profits at the beginning of the year (after adjustment)	21,970,908,120.34	19,245,253,845.74
Add: net profit attributable to shareholders of the Company	4,496,216,958.55	4,080,993,663.50
Converted from other comprehensive income(b)	9,030,916.37	-
Less: appropriation to statutory surplus reserve	(158,373,737.06)	(179,252,147.23)
Dividends declared (c)	(1,250,519,301.68)	(1,165,256,622.02)
Others	(12,909,978.43)	(10,830,619.65)
Undistributed profits at the end of the year	<u>25,054,352,978.09</u>	<u>21,970,908,120.34</u>

- (a) On 1 January 2019, due to the first implement of new leasing standard, undistributed profits at the beginning of 2019 were decreased by RMB85,389,363.76.
- (b) For the year ended 31 December 2020, the Group disposed of the equity instrument investment of CIRC at the price of RMB 162,898,349.07, due to strategy change and dividends income of RMB237,255.42 was recognised. The accumulated other comprehensive income of RMB 9,030,916.37 was converted into undistributed profits (Note4(10)).
- (c) On 23 June 2020, through consideration and approval at the Company's annual general meeting of year 2019, with total of 2,842,089,322 shares as base, cash dividends of RMB1,250,519,301.68 were distributed to all shareholders at RMB4.40 (including tax) per 10 shares.

In accordance with the resolution of the Board of Directors dated on 26 March 2021, the Company proposed a cash dividend to the shareholders at RMB 4.80 per 10 shares (including tax), amounting to RMB 1,364,202,874.56 calculated by 2,842,089,322 issued shares. The resolution is pending for approval of the shareholders' meeting (Note11(1)).

(47) Revenue and cost of sales

	For the year ended 31 December 2020	For the year ended 31 December 2019
Main operations revenue	191,423,197,507.70	185,963,475,417.85
Other operations revenue	485,958,653.18	602,321,046.20
	<u>191,909,156,160.88</u>	<u>186,565,796,464.05</u>
	For the year ended 31 December 2020	For the year ended 31 December 2019
Main operations cost	164,223,049,388.42	159,559,691,168.93
Other operations cost	250,911,835.93	191,978,433.20
	<u>164,473,961,224.35</u>	<u>159,751,669,602.13</u>

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4 Notes to the consolidated financial statements (Cont'd)

(47) Revenue and cost of sales (Cont'd)

(a) Main operations revenue and main operations cost

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Domestic sales	188,369,663,807.76	162,090,267,810.15	183,508,651,752.57	157,829,836,437.34
Foreign sales	3,053,533,699.94	2,132,781,578.27	2,454,823,665.28	1,729,854,731.59
	<u>191,423,197,507.70</u>	<u>164,223,049,388.42</u>	<u>185,963,475,417.85</u>	<u>159,559,691,168.93</u>

(b) Main operations revenue and main operations cost are analyzed by industry as follows:

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Production	23,743,175,872.04	9,713,252,275.05	23,490,480,141.34	9,737,163,397.46
Distribution	167,650,205,994.46	155,633,865,780.21	162,389,757,831.94	150,974,468,065.35
Retail	8,519,004,157.66	7,349,288,810.07	8,339,668,692.34	7,130,218,955.78
Others	336,926,182.01	232,933,626.70	303,162,594.07	208,915,629.08
Elimination	(8,826,114,698.47)	(8,706,291,103.61)	(8,559,593,841.84)	(8,491,074,878.74)
	<u>191,423,197,507.70</u>	<u>164,223,049,388.42</u>	<u>185,963,475,417.85</u>	<u>159,559,691,168.93</u>

The Group and its subsidiaries are mainly engaged in sale of products and recognise revenue when control of goods has been transferred to customers.

(48) Taxes and surcharges

	For the year ended 31 December 2020	For the year ended 31 December 2019	Tax base
City maintenance and construction tax	229,841,271.33	207,128,087.67	Please refer to Note 3(1)
Education surcharges	184,220,004.98	156,225,788.15	
Stamp duty	87,799,866.01	89,472,339.91	
Real estate tax	59,734,532.45	60,058,018.72	
Land use tax	21,063,738.36	18,602,729.27	
Others	10,334,939.31	13,271,431.59	
	<u>592,994,352.44</u>	<u>544,758,395.31</u>	

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4 Notes to the consolidated financial statements (Cont'd)

(49) Selling expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Employee benefits expenses	3,473,775,548.66	3,358,617,711.70
Promotion and advertising costs	5,486,742,941.53	5,598,905,322.97
Travelling and meeting expenses	1,272,620,143.02	1,362,035,747.81
Storage and Transportation costs	865,697,620.26	857,671,404.97
Amortisation of right-of-use assets	319,233,815.71	310,267,349.42
Amortisation of intangible assets	260,896,617.03	257,190,095.63
Depreciation of fixed assets	214,032,664.02	157,959,308.94
Office expenses	152,698,179.52	139,930,231.54
Rental fees	83,479,003.88	84,457,718.39
Others	735,667,319.18	728,688,250.62
	<u>12,864,843,852.81</u>	<u>12,855,723,141.99</u>

(50) General and administrative expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Employee benefits expenses	2,610,073,419.92	2,630,447,401.55
Depreciation of fixed assets	300,786,505.97	243,880,520.34
Amortisation of right-of-use assets	215,957,106.67	189,418,572.55
Travelling and meeting expenses	187,551,787.29	249,594,475.68
Amortisation of intangible assets	142,930,014.32	122,071,796.83
Maintenance expenses	93,357,526.26	58,497,939.76
Office expenses	88,758,270.93	92,204,488.42
Rental fees	48,201,497.70	25,768,228.25
Others	1,044,178,164.31	1,039,689,976.90
	<u>4,731,794,293.37</u>	<u>4,651,573,400.28</u>

(51) Research and development expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Employee benefits expenses	517,059,998.54	473,446,405.61
Technical development expenses	494,783,349.85	304,609,581.40
Materials consumption fee	217,342,109.81	162,895,369.30
Depreciation and amortisation	99,314,121.44	79,283,407.29
Test fees	96,060,837.82	88,745,383.42
Right-of-use assets amortisation	17,760,297.95	3,510,306.88
Others	214,350,118.27	237,013,597.22
	<u>1,656,670,833.68</u>	<u>1,349,504,051.12</u>

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4 Notes to the consolidated financial statements (Cont'd)

(52) Finance expenses-net

	For the year ended 31 December 2020	For the year ended 31 December 2019
Loan interest expenses	1,131,366,024.63	1,198,285,760.58
Debenture interest expenses	186,272,573.33	127,035,047.53
Lease liabilities interest expenses	94,253,918.36	79,892,784.80
Less: Interest income	(288,327,323.99)	(234,019,914.03)
Exchange gains or losses	41,427,431.27	16,135,508.72
Others	74,591,786.98	71,443,018.66
	<u>1,239,584,410.58</u>	<u>1,258,772,206.26</u>

(53) Expenses by nature

The cost of sales, selling expenses, general and administrative expenses and research and development expenses in the income statements are listed as follows by nature:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Raw materials, merchandise and consumables used	160,423,710,090.83	156,359,269,694.81
Changes in inventories of finished goods and work in progress	905,144,927.94	(35,190,647.46)
Employee benefits expenses	7,793,040,415.93	7,665,728,314.70
Promotion and advertising costs	5,486,742,941.53	5,598,905,322.97
Travelling and meeting expenses	1,495,705,439.80	1,662,249,941.76
Transportation costs	1,015,189,433.36	1,121,812,553.30
Depreciation of fixed assets	1,013,851,364.15	882,445,922.85
Amortisation of right-of-use assets	641,295,646.75	554,722,854.23
Amortisation of intangible assets	463,904,324.43	427,030,375.36
Auditor's remuneration - Audit services	24,349,000.00	24,349,000.00
Auditor's remuneration - Non-audit services	2,300,000.00	180,000.00
Energy and utilities	432,410,967.32	466,506,633.35
Maintenance expenses	356,419,819.50	354,881,746.28
Office expenses	253,998,587.05	246,339,123.98
Rental fees (i)	174,802,821.64	158,233,084.81
Others	3,244,404,423.98	3,121,006,274.58
	<u>183,727,270,204.21</u>	<u>178,608,470,195.52</u>

- (i) The Group directly recognised the lease payments of short-term lease and low value lease into profit or loss for the current year. For the year ended 31 December 2020, the amount was RMB174,802,821.64 (for the year ended 31 December 2019: RMB158,233,084.81).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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4 Notes to the consolidated financial statements (Cont'd)

(54) Asset impairment losses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Impairment loss for goodwill	486,269,529.79	704,761,588.34
Impairment loss for inventory	396,572,395.22	292,034,792.26
Impairment loss for fixed assets	15,774,393.24	35,298,399.78
Impairment loss for Intangible assets	-	38,564,727.51
Impairment loss for right-of-use assets	-	11,321,296.37
Others	-	11,141,301.29
	<u>898,616,318.25</u>	<u>1,093,122,105.55</u>

(55) Credit impairment (reversals)/losses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Impairment (reversal)/ loss of notes receivables	(71,411.16)	2,603,624.26
Impairment (reversal)/ loss of accounts receivables	(84,778,742.12)	160,480,814.62
Impairment loss of receivables financing	753,930.85	1,512,951.71
Impairment loss of other receivables	44,491,523.55	47,667,870.05
Impairment reversal of long-term receivables	(52,979.79)	(1,193,596.71)
	<u>(39,657,678.67)</u>	<u>211,071,663.93</u>

(56) Other income

	For the year ended 31 December 2020	For the year ended 31 December 2019	Asset related/ Income related
Government grants and tax refunds	323,746,065.81	355,120,306.57	Income related
R&D project subsidies	135,516,193.12	79,405,093.93	Asset/ Income related
Support funds	27,763,120.19	51,055,582.75	Asset/ Income related
Others	<u>61,872,683.34</u>	<u>31,482,525.72</u>	Income related
	<u>548,898,062.46</u>	<u>517,063,508.97</u>	Income related

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4 Notes to the consolidated financial statements (Cont'd)

(57) Investment income

	For the year ended 31 December 2020	For the year ended 31 December 2019
Long-term equity investment income calculated by equity method	1,009,547,230.32	765,185,781.64
Gain on disposal of associate investments	3,104,697.07	-
Dividend income gained when other non-current financial assets are held	2,374,389.35	1,163,090.11
Gain on disposal of long-term equity investments	53,595,993.29	18,860,399.26
Gain on disposal of other non- current financial assets	7,369,607.01	154,109.28
Dividend income gained when other equity instrument investments are held	560,064.00	2,452,516.84
Loss on discount of financing receivables	(89,456,206.14)	(117,752,429.80)
Loss on derecognition of financial assets at amortised cost	(43,904,615.06)	(23,650,663.43)
Others	33,003,342.18	7,369,481.19
	<u>976,194,502.02</u>	<u>653,782,285.09</u>

(58) Gains arising from changes in fair value

	For the year ended 31 December 2020	For the year ended 31 December 2019
Other non-current financial assets	126,501,411.69	125,589,204.95
Derivative instruments	(9,703,618.49)	(3,426,701.27)
	<u>116,797,793.20</u>	<u>122,162,503.68</u>

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4 Notes to the consolidated financial statements (Cont'd)

(59) Gains on disposals of assets

	For the year ended 31 December 2020	For the year ended 31 December 2019	Amount classified to non-recurring profit or loss for the year ended 31 December 2020
Gain on disposal of fixed assets	36,241,814.79	4,280,583.46	36,241,814.79
Gain on disposal of intangible assets	13,530,637.78	64,871,891.14	13,530,637.78
Others	2,376,778.24	2,183,988.50	2,376,778.24
	<u>52,149,230.81</u>	<u>71,336,463.10</u>	<u>52,149,230.81</u>

(60) Non-operating income

	For the year ended 31 December 2020	For the year ended 31 December 2019	Amount classified to non-recurring profit or loss for the year ended 31 December 2020
Penalty and compensation from suppliers	83,304,253.67	15,741,391.61	83,304,253.67
Income from demolition compensation	70,853,787.72	99,790,065.58	70,853,787.72
Others	38,567,657.92	37,319,181.95	38,567,657.92
	<u>192,725,699.31</u>	<u>152,850,639.14</u>	<u>192,725,699.31</u>

(61) Non-operating expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019	Amount classified to non-recurring profit or loss for the year ended 31 December 2020
Donation	84,819,127.51	73,414,872.29	84,819,127.51
Litigation compensation	34,819,389.96	1,818,974.45	34,819,389.96
Liquidation loss	28,744,742.08	-	28,744,742.08
Others	53,248,018.69	29,096,801.95	53,248,018.69
	<u>201,631,278.24</u>	<u>104,330,648.69</u>	<u>201,631,278.24</u>

(62) Income tax expenses

	For the year ended 31 December 2020	For the year ended 31 December 2019
Current income tax calculated according to tax law and related regulations	1,804,227,290.64	1,649,751,792.92
Deferred income tax	(234,008,764.25)	(218,027,114.79)
	<u>1,570,218,526.39</u>	<u>1,431,724,678.13</u>

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4 Notes to the consolidated financial statements (Cont'd)

(62) Income tax expenses (Cont'd)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	For the year ended 31 December 2020	For the year ended 31 December 2019
Total profit	7,175,482,563.63	6,262,466,648.77
Income tax expenses calculated at applicable tax rate	1,793,870,640.91	1,565,616,662.19
Effect of favourable tax rates	(333,341,584.90)	(332,661,893.87)
Income not subject to tax	(291,757,715.56)	(200,217,012.21)
Costs, expenses and losses not deductible for tax purposes	278,492,057.29	335,977,615.48
Additional deduction on research and development expenses	(155,478,223.05)	(132,248,276.18)
Utilisation of previously tax losses not recognised as deferred tax assets	(21,324,547.21)	(36,032,199.34)
Tax losses for which no deferred income tax asset was recognised	299,757,898.91	231,289,782.06
Income tax expenses	<u>1,570,218,526.39</u>	<u>1,431,724,678.13</u>

(63) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders of the Company by the weighted average number of ordinary shares outstanding.

