

* For identification purpose only

2022

ANNUAL REPORT



Shanghai Pharmaceuticals Holding Co., Ltd.*

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

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



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



Contents

Chapter 1	Definitions	2
Chapter 2	Corporate Information	7
Chapter 3	Financial Highlights	9
Chapter 4	Chairman's Statement	10
Chapter 5	Management Discussion and Analysis	13
Chapter 6	Report of the Board of Directors	52
Chapter 7	Directors, Supervisors and Senior Management	83
Chapter 8	Corporate Governance Report	96
Chapter 9	Financial Statements and Audit Report	105



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”, “Shanghai Pharmaceuticals” or “Shanghai Pharma”	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 2022 to 31 December 2022
“Year-on-year”	compared with the same period of last 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. In this report, unless otherwise specified, the currency generally refers to RMB
“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

“Shanghai Listing Rules”	the Rules Governing the Listing of Securities on the Shanghai Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“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)
“Code Provision”	the code provisions of part II of the Corporate Governance Code
“SFO”	the Securities and Futures Ordinance, Chapter 571, the 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)
“NDRC”	National Development and Reform Commission of the People’s Republic of China (中華人民共和國發展和改革委員會)
“NHC” or “The National Health Commission”	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)
“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)

“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)
“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)
“S.I. Yangtze River Delta”	S.I. Yangtze River Delta Ecological Development Company Limited (上海上實長三角生態發展有限公司)
“Shanghai Industrial”	Shanghai Industrial Holdings Limited
“Shanghai Overseas Company”	Shanghai Overseas Company Limited
“Guosheng Group”	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) and its wholly-owned subsidiaries Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司) and Shanghai Guosheng Group Assets Co., Ltd. (上海國盛集團資產有限公司)
“Shanghai Tandong”	Shanghai Tandong Enterprise Consulting Services Co., Ltd. (上海潭東企業諮詢服務有限公司)
“Yunnan Baiyao”	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司)
“SHAPHAR”	Shanghai Pharmaceutical Co., Ltd. (上藥控股有限公司)
“SPH No.1 Biochemical”	SPH No. 1 Biochemical & Pharmaceutical Co., Ltd. (上海上藥第一生化藥業有限公司)

"Sine Pharmaceutical"	Shanghai Sine Pharmaceutical Co., Ltd. (上海信誼醫藥有限公司)
"SPH Sine"	SPH Sine Pharmaceutical Factory Co., Ltd. (上海上藥信誼藥廠有限公司)
"SPH TCM"	Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)
"SPH Ruier"	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)
"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)
"Shanghai Huashi Pharmacy"	Shanghai Huashi Pharmacy Co., Ltd. (上海華氏大藥房有限公司)
"SPH Keyuan"	SPH Keyuan Xinhai Pharmaceutical Co., Ltd. (上藥科園信海醫藥有限公司)
"SPH Cardinal"	SPH Cardinal (Shanghai) Pharma Co., Ltd. (上藥康德樂(上海)醫藥有限公司)
"CanSino SPH"	CanSino SPH Biologics Inc. (48.958% owned by Shanghai Pharmaceuticals, 1.245% owned by Shanghai Biomedical Industrial Equity Investment Fund and 49.797% owned by CanSino Biologics Inc. respectively)
"Shanghai Biomedical Fund"	Shanghai Biomedical Industrial Equity Investment Fund Partnership Limited Partnership (上海生物醫藥產業股權投資基金合夥企業(有限合夥))
"Innovation and Transformation Fund"	Shanghai Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP (上海上實生物醫藥創新轉化私募投資基金合夥企業(有限合夥))
"HKSTP"	Hong Kong Science and Technology Parks Corporation (香港科技園公司)

"CanSino"	CanSino Biologics Inc. (康希諾生物股份公司)
"Zhejiang Hisun"	Zhejiang Hisun Pharmaceutical Co., Ltd. (浙江海正藥業股份有限公司)
"Harbin Pharmaceutical"	Harbin Pharmaceutical Group Holding Co., Ltd. (哈藥集團股份有限公司)
"North China Pharmaceutical"	North China Pharmaceutical Co., Ltd. (華北製藥集團有限責任公司)
"Syntegon"	Syntegon Packaging Technology (Hangzhou) Co., Ltd. (星德科包裝技術(杭州)有限公司)
"ANDA"	the Abbreviated New Drug Application
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice
"first-in-class"	first new drug target or mechanism of action discovered

DIRECTORS