	For the year ended 31 December 2020	For the year ended 31 December 2019
Consolidated net profit attributable to ordinary shareholders of the Company	4,496,216,958.55	4,080,993,663.50
Weighted average numbers of ordinary shares outstanding	<u>2,842,089,322.00</u>	<u>2,842,089,322.00</u>
Basic earnings per share	<u>1.58</u>	<u>1.44</u>

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4 Notes to the consolidated financial statements (Cont'd)

(63) Earnings per share (Cont'd)

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the year ended 31 December 2020 and for the year ended 31 December 2019, diluted earnings per share equals to basic earnings per share.

(64) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Specific funds and government grants	664,709,472.48	556,868,424.60
Deposits, guarantees, current accounts and advances	647,525,603.22	1,193,212,604.04
Interest income	280,337,196.62	234,398,193.40
Other non-operating income	168,117,239.54	45,561,136.03
Others	149,908,983.18	117,233,339.47
	<u>1,910,598,495.04</u>	<u>2,147,273,697.54</u>

(b) Cash paid relating to other operating activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Daily expenses	10,224,276,456.81	10,297,104,247.37
Payments for current accounts and advances	746,529,575.90	364,158,029.14
Non-operating expenses	193,539,048.18	132,374,055.52
Bank charge	67,701,253.12	54,228,950.24
Others	70,991,419.13	64,940,413.69
	<u>11,303,037,753.14</u>	<u>10,912,805,695.96</u>

(c) Cash received relating to other investing activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash generated from business combinations	2,211,983,843.40	-
Withdrawal of time deposits due over three months	1,010,000,000.00	390,000,000.00
Advance receipts of demolition compensation	905,921,285.00	870,014,110.00
Others	25,460,307.16	9,218,833.33
	<u>4,153,365,435.56</u>	<u>1,269,232,943.33</u>

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(All amounts in RMB Yuan unless otherwise stated)

4 Notes to the consolidated financial statements (Cont'd)

(64) Notes to the consolidated cash flow statement (Cont'd)

(d) Cash paid relating to other investing activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Increase of time deposits due over three months	1,410,000,000.00	1,010,000,000.00
Capital increase in associates	90,234,391.50	73,512,963.27
Prepayment for equity instruments	-	1,692,714,300.00
Others	2,182,628.04	2,563,152.40
	<u>1,502,417,019.54</u>	<u>2,778,790,415.67</u>

(e) Cash received relating to other financing activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Related party transactions	1,291,153,580.00	-
Subsidiaries borrowed from their minority shareholders	174,659,999.90	205,107,199.86
Others	207,000,000.00	198,276,749.26
	<u>1,672,813,579.90</u>	<u>403,383,949.12</u>

(f) Cash paid relating to other financing activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Repayment for lease liabilities	730,936,588.15	625,605,926.35
Refund from subsidiaries to their minority shareholders	267,970,812.52	355,136,554.47
Acquisition of minority shares in a subsidiary	51,988,443.43	254,716,710.49
Others	196,567,817.10	214,319,543.24
	<u>1,247,463,661.20</u>	<u>1,449,778,734.55</u>

For the year ended 31 December 2020, total cash outflows for leases paid by the Group amounted to RMB905,739,409.79 (31 December 2019: RMB783,839,011.16), which were included in cash paid relating to operating activities except the repayments of lease liabilities that were included in cash paid relating to financing activities.

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4 Notes to the consolidated financial statements (Cont'd)

(65) Notes to the consolidated cash flow statement

(a) Notes to the consolidated cash flow statement

Reconciliation from net profit to cash flows from operating activities

	For the year ended 31 December 2020	For the year ended 31 December 2019
Net profit	5,605,264,037.24	4,830,741,970.64
Add: Provisions for asset impairment	898,616,318.25	1,093,122,105.55
Credit impairment provision	(39,657,678.67)	211,071,663.93
Amortisation of right-of-use assets	641,295,646.75	554,722,854.23
Depreciation of fixed assets and investment properties	1,025,097,787.01	895,999,361.40
Amortisation of intangible assets	463,904,324.43	427,030,375.36
Amortisation of long-term prepaid expenses	160,659,274.10	134,852,309.83
Depreciation of bearer biological assets	7,495,646.17	7,222,546.32
Gain on disposal of fixed assets, intangible assets and other long-term assets	(52,149,230.81)	(71,336,463.10)
Profit arising from changes in fair value	(116,797,793.20)	(122,162,503.68)
Finance expenses	1,394,264,998.83	1,285,893,241.04
Investment income	(1,129,555,323.22)	(653,782,285.09)
Increase in deferred tax assets	(133,321,668.77)	(148,747,072.51)
Decrease in deferred tax liabilities	(100,554,752.41)	(68,951,402.06)
Decrease in inventories	932,602,524.66	63,142,556.39
Increase in operating receivables	(4,072,168,463.70)	(5,083,632,934.84)
Increase in operating payables	1,359,724,978.40	2,667,199,289.76
Net cash flows from operating activities	<u>6,844,720,625.06</u>	<u>6,022,385,613.17</u>

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4 Notes to the consolidated financial statements (Cont'd)

(65) Notes to the consolidated cash flow statement (Cont'd)

(a) Notes to the consolidated cash flow statement (Cont'd)

Significant investing and financing activities which does not involve cash movement

	For the year ended 31 December 2020	For the year ended 31 December 2019
Addition of fixed assets using notes payable	-	305,810,020.00

Net increase/(decrease) in cash and cash equivalents

	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash and cash equivalents at the end of the year	19,576,444,789.85	15,716,257,907.41
Less: Cash and cash equivalents at the beginning of the year	(15,716,257,907.41)	(16,605,554,712.49)
Net increase/(decrease) in cash and cash equivalents	3,860,186,882.44	(889,296,805.08)

(b) Acquisition or disposal of subsidiaries

(i) Acquisition of subsidiaries

	For the year ended 31 December 2020
Cash and cash equivalents paid for company combination this year	247,975,500.00
Including: Jiangsu Runtian Biochemical Medicine Co., Ltd.	216,000,000.00
Less: Cash and cash equivalents held by the subsidiaries on the date of purchase	(2,310,083,364.17)
Including: Sichuan Guojia Medical Technology Co., Ltd. ("Sichuan Guojia")	(2,202,666,455.11)
Jiangsu Runtian Biochemical Medicine Co., Ltd.	(76,617,478.53)
Add: Cash and cash equivalents paid for company combination in the earlier stage	461,717,014.90
Including: Sichuan Xinlikang Industrial Co., Ltd	292,429,700.00
Net cash outflow for acquiring the subsidiaries	(1,600,390,849.27)
Including: Cash paid for acquiring the subsidiaries	611,592,994.13
Cash received relating to other investing activities	(2,211,983,843.40)
Price of acquiring the subsidiaries for the year ended 31 December 2020	
Sichuan Guojia(Note5 (1)(b))	1,893,588,958.66
Jiangsu Runtian Biochemical Medicine Co., Ltd.	360,000,000.00
Other subsidiaries	50,952,607.01
	2,304,541,565.67

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4 Notes to the consolidated financial statements (Cont'd)

(65) Notes to the consolidated cash flow statement (Cont'd)

(b) Acquisition or disposal of subsidiaries (Cont'd)

(i) Acquisition of subsidiaries (Cont'd)

For the year ended
31 December 2020

Price of acquiring the subsidiaries in the earlier stage

Sichuan Xinlikang Industrial Co., Ltd	292,429,700.00
Other subsidiaries	1,075,992,000.00
	<u>1,368,421,700.00</u>

Net assets of subsidiaries at acquisition date

	For the year ended 31 December 2020	For the year ended 31 December 2019
Current assets	4,555,693,589.63	705,519,662.00
Non - current assets	631,121,800.27	116,661,780.62
Current liabilities	(2,629,318,271.36)	(362,711,387.70)
Non - current liabilities	(118,695,564.20)	(12,229,017.85)
	<u>2,438,801,554.34</u>	<u>447,241,037.07</u>

(ii) Disposal of subsidiaries

For the year ended
31 December 2020

Cash and cash equivalents generated from disposal of subsidiaries this year	110,680,632.65
Less: Cash and cash equivalents held by the subsidiaries on the date of disposal	(9,951,649.55)
Net cash inflow for disposal of the subsidiaries	<u>100,728,983.10</u>

Price for disposal of the subsidiaries for the year ended 31 December 2020

Changzhou Juntian Cultural Industry Development Co., Ltd.	71,397,888.56
Other subsidiaries	39,282,744.09
	<u>110,680,632.65</u>

Net assets of subsidiaries at disposal date

For the year ended
31 December 2020

Current assets	9,951,649.55
Non - current assets	45,535,218.78
Current liabilities	(313,213.40)
Non - current liabilities	-
	<u>55,173,654.93</u>

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4 Notes to the consolidated financial statements (Cont'd)

(65) Notes to the consolidated cash flow statement (Cont'd)

(c) Cash and cash equivalents

	For the year ended 31 December 2020	For the year ended 31 December 2019
Cash	19,576,444,789.85	15,716,257,907.41
Including: Cash on hand	8,093,286.77	6,265,520.26
Cash at bank that can be readily drawn on demand	19,568,351,503.08	15,709,992,387.15
Other cash balances that can be readily drawn on demand	-	-
Cash and cash equivalents at the end of the year	<u>19,576,444,789.85</u>	<u>15,716,257,907.41</u>

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4 Notes to the consolidated financial statements (Cont'd)

(66) Foreign currency items

	For the year ended 31 December 2020		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand —			
USD	47,686,730.62	6.5249	311,151,148.65
HKD	12,961,188.98	0.8416	10,908,136.64
AUD	2,879,229.75	5.0163	14,443,080.17
NZD	134,162.65	4.7050	631,235.27
EUR	1,190,265.03	8.0250	9,551,876.88
Others	128,576,645.81	—	14,897,636.43
			<u>361,583,114.04</u>
Accounts receivables—			
USD	3,541,829.10	6.5249	23,110,080.69
HKD	327,870.78	0.8416	275,936.05
AUD	14,611,708.14	5.0163	73,296,711.53
NZD	7,773,879.43	4.7050	36,576,102.73
EUR	82,500.00	8.0250	662,062.50
Others	144,485,755.20	—	5,788,758.52
			<u>139,709,652.02</u>
Other receivables—			
USD	295,724.57	6.5249	1,929,573.25
HKD	13,401,772.62	0.8416	11,278,931.84
Others	18,619,108.17	—	681,900.43
			<u>13,890,405.52</u>
Short-term borrowings—			
USD	372,040.00	6.5249	2,427,523.80
NZD	2,461,115.14	4.7050	11,579,546.74
			<u>14,007,070.54</u>
Accounts payables—			
USD	51,569,227.28	6.5249	336,484,051.10
HKD	18,069,792.33	0.8416	15,207,537.22
AUD	2,539,147.74	5.0163	12,737,126.79
NZD	9,299,713.38	4.7050	43,755,151.46
EUR	4,198,693.99	8.0250	33,694,519.23
Others	548,702,284.35	—	22,967,481.82
			<u>464,845,867.62</u>

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4 Notes to the consolidated financial statements (Cont'd)

(66) Foreign currency items (Cont'd)

	For the year ended 31 December 2020		
	Foreign currency balance	Exchange rate	RMB balance
Other payables—			
USD	184,215,754.64	6.5249	1,201,989,377.46
HKD	37,720,311.32	0.8416	31,745,414.01
AUD	3,186,362.70	5.0163	15,983,751.21
NZD	7,967,905.06	4.7050	37,488,993.31
Others	46,451,532.99	—	1,545,820.86
			<u>1,288,753,356.85</u>
Current portion of long-term borrowings—			
USD	808,000,000.00	6.5249	<u>5,272,119,200.00</u>
Current portion of lease liabilities—			
HKD	1,612,440.97	0.8416	1,357,030.32
AUD	493,594.23	5.0163	2,476,016.74
NZD	3,471,026.68	4.7050	16,331,180.51
			<u>20,164,227.57</u>
Long-term borrowings—			
NZD	66,000,000.00	4.7050	<u>310,530,000.00</u>
Long-term payables—			
AUD	55,955,239.35	5.0163	<u>280,688,267.16</u>
Lease liabilities—			
HKD	300,860.02	0.8416	253,203.79
AUD	86,557.04	5.0163	434,196.07
NZD	38,819,144.43	4.7050	182,644,074.53
			<u>183,331,474.39</u>

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5 Changes in scope of business combinations

(1) Main business combination involving enterprise not under common control

(a) Main business combination involving enterprise not under common control for the year

Acquiree	Timing of acquisition	Acquisition cost	% interest acquired	Method of acquisition	Acquisition /Combination date	Basis for determining the acquisition/combination date	Revenue of the acquiree from the acquisition/combination date to the end of the period	Net profit of the acquiree from the acquisition/combination date to the end of the period	Cash flows from operating activities of the acquiree from the acquisition/combination date to the end of the period	Net cash flows of the the acquiree from the acquisition/combination date to the end of the period
				Acquisition of equity of the target company by capital injection		Finance and operation of the acquiree are controlled to obtain variable returns from its involvement with the investee, with the ability to use its power over the investee to affect the amount of the investee's returns				
Sichuan Guojia	2 January 2020	<u>1,893,588,958.66</u>	51%	by capital injection	2 January 2020		<u>3,065,972,450.79</u>	<u>133,928,532.78</u>	<u>152,757,266.69</u>	<u>(814,768,336.85)</u>

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5 Changes in scope of business combinations (Cont'd)

(1) Main business combination involving enterprise not under common control (Cont'd)

(b) Costs of combination and goodwill are as follows:

Sichuan Guojia	
Costs of combination -	
Cash paid	1,692,714,300.00
Fair value of initial shareholding ratio at acquisition date	200,874,658.66
Less: Carrying amount of net assets obtained	(1,138,289,732.41)
Goodwill	<u>755,299,226.25</u>

(c) The assets and liabilities of Sichuan Guojia at the acquisition date are as follows:

(i) Sichuan Guojia

	Acquisition date Fair value	Acquisition date Carrying amount	31 December 2019 Carrying amount
Cash at bank and on hand	2,202,666,455.11	2,202,666,455.11	2,202,666,455.11
Accounts receivables	645,423,555.88	645,423,555.88	645,423,555.88
Advances to suppliers	19,588,126.48	19,588,126.48	19,588,126.48
Other receivables	6,213,853.42	6,213,853.42	6,213,853.42
Inventories	232,342,501.66	232,342,501.66	232,342,501.66
Other current assets	3,648,282.37	3,648,282.37	3,648,282.37
Fixed assets	41,128,820.22	1,322,575.93	1,322,575.93
Construction in progress	124,219,133.78	124,219,133.78	124,219,133.78
Intangible assets	351,801,200.00	13,825,187.50	13,825,187.50
Long-term prepaid expenses	7,391.85	7,391.85	7,391.85
Less: Accounts payables	(444,009,927.15)	(444,009,927.15)	(444,009,927.15)
Employee benefits payable	(6,283,395.46)	(6,283,395.46)	(6,283,395.46)
Taxes payable	(17,749,760.56)	(17,749,760.56)	(17,749,760.56)
Other payables	(797,610,021.61)	(797,610,021.61)	(797,610,021.61)
Current portion of other non-current liabilities	(35,000,000.00)	(35,000,000.00)	(35,000,000.00)
Deferred tax liabilities	(94,445,564.20)	-	-
Net assets	<u>2,231,940,651.79</u>	<u>1,948,603,959.20</u>	<u>1,948,603,959.20</u>
Less: Minority interests	(1,093,650,919.38)	(954,815,940.01)	(954,815,940.01)
Net assets obtained	<u>1,138,289,732.41</u>	<u>993,788,019.19</u>	<u>993,788,019.19</u>

The fair value of the assets and liabilities acquired above at the acquisition date are determined by the Group using valuation techniques. The valuation method and critical assumptions applied are as follows:

- Evaluation methods of fixed assets, construction in progress and intangible assets include income method, cost method and market method;
- Evaluation is based on a basic assumption that the results will be used in accounting and report of enterprise assets acquisition;
- All assets evaluated are based on the actual stock on the assessment base date, and the current market price of the relevant asset is based on the effective domestic price on the assessment base date;
- There will be no major unforeseeable changes in the external economic environment after the assessment date;

There will be no unforeseeable factors leading to its unsustainable operation, and the existing use of the assessed assets will remain unchanged and continue to be used on-site.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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6 Equity in other subjects

(1) Equity in significant subsidiaries

(a) The structure of the Group

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
Shanghai Pharmaceutical Co., Ltd. (上藥控股有限公司)	Shanghai	Shanghai	Distribution of pharmaceutical products	5,000,000,000	100.00%	-	Subsidiaries established through establishment or investment
SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)	Beijing	Haikou	Distribution of pharmaceutical products	1,300,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
China International Pharmaceutical (Holdings) Limited (中國國際醫藥(控股)有限公司)	Hong Kong	Hong Kong	Distribution of pharmaceutical products	22,508,000	100.00%	-	Subsidiaries established through establishment or investment
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd. (上海上藥信誼藥廠有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	1,191,611,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd. (上海上藥第一生化藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	225,000,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	545,800,000	65.13%	34.87%	Subsidiaries established through establishment or investment
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd. (上海上藥新亞藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	1,052,429,000	96.90%	-	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司)	Changzhou	Changzhou	Pharmaceutical products manufacture and trading	157,580,506	57.36%	18.53%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司)	Nantong	Nantong	Pharmaceutical products manufacture and trading	141,322,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	1,476,070,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	93,642,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control

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(All amounts in RMB Yuan unless otherwise stated)

6 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(a) The structure of the Group (Cont'd)

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
SPH Qingdao Growful Pharmaceutical Co., Ltd. (上海醫藥集團青島國風藥業股份有限公司)	Qingdao	Qingdao	Pharmaceutical products manufacture and trading	93,000,000	67.52%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	Hangzhou	Hangzhou	Pharmaceutical products manufacture and trading	128,500,000	20.00%	55.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	Hangzhou	Hangzhou	Pharmaceutical products manufacture and trading	135,000,000	-	51.01%	Subsidiaries obtained through business combinations involving enterprises under common control
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	Xiamen	Xiamen	Pharmaceutical products manufacture and trading	200,000,000	-	61.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限責任公司)	Benxi	Benxi	Pharmaceutical products manufacture and trading	51,000,000	-	55.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SHANGHAI SUNVE BIO-TECH CO LTD. (上海三維生物技術有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	USD 15,343,300	-	100.00%	Subsidiaries established through establishment or investment
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Guangzhou	Guangzhou	Pharmaceutical products manufacture and trading	100,000,000	39.28%	27.86%	Subsidiaries obtained through business combinations involving enterprises not under common control
Zeus Investment Limited	Hong Kong	Hong Kong	Investment holding practices	AUD 319,208,250	-	59.61%	Subsidiaries established through establishment or investment
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	Shanghai	Shanghai	Medical instruments manufacture and trading	127,000,000	99.21%	0.79%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	Shanghai	Shanghai	Distribution of pharmaceutical products	101,390,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Sine Tianping Pharmaceutical Company Ltd. (上海信誼天平藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	154,700,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control

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(All amounts in RMB Yuan unless otherwise stated)

6 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(a) The structure of the Group (Cont'd)

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
Shanghai Sine Jinzhu Pharmacy Co., Ltd. (上海信誼金朱藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	9,072,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Sine Wanxiang Pharmaceutical Co., Ltd. (上海信誼萬象藥業股份有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	100,000,000	-	89.92%	Subsidiaries obtained through business combinations involving enterprises under common control
SHANDONG SINE PHARMACEUTICAL CO LTD (山東信誼製藥有限公司)	Dezhou	Dezhou	Pharmaceutical products manufacture and trading	177,406,159	-	67.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai New Asiatic Medicine Industry Minhong Co., Ltd. (上海新亞藥業閔行有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	57,500,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Liaoning Meiya Pharmaceutical Co., Ltd. (遼寧美亞製藥有限公司)	Fushun	Fushun	Pharmaceutical products manufacture and trading	130,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	148,200,000	-	90.00%	Subsidiaries established through establishment or investment
Shanghai Huayu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	270,060,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Lei Yun Shang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	465,070,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Shenxiang Health Pharmaceutical Co., Ltd. (上海上藥神象健康藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	150,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Xing Ling Sci.&Tech. Pharmaceutical Co., Ltd. (上海上藥杏靈科技藥業股份有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	80,000,000	-	86.31%	Subsidiaries obtained through business combinations involving enterprises under common control
Zhejiang Jiuxu Pharmaceutical Co., Ltd. (浙江九旭藥業有限公司)	Jinhua	Jinhua	Pharmaceutical products manufacture and trading	25,000,000	-	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control

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6 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(a) The structure of the Group (Cont'd)

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	Changzhou	Changzhou	Pharmaceutical products manufacture and trading	108,000,000	-	77.78%	Subsidiaries obtained through business combinations involving enterprises under common control
Chifeng Aike Pharmaceutical Technology Co., Ltd. (赤峰艾克製藥科技股份有限公司)	Chifeng	Chifeng	Pharmaceutical products manufacture and trading	40,900,000	-	58.19%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH (benxi) North Pharmaceutical Co., Ltd. (上海醫藥集團(本溪)北方藥業有限公司)	Benxi	Benxi	Development, manufacture and distribution of medicine	380,000,000	100.00%	-	Subsidiaries established through establishment or investment
Shanghai Huiyong Medicine Research Co., Ltd. (上海惠永藥物研究有限公司)	Shanghai	Shanghai	Development of medicine	100,000,000	70.00%	-	Subsidiaries established through establishment or investment
Zhejiang Shanghai Xinxin Pharma Co., Ltd. (浙江上藥新欣醫藥有限公司)	Hangzhou	Hangzhou	Distribution of pharmaceutical products	37,880,000	-	67.00%	Subsidiaries established through establishment or investment
Ningbo Pharmaceutical Co., Ltd. (上藥控股寧波醫藥股份有限公司)	Ningbo	Ningbo	Distribution of pharmaceutical products	250,000,000	-	63.61%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Pharmaceutical Shanhe Wuxi Co., Ltd. (上藥控股江蘇股份有限公司)	Wuxi	Wuxi	Distribution of pharmaceutical products	119,224,505	-	98.11%	Subsidiaries obtained through business combinations involving enterprises not under common control
Guang Zhou Z.S.Y Pharmaceutical Co., Ltd. (上藥控股廣東有限公司)	Guangzhou	Guangzhou	Distribution of pharmaceutical products	76,880,000	-	82.59%	Subsidiaries obtained through business combinations involving enterprises not under common control
SPH Shan Dong Pharmceutical Co., Ltd. (上藥控股山東有限公司)	Jinan	Jinan	Distribution of pharmaceutical products	80,000,000	-	75.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Fujian Pharmaceutical Co., Ltd. (福建省醫藥有限責任公司)(Note 1)	Fuzhou	Fuzhou	Distribution of pharmaceutical products	109,716,000	-	49.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Cardinal Health (Shanghai) Pharmaceutical Co., Ltd. (上藥康得樂(上海)醫藥有限公司)	Shanghai	Shanghai	Distribution of pharmaceutical products	98,634,700	-	100.00%	Subsidiaries obtained through business combinations involving enterprises not under common control

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(All amounts in RMB Yuan unless otherwise stated)

6 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(a) The structure of the Group (Cont'd)

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
SHANGHAI HUASHI PHARMACEUTICAL CO., LTD. (上海華氏大藥房有限公司)	Shanghai	Shanghai	Distribution of pharmaceutical products	250,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Pharma Health Commerce Co., Ltd. (上海醫藥大健康雲商股份有限公司)	Shanghai	Shanghai	Distribution of pharmaceutical products	1,333,375,000	5.25%	67.50%	Subsidiaries established through establishment or investment
SPH Keyuan Xinhai Pharmaceutical Hubei Co. Ltd. (上藥科園信海醫藥湖北有限公司)	Wuhan	Wuhan	Distribution of pharmaceutical products	100,000,000	-	60.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd. (上藥科園信海陝西醫藥有限公司)	Xi'an	Xi'an	Distribution of pharmaceutical products	100,000,000	-	85.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Henan Kangxin Pharmaceutzcal Co., Ltd. (河南省康信醫藥有限公司)	Zhengzhou	Zhengzhou	Distribution of pharmaceutical products	100,000,000	-	70.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
China Medical Foreign Trading Liao Ning Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Shenyang	Shenyang	Distribution of pharmaceutical products	282,012,500	51.74%	-	Subsidiaries obtained through business combinations involving enterprises not under common control
Sichuan Guojia Medical Technology Co., Ltd. (四川省國嘉醫藥科技有限責任公司)	Chengdu	Chengdu	Distribution of pharmaceutical products	36,734,700	-	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control

Note 1: 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.

Note 2: Except SPH Changzhou Pharmaceutical Co., Ltd., SPH Qingdao Growful Pharmaceutical Co., Ltd., TECHPOOL Bio-Pharma Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., SPH Xing Ling Sci.&Tech. Pharmaceutical Co., Ltd., Chifeng Aike Pharmaceutical Technology Co., Ltd., Ningbo Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Shanhe Wuxi Co., Ltd. and Shanghai Pharma Health Commerce Co., Ltd., whose corporate category is incorporated company by shares, all of the above mentioned subsidiaries are limited liability companies.

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(All amounts in RMB Yuan unless otherwise stated)

6 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests

Name of significant subsidiaries	Shareholding proportion of minority interests	Net profit attributable to minority interests for the year ended 31 December 2020	Dividends distributed to minority interests for the year ended 31 December 2020	Minority interests for the year ended 31 December 2020
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	24.11%	111,597,005.13	65,483,697.00	897,017,988.17
Sichuan Guojia Medical Technology Co., Ltd. and its subsidiaries	49.00%	79,386,572.37	114,488,913.92	975,088,110.04

	31 December 2020					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries(Note)	2,960,943,241.60	1,196,743,387.30	4,157,686,628.90	(1,738,435,806.81)	(41,689,090.92)	(1,780,124,897.73)
Sichuan Guojia Medical Technology Co., Ltd. and its subsidiaries	2,295,173,401.98	144,550,674.41	2,439,724,076.39	(449,748,341.61)	-	(449,748,341.61)

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6 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests (Cont'd)

	31 December 2019					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	2,771,872,683.59	1,150,894,865.31	3,922,767,548.90	(1,594,193,057.21)	(114,096,858.57)	(1,708,289,915.78)
	For the year ended 31 December 2020					
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities		
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,405,247,191.52	282,415,149.99	282,415,149.99	238,882,112.17		
Sichuan Guojia Medical Technology Co., Ltd. and its subsidiaries	3,065,972,450.79	162,013,413.01	162,013,413.01	152,757,266.69		
	For the year ended 31 December 2019					
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities		
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,465,045,315.82	291,278,810.92	291,278,810.92	227,904,719.59		

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6 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates

(a) Summarised financial information of significant joint ventures and associates

	Place of operation	Place of incorporate	Principal activities	If strategic for group activities	Share proportion	
					Direct	Indirect
Associates—						
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	Yes	-	30.00%
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	Yes	30.00%	-
Joint ventures —						
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	Yes	-	50.00%

(b) Summarised financial information of significant joint ventures

	31 December 2020 RMB'000	31 December 2019 RMB'000
	Shanghai Hutchison Pharmaceutical Co., Ltd.	Shanghai Hutchison Pharmaceutical Co., Ltd.
Current assets	1,155,621	992,711
Including: Cash and cash equivalents	475,065	289,825
Non-current assets	608,622	636,138
Total assets	<u>1,764,243</u>	<u>1,628,849</u>
Current liabilities	722,407	558,897
Non-current liabilities	40,890	38,821
Total liabilities	<u>763,297</u>	<u>597,718</u>
Minority interests	-	-
Equity attributable to shareholders of the company	<u>1,000,946</u>	<u>1,031,131</u>
Share of net assets by shareholding (i)	500,473	515,566
Adjustments		
- Unrealised profits arising from internal transactions	(5,934)	(1,734)
Carrying amount of investments in joint ventures	<u>494,539</u>	<u>513,832</u>
Fair value of the investment in joint ventures with quoted price	Not applicable	Not applicable

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6 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates (Cont'd)

(b) Summarized financial information of significant joint ventures (Cont'd)

	For the year ended 31 December 2020 RMB'000 Shanghai Hutchison Pharmaceutical Co., Ltd.	For the year ended 31 December 2019 RMB'000 Shanghai Hutchison Pharmaceutical Co., Ltd.
Revenue	1,921,913	1,798,572
Finance expenses	(7,018)	(48,805)
Income tax expenses	(75,938)	(75,327)
Net profit	469,815	419,609
Other comprehensive income	-	-
Total comprehensive income	<u>469,815</u>	<u>419,609</u>
Dividends declared by the joint ventures to the Group	<u>250,000</u>	<u>145,000</u>

- (i) The Group calculates share of assets in proportion of the shareholdings based on the amount attributable to the parent company of joint ventures in their consolidated financial statements. The amount in the consolidated financial statements of joint ventures considers the impacts of fair value of identifiable assets and liabilities of joint ventures at the time of acquisition and the unification of accounting policies.

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6 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates (Cont'd)

(c) Summarized financial information of significant associates

	31 December 2020		31 December 2019	
	RMB'000		RMB'000	
	Shanghai Roche Pharmaceutical Co., Ltd.	Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Shanghai Roche Pharmaceutical Co., Ltd.	Sino-American Shanghai Squibb Pharmaceuticals Ltd.
Current assets	10,327,910	2,375,480	9,342,949	2,301,471
Non-current assets	2,666,548	699,758	2,843,942	724,811
Total assets	<u>12,994,458</u>	<u>3,075,238</u>	<u>12,186,891</u>	<u>3,026,282</u>
Current liabilities	7,486,952	2,231,095	7,037,584	2,122,913
Non-current liabilities	1,043,692	-	1,053,797	-
Total liabilities	<u>8,530,644</u>	<u>2,231,095</u>	<u>8,091,381</u>	<u>2,122,913</u>
Minority interests	-	-	-	-
Equity attributable to shareholders of the company	<u>4,463,814</u>	<u>844,143</u>	<u>4,095,510</u>	<u>903,369</u>
Share of net assets by shareholding (i)	1,339,144	253,243	1,228,653	271,011
Adjustments				
- Goodwill	-	-	-	-
- Unrealized profits arising from internal transactions	(23,107)	(3,486)	(32,721)	(4,106)
Carrying amount of investments in associate	<u>1,316,037</u>	<u>249,757</u>	<u>1,195,932</u>	<u>266,905</u>
Fair value of the investment in associates with quoted price	Not applicable	Not applicable	Not applicable	Not applicable

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6 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates (Cont'd)

(c) Summarized financial information of significant associates (Cont'd)

	For the year ended 31 December 2020 RMB'000		For the year ended 31 December 2019 RMB'000	
	Shanghai Roche Pharmaceutical Co., Ltd.	Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Shanghai Roche Pharmaceutical Co., Ltd.	Sino-American Shanghai Squibb Pharmaceuticals Ltd.
Revenue	14,930,844	4,770,614	16,753,261	5,278,713
Net profit	838,594	376,971	932,213	247,254
Other comprehensive income	-	-	-	-
Total comprehensive income	838,594	376,971	932,213	247,254
Dividends declared by the associates to the Group	141,087	130,859	94,896	-

- (i) The Group calculated the shares of assets in proportion of the shareholdings and based on the amount attributable to the parent company of the associates in their consolidated financial statements. The amount in the consolidated financial statements of associates considers the impacts of fair value of identifiable assets and liabilities of associates at the time of acquisition and the unification of accounting policies.

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6 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates (Cont'd)

(d) Summarized financial information of non-significant joint ventures and associates

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Joint ventures –		
Carrying amount of investments in total	1,645,625	315,516
Aggregate of the following items in proportion		
Net profit (i)	37,099	36,836
Other comprehensive income (i)	-	-
Total comprehensive income	<u>37,099</u>	<u>36,836</u>
Associates –		
Carrying amount of investments in total	2,945,106	2,561,538
Aggregate of the following items in proportion		
Net profit (i)	366,893	176,494
Other comprehensive income (i)	2,694	13
Total comprehensive income	<u>369,587</u>	<u>176,507</u>

- (i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment in joint ventures and associates and the unification of accounting policies adopted by the joint ventures and the associates to those adopted by the Company.

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7 Segment Information

The Group's revenue is mainly derived from Mainland China. The board of directors consider the business from a business type perspective. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group identified 4 reportable segments as follows:

- Pharmaceutical business (Production segment), which is mainly engaged in research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;
- Distribution and supply chain solutions (Distribution segment), which is mainly engaged in distribution, warehousing, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical manufacturers and dispensers;
- Pharmaceutical retail (Retail segment), which is mainly engaged in operation of a network of retail pharmacy stores; and
- Other business operations (Others), which is mainly engaged in other business.

Inter-segment transfer prices are measured by reference to selling prices to third parties.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

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7 Segment Information (Cont'd)

(1) Segment information as at 31 December 2020 and for the year ended 31 December 2020 is as follows:

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	23,743,175,872.04	167,650,205,994.46	8,519,004,157.66	1,191,048,039.78	(9,194,277,903.06)	191,909,156,160.88
Including: External revenue	20,207,854,319.56	162,461,998,951.46	8,473,006,957.12	766,295,932.74	-	191,909,156,160.88
Inter-segment revenue	3,535,321,552.48	5,188,207,043.00	45,997,200.54	424,752,107.04	(9,194,277,903.06)	-
Less: Cost of sales	(9,713,252,275.05)	(155,633,865,780.21)	(7,349,288,810.07)	(578,026,941.00)	8,800,472,581.98	(164,473,961,224.35)
Taxes and surcharges	(226,730,036.17)	(324,961,256.92)	(21,709,221.72)	(19,593,837.63)	-	(592,994,352.44)
Selling expenses	(8,079,539,415.12)	(4,046,412,776.39)	(706,421,789.85)	(129,098,002.34)	96,628,130.89	(12,864,843,852.81)
General and administrative expenses	(1,938,835,708.26)	(2,189,008,062.86)	(366,408,444.70)	(470,418,552.47)	232,876,474.92	(4,731,794,293.37)
Research and development expenses	(1,656,670,833.68)	-	-	-	-	(1,656,670,833.68)
Segment profit	2,128,147,603.76	5,455,958,118.08	75,175,891.32	(6,089,293.66)	(64,300,715.27)	7,588,891,604.23
Unallocated:						
Finance expenses-net	-	-	-	-	-	(1,239,584,410.58)
Asset impairment losses	-	-	-	-	-	(898,616,318.25)
Credit impairment losses	-	-	-	-	-	39,657,678.67
Add: Profit arising from changes in fair value	-	-	-	-	-	116,797,793.20
Investment income	-	-	-	-	-	976,194,502.02
Other income	-	-	-	-	-	548,898,062.46
Gains on disposals of assets	-	-	-	-	-	52,149,230.81
Operating profit						7,184,388,142.56
Depreciation and amortisation	845,075,031.07	1,100,962,354.49	192,190,985.08	176,209,141.15	-	2,314,437,511.79
Capital expenditures	1,800,196,995.90	364,283,848.43	32,982,008.44	488,476,636.56	-	2,685,939,489.33
Assets	33,000,552,477.85	105,413,756,411.79	2,633,187,666.93	36,434,058,676.87	(36,306,327,131.09)	141,175,228,102.35
Investment in associates-net	2,757,375,516.85	299,981,076.79	-	1,453,543,557.92	-	4,510,900,151.56
Investment in joint ventures -net	516,301,873.82	321,019,908.31	-	1,302,842,071.92	-	2,140,163,854.05
Unallocated:						
Deferred tax assets						1,359,363,370.67
Total assets						149,185,655,478.63
Liabilities	12,256,541,872.32	76,824,349,046.83	1,979,083,869.30	17,610,654,354.23	(15,740,531,895.72)	92,930,097,246.96
Unallocated:						
Deferred tax liabilities						832,375,455.83
Income tax payable						682,453,006.19
Total liabilities						94,444,925,708.98

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB Yuan unless otherwise stated)

7 Segment Information (Cont'd)

(2) Segment information as at 31 December 2019 and for the year ended 31 December 2019 is as follows:

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	23,490,480,141.34	162,389,757,831.94	8,339,668,692.34	1,278,814,987.66	(8,932,925,189.23)	186,565,796,464.05
Including: External revenue	19,854,528,094.69	157,679,840,724.93	8,281,745,791.78	749,681,852.65	-	186,565,796,464.05
Inter-segment revenue	3,635,952,046.65	4,709,917,107.01	57,922,900.56	529,133,135.01	(8,932,925,189.23)	-
Less: Cost of sales	(9,737,163,397.46)	(150,974,468,065.35)	(7,130,218,955.78)	(555,298,186.67)	8,645,479,003.13	(159,751,669,602.13)
Taxes and surcharges	(240,637,366.91)	(266,348,022.95)	(22,962,307.74)	(14,810,697.71)	-	(544,758,395.31)
Selling expenses	(8,330,299,524.11)	(3,738,886,039.23)	(730,137,825.98)	(129,005,928.74)	72,606,176.07	(12,855,723,141.99)
General and administrative expenses	(1,776,977,806.72)	(2,152,275,889.40)	(373,838,787.87)	(522,715,865.97)	174,234,949.68	(4,651,573,400.28)
Research and development expenses	(1,349,504,051.12)	-	-	-	-	(1,349,504,051.12)
Segment profit	2,055,897,995.02	5,257,779,815.01	82,510,814.97	56,984,308.57	(40,605,060.35)	7,412,567,873.22
Unallocated:						
Finance expenses-net	-	-	-	-	-	(1,258,772,206.26)
Asset impairment losses	-	-	-	-	-	(1,093,122,105.55)
Credit impairment losses	-	-	-	-	-	(211,071,663.93)
Add: Profit arising from changes in fair value	-	-	-	-	-	122,162,503.68
Investment income	-	-	-	-	-	653,782,285.09
Other income	-	-	-	-	-	517,063,508.97
Gains on disposals of assets	-	-	-	-	-	71,336,463.10
Operating profit						<u>6,213,946,658.32</u>
Depreciation and amortisation	802,778,277.64	938,108,941.56	136,486,640.95	166,472,073.09	-	2,043,845,933.24
Capital expenditures	1,037,046,967.54	718,330,267.49	55,597,705.32	550,308,703.16	-	2,361,283,643.51
Assets	31,296,682,932.18	99,515,229,115.47	2,261,118,990.91	34,873,044,386.65	(36,995,966,264.87)	130,950,109,160.34
Investment in associates-net	2,396,993,084.07	480,389,383.94	-	1,146,992,364.93	-	4,024,374,832.94
Investment in joint ventures -net	546,198,946.68	283,205,279.91	-	-	-	829,404,226.59
Unallocated:						
Deferred tax assets						<u>1,222,507,639.85</u>
Total assets						<u>137,026,395,859.72</u>
Liabilities	10,635,943,955.21	74,677,597,363.54	1,684,481,285.40	15,871,967,517.60	(16,756,113,024.39)	86,113,877,097.36
Unallocated:						
Deferred tax liabilities						809,599,134.48
Income tax payable						<u>716,991,334.48</u>
Total liabilities						<u>87,640,467,566.32</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions

(1) The parent company

(a) General information of the parent company

	Place of registration	Nature of business
Shanghai Pharma Group	No 92, Zhangjiang Road, Shanghai	Pharmaceutical products manufacture

The Company's ultimate controlling party is Shanghai Industrial Group, incorporated in Hong Kong.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Shanghai Pharma Group	<u>3,158,720,000.00</u>	<u>-</u>	<u>-</u>	<u>3,158,720,000.00</u>

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2020		31 December 2019	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Shanghai Pharma Group	25.21%	25.21%	25.21%	25.21%

(2) Significant subsidiaries

For basic and related information of significant subsidiaries, please refer to Note 6(1)

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(3) Joint ventures and associates

Except for the important joint ventures and associates disclosed in Note 4(13), the other joint ventures and associates that have related party transactions with the Group are as follows:

	Relationship with the Group
Shanghai Ivyuan Pharmacy Co., Ltd. (上海綠苑藥房有限公司)	Associate
Guangzhou Ruixun Medicine Co., Ltd. (廣州銳訊醫藥有限公司)	Associate
Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd. (上海千山遠東製藥機械有限公司)	Associate
Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司)	Associate
Hangzhou Huqingyutang Medicinal Planting Co., Ltd. (杭州胡慶餘堂藥材種植有限公司)	Associate
Shanghai Huayu Saffron Planting Professional Cooperative (上海華宇西紅花種植專業合作社)	Associate
Chongqing Quanzhidao Medicine Co., Ltd. (重慶全之道醫藥有限公司)	Associate
Shanghai Jianer Pharmacy Co., Ltd. (上海健爾醫藥有限公司)	Joint venture

(4) Other related parties

	Relationship with the Group
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 Pharma Group

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(5) Related party transactions

Except for the items disclosed in other items of the financial statements, other related party transactions of the Group include:

(a) Purchase and sales of goods, vender and purchase of services

Purchase of goods and services:

Related party	Related transaction	Pricing policies	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shanghai Roche Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	1,927,881.67	2,354,304.23
Shanghai Hutchison Pharmaceutical Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	282,669.57	52,440.68
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Purchase of goods	By negotiation	239,590.04	372,721.06
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Purchase of goods	By negotiation	137,555.45	185,443.15
Guangzhou Ruixun Medicine Co., Ltd.	Purchase of goods	By negotiation	122,994.35	188,824.13
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	77,536.53	61,828.38
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	68,512.72	20,157.79
Shanghai Sine Promod Pharmaceutical Corp., Ltd and its subsidiaries.	Purchase of goods	By negotiation	47,294.16	30,500.01
Shanghai Huayu Saffron Planting Professional Cooperative	Purchase of goods	By negotiation	33,199.74	10,857.96
Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	21,001.74	-
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	Purchase of goods	By negotiation	16,334.39	11,349.88
Others	Purchase of goods and services	By negotiation	44,066.14	34,880.46
			<u>3,018,636.50</u>	<u>3,323,307.73</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(a) Purchase and sales of goods, vender and purchase of services (Cont'd)

Sales of goods and services:

Related party	Related transaction	Pricing policies	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	3,074,029.05	2,284,199.15
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	Sales of goods	By negotiation	66,432.85	11,063.89
Shanghai Hutchison Pharmaceutical Co., Ltd	Sales of goods	By negotiation	55,704.40	60,311.57
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	43,210.40	27,551.91
Shanghai Ivyuan Pharmacy Co., Ltd.	Sales of goods	By negotiation	37,054.17	38,751.60
Shanghai Roche Pharmaceutical Co., Ltd.	Sales of goods	By negotiation	10,716.28	9,741.54
Shanghai Jianer Pharmacy Co., Ltd.	Sales of goods	By negotiation	4,218.62	4,999.39
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Sales of goods	By negotiation	3,667.99	2,617.45
Guangzhou Ruixun Medicine Co., Ltd.	Sales of goods	By negotiation	2,148.14	11,513.70
	Sales of goods and vender of services			
Others		By negotiation	12,987.31	11,362.50
			<u>3,310,169.21</u>	<u>2,462,112.70</u>

(b) Lease

The rental income recognised by the Group as the lessor:

Lessee	Leased asset	Rental income recognised for the year ended 31 December 2020 RMB'000	Rental income recognised for the year ended 31 December 2019 RMB'000
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Building	11,686.51	11,655.41
Shanghai Yingdalai Property Co., Ltd.	Building	4,360.00	4,360.00
Shanghai Hutchison Pharmaceutical Co., Ltd.	Building	2,462.54	2,462.54
Shanghai Pharma Group	Building	-	878.16
		<u>18,509.05</u>	<u>19,356.11</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(b) Lease (Cont'd)

The Group is the lessee:

Lessor	Leased asset	Lease payable for the year ended 31 December 2020 RMB'000	Lease payable for the year ended 31 December 2019 RMB'000
Shanghai Pharma Group	Building	30,525.15	26,904.28
Shanghai Indu-Land Property Co., Ltd	Building	9,495.54	8,829.13
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Land use right and Building	7,427.93	9,902.19
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Machinery equipment	1,201.73	1,821.42
		<u>48,650.35</u>	<u>47,457.02</u>

The Group's addition of right-of-use assets as the lessee:

Lessor	Leased asset	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shanghai Pharma Group	Building	45,622.80	25,519.40
Shanghai Indu-Land Property Co., Ltd	Building	-	4,165.88
		<u>45,622.80</u>	<u>29,685.28</u>

Finance cost of lease liabilities assumed by the Group as the lessee:

Lessor	Leased asset	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shanghai Pharma Group	Building	2,009.56	1,174.85
Shanghai Indu-Land Property Co., Ltd	Building	37.32	98.62
		<u>2,046.88</u>	<u>1,273.47</u>

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(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(c) R&D expenditures

		For the year ended 31 December 2020	For the year ended 31 December 2019
	Pricing policies	RMB'000	RMB'000
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	By negotiation	<u>4,243.72</u>	<u>6,372.00</u>

(d) Guarantee

The Group is the Guarantor:

Guaranteed party	Guarantee amount RMB'000	Starting date	Ending date	Completed or not
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	568.88	2020.8.26	2021.2.26	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	244.94	2020.9.10	2021.3.10	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	431.61	2020.9.21	2021.3.21	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	6,449.96	2020.9.27	2021.3.27	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	372.55	2020.10.22	2021.1.22	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	464.06	2020.10.22	2021.4.22	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	98.56	2020.11.20	2021.2.20	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	555.24	2020.11.20	2021.5.20	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	573.39	2020.11.26	2021.5.26	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	160.41	2020.12.23	2021.3.23	No
Chongqing Medicines Pharma Sales Co., Ltd. Shanghai	10.08	2020.12.23	2021.6.23	No
	<u>9,929.68</u>			

(e) Key management compensation

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Salary, bonus and other compensation	36,168.74	40,282.73
Stock options	<u>4,360.17</u>	<u>-</u>
	<u>40,528.91</u>	<u>40,282.73</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(f) Interest

Interest income

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>10,296.04</u>	<u>2,533.63</u>

Interest expense

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>72,129.68</u>	<u>62,205.33</u>

Derecognition on financing receivables

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	11,271.10	16,364.64
Shangshi Commercial Factoring Co., Ltd.	<u>1,315.10</u>	<u>30.81</u>
	<u>12,586.20</u>	<u>16,395.45</u>

(g) Deposits and borrowings

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
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Net increase of the deposit balance

Shanghai Industrial Group Finance Co., Ltd.	<u>725,453.48</u>	<u>323,318.00</u>
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Loan received from related parties

Shanghai Industrial Group Finance Co., Ltd.	3,956,504.33	4,542,500.00
SPH-BIOCAD(HK) Limited	<u>1,291,153.58</u>	<u>-</u>
	<u>5,247,657.91</u>	<u>4,542,500.00</u>

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(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(g) Deposits and borrowings(Cont'd)

		For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Loan repayment to related parties	Shanghai Industrial Group Finance Co., Ltd.	<u>3,765,980.00</u>	<u>4,115,020.00</u>
Repayment received from related parties	Shanghai Huaren Pharmaceutical Co., Ltd.	<u>400.00</u>	<u>600.00</u>

(h) Discount of bank acceptance notes

		For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Discount amount	Shanghai Industrial Group Finance Co., Ltd.	<u>818,313.29</u>	<u>1,119,084.93</u>

(i) Discount of trade acceptance notes

		For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Discount amount	Shanghai Industrial Group Finance Co., Ltd.	<u>31,806.73</u>	<u>-</u>

(j) Factoring of trade receivables

		For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Shangshi Commercial Factoring Co., Ltd.		<u>81,250.00</u>	<u>270,000.00</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(6) Balance of receivables and payables of related parties

Amounts due from related parties

		31 December 2020		31 December 2019	
		Accounts balance RMB'000	Provision for bad debts RMB'000	Accounts balance RMB'000	Provision for bad debts RMB'000
Accounts receivables due from:	Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	677,108.34	3,718.23	522,175.99	2,867.18
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	27,456.01	844.19	4,732.01	185.26
	Shanghai Hutchison Pharmaceutical Co., Ltd.	16,142.81	182.70	32,533.40	376.95
	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	12,109.31	2,306.73	4,062.51	2,258.05
	Shanghai Ivyuan Pharmacy Co., Ltd.	4,933.86	31.29	4,884.82	26.72
	Shanghai Jianer Pharmacy Co., Ltd.	568.79	3.19	732.76	4.20
	Sino-American Shanghai Squibb Pharmaceuticals Ltd.	476.13	1.80	780.56	1.45
	Others	8,742.80	1,078.11	1,648.12	971.54
		<u>747,538.05</u>	<u>8,166.24</u>	<u>571,550.17</u>	<u>6,691.35</u>
Other receivables due from:	Sino-American Shanghai Squibb Pharmaceuticals Ltd.	42,582.94	106.53	9,367.38	129.27
	Shanghai Overseas United Investment Co., Ltd.	13,297.64	66.49	13,297.64	66.49
	Shanghai Huayu Saffron Planting Professional Cooperative	7,588.13	5,642.78	7,588.13	3,250.03
	Shanghai Huaren Pharmaceutical Co., Ltd.	7,132.79	42.08	7,412.34	57.08
	Shanghai Roche Pharmaceutical Co., Ltd.	5,053.04	331.89	300.00	300.00
	Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	3,647.04	26.08	2,592.44	98.01
	Guangzhou Ruixun Medicine Co., Ltd.	1,542.80	429.81	-	-
	Shanghai China Sun Far-east Pharmaceutical Machinery Co., Ltd.	1,460.88	1,460.88	1,460.88	1,460.88
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	1,450.00	3.63	1,450.00	3.63
	Sichuan Guojia Medical Technology Co., Ltd.	-	-	48,412.27	121.03
	Others	8,575.68	6,193.66	8,152.60	5,806.50
		<u>92,330.94</u>	<u>14,303.83</u>	<u>100,033.68</u>	<u>11,292.92</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(All amounts in RMB Yuan unless otherwise stated)

8 Related parties and related party transactions (Cont'd)

(6) Balance of receivables and payables of related parties (Cont'd)

Amounts due from related parties (Cont'd)

	31 December 2020 RMB'000	31 December 2019 RMB'000
Prepayments due from:		
Shanghai Huayu Saffron Planting Professional Cooperative	2,920.10	12,892.62
Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	1,771.12	4,192.15
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1,700.03	1,030.37
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	957.85	3,701.93
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	300.10	300.10
Shanghai Roche Pharmaceutical Co., Ltd.	143.06	587.73
Shanghai Sine Promod Pharmaceutical Corp., Ltd.	102.96	80.64
Others	639.05	1,228.49
	<u>8,534.27</u>	<u>24,014.03</u>

Amounts due to related parties

	31 December 2020 RMB'000	31 December 2019 RMB'000
Accounts payables due to:		
Shanghai Roche Pharmaceutical Co., Ltd.	171,980.11	227,729.47
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	32,885.42	13,699.06
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	16,639.80	14,958.35
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries	13,114.26	1,349.94
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	11,619.23	41,049.23
Shanghai Hutchison Pharmaceutical Co., Ltd and its subsidiaries.	11,500.36	4,048.47
Hangzhou Huqingyutang Medicinal Planting Co., Ltd.	9,339.67	7,206.79
Shanghai Sine Promod Pharmaceutical Corp., Ltd and its subsidiaries.	6,735.15	7,443.77
Guangzhou Ruixun Medicine Co., Ltd.	1,791.41	997.19
Others	18,490.29	18,909.23
	<u>294,095.70</u>	<u>337,391.50</u>
Other payables due to:		
SPH-BIOCAD(HK) Limited	1,194,054.00	-
Shanghai Shangshi (Group) Co., Ltd.	622,000.00	415,000.00
Shanghai Pharma Group	12,662.18	11,316.16
Shanghai Sine Promod Pharmaceutical Corp., Ltd. and its subsidiaries	9,103.31	9,103.31
Shanghai Industrial Group Finance Co., Ltd.	1,798.21	1,761.61
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	286.94	291.09
Others	1,058.75	223.78
	<u>1,840,963.39</u>	<u>437,695.95</u>

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8 Related parties and related party transactions (Cont'd)

(6) Balance of receivables and payables of related parties (Cont'd)

Amounts due to related parties (Cont'd)

		31 December 2020	31 December 2019
		RMB'000	RMB'000
Contract liabilities:	Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	604.92	-
	Chongqing Quanzhidao Medicine Co., Ltd.	363.45	-
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	-	1,309.56
	Others	87.62	38.76
		<u>1,055.99</u>	<u>1,348.32</u>
Lease liabilities:	Shanghai Pharma Group	55,012.04	26,196.46
	Shanghai Indu-Land Property Co., Ltd.	-	5,462.27
		<u>55,012.04</u>	<u>31,658.73</u>
Current borrowings:	Shanghai Industrial Group Finance Co., Ltd.	<u>1,547,504.33</u>	<u>1,356,980.00</u>
Cash at bank:	Shanghai Industrial Group Finance Co., Ltd.	<u>2,927,661.15</u>	<u>2,202,207.67</u>
Deposit:	Shanghai Industrial Group Finance Co., Ltd.	<u>10,697.63</u>	<u>17,140.23</u>

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8 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors

(a) Remuneration of directors, supervisors and CEO

Remuneration of directors, supervisors and CEO for the year ended 31 December 2020 were as follows:

Name	Emoluments in respect of a person's services as a director or supervisor						Remuneration for other services provided for the management of the Company or subsidiaries RMB'000	Total RMB'000
	Remuneration RMB'000)	Salary and allowance RMB'000	Pension plan contribution RMB'000	Bonus RMB'000	Other allowances and benefits RMB'000	Stock options RMB'000		
Independent director								
Mr.Hong Liang	300	-	-	-	-	-	-	300
Mr.Cai Jiangnan	300	-	-	-	-	-	-	300
Mr.Gu Zhaoyang	300	-	-	-	-	-	-	300
Mr.Fok Manson	300	-	-	-	-	-	-	300
Director								
Mr.Zhou Jun	-	-	-	-	-	-	-	-
Mr.Ge Dawei	-	-	-	-	-	-	-	-
Ms.Li An	-	-	-	-	-	-	-	-
Mr.Cho Man (CEO)	-	1,500	-	3,658	4	646	-	5,808
Mr.Li Yongzhong	-	1,245	12	3,732	118	525	-	5,632
Mr.Shen Bo	-	1,245	105	3,520	76	525	-	5,471
Supervisor								
Mr.Xu Youli	-	-	-	-	-	-	-	-
Mr.Huan Jianchun	-	-	-	-	-	-	-	-
Mr.Xin Keng	-	-	-	-	-	-	-	-
	1,200	3,990	117	10,910	-	198	1,696	18,111

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8 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors (Cont'd)

(a) Remuneration of directors, supervisors and CEO (Cont'd)

Remuneration of directors, supervisors and CEO for the year ended 31 December 2019 were as follows:

Name	Emoluments in respect of a person's services as a director or supervisor					Remuneration paid or receivable in respect of director's other services in connection with the management of the Company or subsidiaries RMB'000	Total RMB'000
	Remuneration RMB'000	Salary and allowance RMB'000	Pension plan contribution RMB'000	Bonus RMB'000	Other allowances and benefits RMB'000		
Independent director							
Mr.Hong Liang	265	-	-	-	-	-	265
Mr.Cai Jiangnan	250	-	-	-	-	-	250
Mr.Gu Zhaoyang(i)	150	-	-	-	-	-	150
Mr.Fok Manson(ii)	150	-	-	-	-	-	150
Mr.Wan Kam To(iii)	125	-	-	-	-	-	125
Mr.Tse Cho Che(iv)	115	-	-	-	-	-	115
Director							
Mr.Zhou Jun	-	-	-	-	-	-	-
Mr.Ge Dawei(v)	-	-	-	-	-	-	-
Ms.Li An	-	-	-	-	-	-	-
Mr.Cho Man (CEO)	-	1,500	-	4,908	3	-	6,411
Mr.Li Yongzhong	-	1,245	8	4,768	115	-	6,136
Mr.Shen Bo	-	1,245	91	4,428	118	-	5,882
Supervisor							
Mr.Xu Youli	-	-	-	-	-	-	-
Mr.Huan Jianchun	-	-	-	-	-	-	-
Mr.Xin Keng	-	-	-	-	-	-	-
	1,055	3,990	99	14,104	236	-	19,484

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8 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors (Cont'd)

(a) Remuneration of directors, supervisors and CEO (Cont'd)

In 2020 and 2019, the executive directors (including Cho Man, Li Yongzhong and Shen Bo) have provided management services in connection with the management of the affairs of the Company or its subsidiaries undertaking. Since the emoluments as directors, supervisors or management cannot be distinguished from each other, emoluments as the mentioned roles are combined disclosed together.

In 2020, no director waived any remuneration (2019: Nil).

No director was resigned or appointed in 2020.

Changes in directors in 2019 were as follows:

- (i) Mr.Gu Zhaoyang was appointed on 27 June 2019
- (ii) Mr.Fok Manson was appointed on 27 June 2019
- (iii) Mr.Wan Kam To retired on 27 June 2019
- (iv) Mr.Tse Cho Che retired on 27 June 2019
- (v) Mr.Ge Dawei was appointed on 27 June 2019

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8 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors (Cont'd)

(b) Director's retirement benefits

In 2020, there are no retirement benefits due to directors' services or other services apart from the pension plan mentioned above (2019: Nil).

(c) Director's termination benefits

There are no directors' termination benefits for the directors in 2020(2019: Nil).

(d) Consideration paid to third parties in return for director services

There is no consideration paid to third parties in return for director services (2019: Nil).

(e) Loans, quasi-loans and other transactions provided to the directors, the legal person controlled by the directors, and associated person of the directors

(i) No loans or quasi-loans were provided to the directors, the legal person controlled by the directors, or associated person of the directors (2019: Nil).

(ii) There are no guarantees provided to the loans to the directors, the legal person controlled by the directors, or associated person of the directors (2019: Nil).

(f) Substantial interests of directors in transaction, arrangement or contract

In 2020, the Company did not sign with other parties any important transactions, arrangements or contracts related to the Group's business within which the directors of the Company directly or indirectly have substantial interests (2019: Nil).

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8 Related parties and related party transactions (Cont'd)

(8) The five individuals whose remunerations were the highest

The five individuals whose remunerations were the highest in the Group for 2020 included three directors (2019: three directors) whose remunerations were reflected in Note 8(7). The remunerations of the remaining two (2019: two) highest individuals during the year were as follows:

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Basic salary, bonus, housing subsidy and other subsidies	11,088	10,305
Others	700	241
	<u>11,788</u>	<u>10,546</u>
	<u>Number of individuals</u>	
	2020	2019
Remuneration bands:		
HKD 5,000,001 - 5,500,000	-	1
HKD 6,000,001 - 6,500,000	1	1
HKD 6,500,001 - 7,000,000	1	-

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9 Contingencies

(1) Contingent liabilities and their financial impacts arising from significant pending litigation or arbitration

The Group has no significant pending litigation or arbitration.

(2) Contingent liabilities arising from debt guarantees provided for other units and their financial impacts

Please refer to Note 8(5)(d) for details of the debt guarantees provided by the Group for related parties.

10 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	31 December 2020	31 December 2019
Buildings, machinery and equipment	<u>659,867,035.43</u>	<u>396,857,055.08</u>

11 Events after the balance sheet date

(1) Statement of dividend distribution

In accordance with the resolution of the Board of Directors dated on 26 March 2021, the Company proposed a cash dividend to the shareholders at RMB4.80 per 10 shares (including tax), amounting to RMB1,364,202,874.56 calculated by 2,842,089,322 issued shares. The resolution is pending for approval of the shareholders' meeting.

(2) The issue of Super & Short-term Commercial Paper ("SCP")

The Company 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 2.50% per annum, it is repayable within 91 days. The raised funds have been received by the Company on 14 January 2021. The Company has completed the second stage of issuing with amount of RMB2,500,000,000 and bears fixed interest rate of 2.60% per annum, it is repayable within 120 days. The raised funds have been received by the Company on 20 January 2021.

(3) Other matters

On 5 February, 2021, the Group's subsidiary, Shanghai Pharma Health Commerce Co., Ltd. (hereinafter referred to as "SPH Health Commerce") completed the B round financing and introduced seven new investors in the form of capital increase. The seven new shareholders subscribed for a total of RMB688,562,500 for the newly-increased registered capital of SPH Health Commerce at a consideration of RMB1,032,843,750 in cash (hereinafter referred to as "the transaction"). After the transaction, the Group's direct/indirect shareholding in SPH Health Commerce will be diluted from 72.7478% to 47.974%, and SPH Health Commerce will no longer be included in the Group's consolidation scope.

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12 Operating lease receivable after the balance sheet date

As the lessor, the undiscounted cash amount of the lease receivable after the balance sheet date is summarized as follows:

	31 December 2020	31 December 2019
Within 1 year	47,971,012.20	46,430,171.03
1-2 years	46,497,095.52	33,734,539.47
2-5 years	83,885,102.79	77,672,180.74
Above 5 years	24,934,222.76	32,683,340.42
	<u>203,287,433.27</u>	<u>190,520,231.66</u>

13 Business combination

Please refer to Note 5(1).

14 Financial instruments and risks

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk and 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.

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14 Financial instruments and risks (Cont'd)

(1) Market risk

(a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars and Hong Kong dollars.

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the Group, whose recording currencies are RMB, are expressed in RMB as at 31 December 2020 and 31 December 2019 as follows:

	31 December 2020		Total
	USD and HKD	Others	
Financial assets denominated in foreign currency -			
Cash at bank and on hand	230,226,501.39	7,179,220.99	237,405,722.38
Accounts receivables	17,184,150.81	662,062.50	17,846,213.31
	<u>247,410,652.20</u>	<u>7,841,283.49</u>	<u>255,251,935.69</u>
Financial liabilities denominated in foreign currency -			
Accounts payables	319,067,195.89	750,549.23	319,817,745.12
Current portion of long-term borrowings	2,218,466,000.00	-	2,218,466,000.00
	<u>2,537,533,195.89</u>	<u>750,549.23</u>	<u>2,538,283,745.12</u>
	31 December 2019		Total
	USD and HKD	Others	
Financial assets denominated in foreign currency -			
Cash at bank and on hand	200,912,880.45	3,954,205.19	204,867,085.64
Accounts receivables	52,142,583.45	2,579,629.89	54,722,213.34
	<u>253,055,463.90</u>	<u>6,533,835.08</u>	<u>259,589,298.98</u>
Financial liabilities denominated in foreign currency -			
Accounts payables	657,262,131.93	8,840,696.54	666,102,828.47
Long-term borrowings	2,371,908,000.00	-	2,371,908,000.00
	<u>3,029,170,131.93</u>	<u>8,840,696.54</u>	<u>3,038,010,828.47</u>

**NOTES TO THE FINANCIAL STATEMENTS
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14 Financial instruments and risks (Cont'd)

(1) Market risk (Cont'd)

(a) Foreign exchange risk (Cont'd)

As at 31 December 2020, for various financial assets and liabilities denominated in USD and HKD in the Group, if the USD and HKD strengthens/weakens by 5% against the RMB while holding all other variables constant, the Group's profit before income tax for the year would have been higher/lower by approximately RMB 114,506,127.18(31 December 2019: higher/lower by approximately RMB 138,805,733.40).

(b) Interest rate risk

The Group's interest rate risk mainly arises from interest bearing debts, including short-term borrowings, long-term borrowings within one year and long-term borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2020, the Group's short-term, long-term within one year and long-term interest-bearing borrowings were mainly with floating rates, amounting to RMB6,548,683,265.11(31 December 2019: RMB6,047,891,782.80).

Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2020 and 31 December 2019, the Group did not enter into any interest rate swap agreements.

As at 31 December 2020, if interest rates on the floating rate borrowings rise/fall by 10% while holding all other variables constant, the Group's profit before tax would decrease/increase by approximately RMB15,911,488.23(31 December 2019 : approximately RMB17,769,887.33).

(c) Other price risk

The Group's other price risk arises mainly from financial assets at fair value through profit or loss and other equity instrument investments.

As at 31 December 2020, if the price of above financial assets rise/fall by 10% while holding all other variables constant, the Group's profit before tax would increase/decrease by approximately RMB 39,934,847.47(31 December 2019: approximately RMB 11,508,963.82) , increase/decrease other comprehensive income approximately RMB3,305,172.03(31 December 2019: approximately RMB6,365,260.95).

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14 Financial instruments and risks (Cont'd)

(2) Credit risk

The Group's credit risk mainly arises from cash at bank, notes receivables, accounts receivables, other receivables, receivables financing, long-term receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks with higher credit ratings. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on notes receivables, accounts receivables, other receivables, receivables financing, and long-term receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at 31 December 2020, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2019: Nil).

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at the balance sheet date, the financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

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14 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Short-term borrowings	20,139,185,856.91	-	-	-	20,139,185,856.91
Derivative financial liabilities	9,314,855.96	-	-	-	9,314,855.96
Notes payables	4,930,726,339.18	-	-	-	4,930,726,339.18
Accounts payables	32,861,440,182.89	-	-	-	32,861,440,182.89
Other payables	12,142,797,539.60	-	-	-	12,142,797,539.60
Current portion of long-term payables	83,368,535.41	-	-	-	83,368,535.41
Current portion of long-term borrowings	5,293,115,880.39	-	-	-	5,293,115,880.39
Current portion of lease liabilities	601,593,271.01	-	-	-	601,593,271.01
Current portion of debentures payable	3,017,668,077.27	-	-	-	3,017,668,077.27
Other current liabilities	5,018,616,438.36	-	-	-	5,018,616,438.36
Long-term borrowings	-	536,602,161.33	552,634,656.21	94,841,493.82	1,184,078,311.36
Lease liabilities	-	478,637,678.04	771,594,679.76	628,207,782.70	1,878,440,140.50
Long-term payables	-	2,970,166.00	680,007,459.78	257,509,100.00	940,486,725.78
Loan interest	589,876,080.32	38,971,891.33	8,916,175.34	14,948,383.56	652,712,530.55
	<u>84,687,703,057.30</u>	<u>1,057,181,896.70</u>	<u>2,013,152,971.09</u>	<u>995,506,760.08</u>	<u>88,753,544,685.17</u>

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14 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2019				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Short-term borrowings	23,138,687,189.75	-	-	-	23,138,687,189.75
Derivative financial liabilities	1,724,460.87	-	-	-	1,724,460.87
Notes payables	5,053,473,408.54	-	-	-	5,053,473,408.54
Accounts payables	31,818,985,528.48	-	-	-	31,818,985,528.48
Other payables	9,565,692,034.58	-	-	-	9,565,692,034.58
Current portion of long-term payables	2,950,166.00	-	-	-	2,950,166.00
Current portion of long-term borrowings	606,329,457.13	-	-	-	606,329,457.13
Current portion of lease liabilities	605,817,739.25	-	-	-	605,817,739.25
Current portion of debentures payable	18,534,246.58	-	-	-	18,534,246.58
Long-term borrowings	-	5,900,574,353.00	220,642,914.87	14,775,493.82	6,135,992,761.69
Debentures payable	-	3,000,000,000.00	-	-	3,000,000,000.00
Lease liabilities	-	430,386,813.69	497,135,737.31	371,483,747.46	1,299,006,298.46
Long-term payables	-	2,960,166.00	893,125,131.29	260,367,300.00	1,156,452,597.29
Loan interest	595,583,778.11	277,414,010.32	7,518,193.93	-	880,515,982.36
	<u>71,407,778,009.29</u>	<u>9,611,335,343.01</u>	<u>1,618,421,977.40</u>	<u>646,626,541.28</u>	<u>83,284,161,870.98</u>

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14 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

As at the balance sheet date, the Group's financial guarantees provided to external parties are analysed below based on the maximum amounts and the earliest periods in which the guarantees could be called:

31 December 2020					
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Guarantees	<u>9,929,681.01</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,929,681.01</u>

31 December 2019					
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Guarantees	<u>8,856,268.95</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,856,268.95</u>

Cash flows derived from leases not yet commenced to which the Group was committed are analysed by maturity at the balance sheet date (Note 4(37)(a)):

31 December 2020					
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Lease liabilities	<u>12,403,714.23</u>	<u>2,475,574.47</u>	<u>1,951,088.46</u>	<u>-</u>	<u>16,830,377.16</u>

31 December 2019					
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Lease liabilities	<u>8,250,961.05</u>	<u>20,723,815.80</u>	<u>16,706,430.63</u>	<u>-</u>	<u>45,681,207.48</u>

Bank and other borrowings are analysed by repayment terms as follows:

	31 December 2020		31 December 2019	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	25,432,301,737.30	8,036,284,515.63	23,745,016,646.88	18,534,246.58
1 to 2 years	536,602,161.33	-	5,900,574,353.00	3,000,000,000.00
2 to 5 years	552,634,656.21	-	220,642,914.87	-
Above 5 years	94,841,493.82	-	14,775,493.82	-
	<u>26,616,380,048.66</u>	<u>8,036,284,515.63</u>	<u>29,881,009,408.57</u>	<u>3,018,534,246.58</u>

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15 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Financial assets and liabilities measured at fair value on a recurring basis

As at 31 December 2020, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets—				
Forward foreign exchange contract	-	501,339.00	-	501,339.00
Receivables financing—				
Notes receivables	-	-	2,485,373,691.07	2,485,373,691.07
Other non-current financial assets	399,348,474.70	-	579,208,554.83	978,557,029.53
Other equity instrument investments	33,051,720.32	-	-	33,051,720.32
Total financial assets	432,400,195.02	501,339.00	3,064,582,245.90	3,497,483,779.92

As at 31 December 2020, the financial liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities—				
Forward foreign exchange contract	-	9,314,855.96	-	9,314,855.96

As at 31 December 2019, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets—				
Forward foreign exchange contract	-	3,027,011.42	-	3,027,011.42
Receivables financing—				
Notes receivables	-	-	2,187,059,525.49	2,187,059,525.49
Other non-current financial assets	260,673,130.03	-	123,725,042.70	384,398,172.73
Other equity instrument investments	194,183,980.82	-	-	194,183,980.82
Total financial assets	454,857,110.85	3,027,011.42	2,310,784,568.19	2,768,668,690.46

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15 Fair value estimates (Cont'd)

(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)

As at 31 December 2019, the financial liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities				
—				
Forward foreign exchange contract	-	1,724,460.87	-	1,724,460.87

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There was no transfer between Level 1 and Level 2 for the current year.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier, liquidity discount and etc.

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15 Fair value estimates (Cont'd)

(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)

The changes in Level 3 assets and liabilities are as follows:

	31 December 2019	Purchase	Disposal	Transfer into Level 3	Transfer out of Level 3	Gain or loss recognised in profit or loss	Gain or loss recognised in other comprehensive income	31 December 2020
Receivables financing	2,187,059,525.49	18,025,674,428.09	(17,637,904,056.37)	-	-	(89,456,206.14)	-	2,485,373,691.07
Other non-current financial assets	<u>123,725,042.70</u>	<u>450,000,000.00</u>	<u>(600,000.00)</u>	<u>-</u>	<u>-</u>	<u>6,083,512.13</u>	<u>-</u>	<u>579,208,554.83</u>
Total	<u>2,310,784,568.19</u>	<u>18,475,674,428.09</u>	<u>(17,638,504,056.37)</u>	<u>-</u>	<u>-</u>	<u>(83,372,694.01)</u>	<u>-</u>	<u>3,064,582,245.90</u>

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15 Fair value estimates (Cont'd)

(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)

Information about the Level 3 fair value measurement is as follows:

	Fair value as at 31 December 2020	Valuation technique	Inputs			
			Name	Scope	Relationship with fair value	Observable/ Unobservable
Receivables			estimated			
financing	2,485,373,691.07	DCF	discount	3.40%-	Negative	Unobservable
			rate	5.44%		
Other non-current		Market	EV/EBIT,			
financial assets	579,208,554.83	method	EV/S, etc.	0.32-10.78	Positive	Unobservable

Information about the Level 2 fair value measurement is as follows:

	Fair value as at 31 December 2020	Valuation technique	Observable inputs	
			Name	Scope/ weighted average
Assets				
Derivative financial				
assets—				
Forward foreign		Market	Exchange	AUDNZD:0.9296-
exchange contract	<u>501,339.00</u>	approach	rate	0.9328
Liabilities				
Derivative financial				
assets—				
Forward foreign		Market	Exchange	AUDUSD:0.6436-
exchange contract	<u>9,314,855.96</u>	approach	rate	0.7627
	Fair value as at 31 December 2019	Valuation technique	Observable inputs	
			Name	Scope/ weighted average
Assets				
Derivative financial				
assets—				
Forward foreign		Market	Exchange	AUDNZD:0.9272-
exchange contract	<u>3,027,011.42</u>	approach	rate	0.9584
Liabilities				
Derivative financial				
assets—				
Forward foreign		Market	Exchange	NZDUSD:0.6230-
exchange contract	<u>1,724,460.87</u>	approach	rate	0.6619

(2) Assets measured at fair value on a non-recurring basis

Non-current assets held for sale are recognised at the amount equal to the lower of the original carrying amount and the fair value less costs to sell. As at 31 December 2020, the Group has no non-current assets held for sale.

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15 Fair value estimates (Cont'd)

(3) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include notes receivables, accounts receivables, receivables financing, other receivables, long-term receivables, short-term borrowings, accounts payables, other payables, other current liabilities, long-term payables, long-term borrowings, long-term borrowings within one year, debentures payable and lease liabilities etc.

As at 31 December 2020 and 31 December 2019, the carrying amount of long-term receivables and non-current borrowings is a reasonable approximation of their fair value. The fair value of long-term receivables, long-term payables, long-term borrowings, debentures payable and lease liabilities is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms.

16 Capital management

The Group's capital management policies aim 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, refund capital to shareholders, issue new shares or sell assets to reduce debts.

Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of 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 including short-term borrowings, current portion of non-current liabilities, other current liabilities, long-term borrowings, debentures payable, long-term payables and lease liabilities) less cash and cash equivalents.

As at 31 December 2020 and 31 December 2019, the Group's gearing ratios are as follows:

	31 December 2020	31 December 2019
Gearing ratio	<u>24.32%</u>	<u>28.12%</u>

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17 Notes to the Company's financial statements

(1) Accounts receivables

	31 December 2020	31 December 2019
Accounts receivables	119,851,808.14	119,851,808.14
Less: Provision for bad debts	<u>(119,851,808.14)</u>	<u>(119,851,808.14)</u>
	<u>-</u>	<u>-</u>

- (a) The aging analysis of accounts receivables based on the date of entry is as follows:

	31 December 2020	31 December 2019
Above three years	<u>119,851,808.14</u>	<u>119,851,808.14</u>

- (b) As at 31 December 2020, the top five accounts receivables based on the balance of the debtors are summarized and analyzed as follows:

	Account balance	Amount of bad debt provision	% of total balance
Total top five accounts receivables	<u>39,911,209.13</u>	<u>(39,911,209.13)</u>	<u>33.30%</u>

- (c) As at 31 December 2020, the analysis of provision for bad debts for individual accounts receivables is as follows:

	Accounts balance	Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Accounts receivable 1	11,546,794.10	100%	(11,546,794.10)	Through assessment, provision on an individual basis
Accounts receivable 2	10,013,149.47	100%	(10,013,149.47)	Through assessment, provision on an individual basis
Accounts receivable 3	8,634,602.83	100%	(8,634,602.83)	Through assessment, provision on an individual basis
Accounts receivable 4	5,546,970.95	100%	(5,546,970.95)	Through assessment, provision on an individual basis
Others	<u>84,110,290.79</u>	100%	<u>(84,110,290.79)</u>	Through assessment, provision on an individual basis
	<u>119,851,808.14</u>		<u>(119,851,808.14)</u>	

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17 Notes to the Company's financial statements (Cont'd)

(2) Other receivables

	31 December 2020	31 December 2019
Amount due from subsidiaries	17,891,565,843.56	15,868,041,889.95
Guarantees (including deposits)	17,821,322.94	13,445,185.00
Dividends receivable	876,220,484.67	788,676,179.10
Interests receivable	26,629,306.01	48,066,450.69
Others	257,141,035.97	257,141,035.97
	<u>19,069,377,993.15</u>	<u>16,975,370,740.71</u>
Less: provision for bad debts	<u>(304,216,181.67)</u>	<u>(298,970,223.20)</u>
	<u>18,765,161,811.48</u>	<u>16,676,400,517.51</u>

(a) The aging analysis of other receivables is as follows:

	31 December 2020	31 December 2019
Within 1 year	14,881,996,613.25	15,846,675,259.90
1-2 years	3,139,791,963.04	338,640,555.22
2-3 years	264,522,802.65	13,298,385.00
Above 3 years	783,066,614.21	776,756,540.59
	<u>19,069,377,993.15</u>	<u>16,975,370,740.71</u>

(b) As at 31 December 2020 and 31 December 2019, the analysis of provision for bad debts for individual other receivables is as follows:

	Accounts balance	The third stage — Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Other receivable 1	120,000,000.00	100.00%	(120,000,000.00)	Unable to collect
Other receivable 2	33,375,018.03	100.00%	(33,375,018.03)	Unable to collect
Other receivable 3	26,030,686.00	100.00%	(26,030,686.00)	Unable to collect
Other receivable 4	22,000,000.00	100.00%	(22,000,000.00)	Unable to collect
Others	55,735,331.94	100.00%	(55,735,331.94)	Unable to collect
	<u>257,141,035.97</u>		<u>(257,141,035.97)</u>	

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17 Notes to the Company's financial statements (Cont'd)

(2) Other receivables (Cont'd)

- (c) As at 31 December 2020, the analysis of bad debt provisions of other receivables is as follows:

31 December 2020			31 December 2019		
Accounts balance	Provision for bad debts	% of total	Accounts balance	Provision for bad debts	% of total
Amount	Amount	balance	Amount	Amount	balance

The first stage — Expected credit loss rate within the next 12 months

Amount due from subsidiaries	17,891,565,843.56	(44,728,914.61)	0.25%	15,868,041,889.95	(39,670,104.72)	0.25%
Guarantees (including deposits)	17,821,322.94	(89,106.61)	0.50%	13,445,185.00	(67,225.93)	0.50%
Dividends receivable	876,220,484.67	(2,190,551.21)	0.25%	788,676,179.10	(1,971,690.45)	0.25%
Interests receivable	26,629,306.01	(66,573.27)	0.25%	48,066,450.69	(120,166.13)	0.25%
	<u>18,812,236,957.18</u>	<u>(47,075,145.70)</u>		<u>16,718,229,704.74</u>	<u>(41,829,187.23)</u>	

As at 31 December 2020 and 31 December 2019, the Company has no other receivables in the second stage.

(3) Long-term equity investments

	31 December 2020	31 December 2019
Subsidiaries (a)	21,539,281,590.65	20,836,569,252.92
Associates (b)	<u>2,069,984,944.47</u>	<u>1,740,148,351.32</u>
	<u>23,609,266,535.12</u>	<u>22,576,717,604.24</u>
Less: Provision for impairment of long-term equity investments	<u>(68,481,418.01)</u>	<u>(68,481,418.01)</u>
	<u>23,540,785,117.11</u>	<u>22,508,236,186.23</u>

The Company has no significant restriction on the realization of long-term investments.

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17 Notes to the Company's financial statements (Cont'd)

(3) Long-term equity investments (Cont'd)

(a) Subsidiaries

	31 December 2019	Changes during the year				31 December 2020	Impairment balance	Cash dividends declared in the current year
		Increase in investment	Decrease in investment	Provision for impairment	Others			
SIIC Medical Science and Technology (Group) Limited and its subsidiaries	6,848,806,825.94	301,068,750.00	-	-	5,698,686.02	7,155,574,261.96	-	-
Shanghai Pharmaceutical Co., Ltd. and its subsidiaries	4,637,617,640.47	206,872,159.00	-	-	4,108,923.83	4,848,598,723.30	-	445,741,219.65
Shanghai Traditional Chinese Medicine Co., Ltd.	1,889,943,778.11	-	-	-	2,030,004.03	1,891,973,782.14	-	173,940,906.97
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	1,412,038,783.85	-	-	-	2,714,824.67	1,414,753,608.52	-	194,508,651.72
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	1,222,496,394.99	-	-	-	1,614,220.07	1,224,110,615.06	-	46,385,317.20
China Medical Foreign Trading Liao Ning Co.Ltd.	558,601,296.99	-	-	-	-	558,601,296.99	-	-
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	511,828,407.03	-	-	-	819,338.98	512,647,746.01	-	297,374,399.57
TECHPOOL Bio-Pharma Co., Ltd.	490,177,914.31	-	-	-	770,423.22	490,948,337.53	-	13,653,925.89
SPH (benxi) North Pharmaceutical Co., Ltd.	380,000,000.00	-	-	-	-	380,000,000.00	-	-
Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	323,618,959.62	-	-	-	904,941.56	324,523,901.18	-	188,813,200.72
SPH Qingdao Growful Pharmaceutical Co., Ltd.	257,223,339.79	-	-	-	1,039,459.90	258,262,799.69	-	18,836,211.00
Shanghai Pharmaceutical (USA), Inc.	227,955,862.31	27,401,600.00	-	-	195,663.04	255,553,125.35	-	-
Shanghai Medical Instruments Co., Ltd.	206,670,374.69	-	-	-	366,868.20	207,037,242.89	-	-
SPH Changzhou Pharmaceutical Co., Ltd.	205,041,152.09	-	-	-	819,338.98	205,860,491.07	-	40,673,999.70
Shanghai Pharmaceuticals (HK) Investment Limited	-	120,863,033.06	-	-	-	120,863,033.06	-	-
Shanghai Zhonghua Pharmaceutical Co., Ltd.	99,750,035.15	-	-	-	758,194.28	100,508,229.43	-	17,672,299.50
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.	89,282,638.76	-	-	-	195,663.04	89,478,301.80	-	-
Shanghai Huiyong Medicine Research Co., Ltd.	50,000,000.00	20,000,000.00	-	-	97,831.52	70,097,831.52	-	-
Shanghai Pharmaceutical Medicine Sales Co., Ltd.	65,024,676.73	-	-	-	538,073.36	65,562,750.09	-	38,222,517.63
China International Pharmaceutical (Holdings) Limited	18,430,887.87	-	-	-	-	18,430,887.87	-	-
Others	1,342,060,284.22	2,000,000.00	-	-	1,834,340.97	1,345,894,625.19	-	232,014,747.06
	<u>20,836,569,252.92</u>	<u>678,205,542.06</u>	<u>-</u>	<u>-</u>	<u>24,506,795.67</u>	<u>21,539,281,590.65</u>	<u>-</u>	<u>1,707,837,396.61</u>

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17 Notes to the Company's financial statements (Cont'd)

(3) Long-term equity investments (Cont'd)

(b) Associates

	31 December 2019	Changes during the year								31 December 2020	Impairment balance
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjustment	Other equity changes	Cash dividends declared	Provision for impairment	Others		
Shanghai Industrial Group Finance Co., Ltd.	378,821,575.99	-	-	20,694,901.25	-	-	(7,187,755.47)	-	-	392,328,721.77	-
Shanghai Lianyi Investment Center (limited Partnership)	171,889,754.42	40,000,000.00	-	65,437,219.89	-	-	(5,523,314.30)	-	-	271,803,660.01	-
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	168,128,889.86	-	-	22,035,150.88	1,801,998.86	86,915,503.36	(9,770,499.20)	-	-	269,111,043.76	-
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	271,010,635.87	-	-	113,091,097.60	-	-	(130,858,835.00)	-	-	253,242,898.47	-
Shanghai Good Health Capital LLP	237,930,915.59	-	-	(14,948,834.54)	-	-	-	-	-	222,982,081.05	-
Shangshi Commercial Factoring Co., Ltd.	150,393,980.02	-	-	11,063,720.61	-	-	(3,584,793.94)	-	-	157,872,906.69	-
Hangzhou Huqing Yutang Pharmaceutical Co., Ltd.	102,057,484.96	-	-	8,995,654.77	-	-	(6,979,840.00)	-	-	104,073,299.73	-
Shanghai Ajinomoto Amino Acid Co., Ltd.	91,201,379.66	-	-	14,045,436.49	-	-	(2,458,726.44)	-	-	102,788,089.71	-
Chengdu Wesker Biomedical Co., Ltd.	-	85,000,000.00	-	(279,257.26)	-	-	-	-	-	84,720,742.74	-
Shanghai Chest Medical Instruments Co., Ltd.	41,878,389.97	-	-	(1,486,037.94)	-	-	-	-	-	40,392,352.03	-
Sichuan Greentech Biotechnology Co., Ltd.	32,092,883.41	-	-	7,020,193.35	-	-	-	-	-	39,113,076.76	-
Chengdu Huaxi Precision Medicine Industry Innovation Center Co., Ltd.	-	20,000,000.00	-	47,525.66	-	-	-	-	-	20,047,525.66	-
Tianjin Modern Innovative Tcm Technology Co., Ltd.	19,877,232.09	-	-	(2,075,833.28)	-	-	-	-	-	17,801,398.81	-
Chengdu Huaxi Clinical Research Center Co., Ltd.	-	15,000,000.00	-	(45,130.43)	-	-	-	-	-	14,954,869.57	-
Others	74,865,229.48	3,720,000.00	-	755,292.59	-	-	(588,244.36)	-	-	78,752,277.71	(68,481,418.01)
	<u>1,740,148,351.32</u>	<u>163,720,000.00</u>	<u>-</u>	<u>244,351,099.64</u>	<u>1,801,998.86</u>	<u>86,915,503.36</u>	<u>(166,952,008.71)</u>	<u>-</u>	<u>-</u>	<u>2,069,984,944.47</u>	<u>(68,481,418.01)</u>

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17 Notes to the Company's financial statements (Cont'd)

(4) Capital surplus

	31 December 2019	Increase for the year	Decrease for the year	31 December 2020
Share premium	19,132,076,187.53	-	-	19,132,076,187.53
Other capital surplus -				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	4,207,655.42	86,915,503.36	-	91,123,158.78
Share-based payment	1,231,412.28	34,742,418.42	-	35,973,830.70
Others	(289,656,947.52)	-	-	(289,656,947.52)
	<u>18,847,858,307.71</u>	<u>121,657,921.78</u>	<u>-</u>	<u>18,969,516,229.49</u>
	31 December 2018	Increase for the year	Decrease for the year	31 December 2019
Share premium	19,132,076,187.53	-	-	19,132,076,187.53
Other capital surplus -				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	4,207,655.42	-	-	4,207,655.42
Share-based payment	-	1,231,412.28	-	1,231,412.28
Others	(289,656,947.52)	-	-	(289,656,947.52)
	<u>18,846,626,895.43</u>	<u>1,231,412.28</u>	<u>-</u>	<u>18,847,858,307.71</u>

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17 Notes to the Company's financial statements (Cont'd)

(5) Other Comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2020 income statement			
	31 December 2019	Converted from OCI into retained earnings	31 December 2020	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Amount after tax
Other comprehensive income items which will be reclassified to profit or loss							
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(1,509,389.95)	-	292,608.91	1,801,998.86	-	-	1,801,998.86
	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2019 income statement			
	31 December 2018	Converted from OCI into retained earnings	31 December 2019	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Amount after tax
Other comprehensive income items which will be reclassified to profit or loss							
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(1,517,884.52)	-	(1,509,389.95)	8,494.57	-	-	8,494.57

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

17 Notes to the Company's financial statements (Cont'd)

(6) Undistributed profits

	For the year ended 31 December 2020	For the year ended 31 December 2019
Undistributed profits at the beginning of the year (before adjustment)	2,789,667,692.06	2,341,754,094.23
Adjustment(a)	-	(99,105.24)
Undistributed profits at the beginning of the year (after adjustment)	2,789,667,692.06	2,341,654,988.99
Add: net profit attributable to shareholders of the Company	1,583,737,370.63	1,792,521,472.32
Less: appropriation to statutory surplus reserve	(158,373,737.06)	(179,252,147.23)
Dividends declared	(1,250,519,301.68)	(1,165,256,622.02)
Undistributed profits at the end of year	<u>2,964,512,023.95</u>	<u>2,789,667,692.06</u>

- (a) On 1 January 2019, due to the first implement of new leasing standard, undistributed profits at the beginning of 2019 were decreased by RMB99,105.24.

(7) Revenue and cost of sales

	For the year ended 31 December 2020	For the year ended 31 December 2019
Main operations revenue	-	-
Other operations revenue (a)	<u>183,701,052.91</u>	<u>144,724,761.78</u>
	<u>183,701,052.91</u>	<u>144,724,761.78</u>
	For the year ended 31 December 2020	For the year ended 31 December 2019
Main operations cost	-	-
Other operations cost (a)	<u>2,067,947.37</u>	<u>2,070,222.18</u>
	<u>2,067,947.37</u>	<u>2,070,222.18</u>

- (a) Other operations revenue and cost of sales

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	Other operations revenue	Other operations cost	Other operations revenue	Other operations cost
Service revenue	<u>183,701,052.91</u>	<u>2,067,947.37</u>	<u>144,724,761.78</u>	<u>2,070,222.18</u>

(8) Investment income

	For the year ended 31 December 2020	For the year ended 31 December 2019
Long-term equity investment income calculated by cost method	1,707,837,396.61	1,836,238,093.27
Long-term equity investment income calculated by equity method	244,351,099.64	169,551,305.84
Interest income from entrusted loans	344,853,741.06	317,835,005.08
Others	<u>11,161,626.27</u>	<u>5,662,487.47</u>
	<u>2,308,203,863.58</u>	<u>2,329,286,891.66</u>

The Company does not have any significant restrictions on repatriation of investment income.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

1 Summary of non-recurring profit or Loss

	For the year ended 31 December 2020	For the year ended 31 December 2019
Net profit on disposal of non-current assets	121,927,393.32	137,783,794.01
Government grants recognised in profits (Except closely related with the enterprise's businesses and the normed or quantitative government grants at national uniform standard)	543,156,846.45	352,660,731.72
Except for effective hedging business related to the Group's normal business operations, gains and losses on changes in fair value from holding transactional financial assets, and investment income from disposal of transactional financial assets and other non-current financial assets	134,409,436.48	127,995,557.08
Reversal of provision for bad debts for receivables on individual basis	51,767,019.97	2,776,584.91
Non-operating income and expenses other than the above	(8,905,578.93)	48,519,990.45
Other profit items that meet the definition of non-recurring profit or loss	33,435,397.74	148,754,784.49
	<u>875,790,515.03</u>	<u>818,491,442.66</u>
Impact of income tax expense	(142,128,883.59)	(115,211,345.85)
Impact on the minority interests, net of tax	<u>(58,656,474.03)</u>	<u>(83,114,781.08)</u>
	<u>675,005,157.41</u>	<u>620,165,315.73</u>

Basis for preparation of summary of non-recurring profit or loss

Under the requirements in Explanatory announcement No.1 on information disclosure by companies offering securities to the public — non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in RMB Yuan unless otherwise stated)

2 Return on net assets and earnings per share

	Weighted average return on net assets (%)		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2019
Net profit attributable to ordinary shareholders of the Company	10.34	10.12	1.58	1.44	1.58	1.44
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	8.79	8.58	1.34	1.22	1.34	1.22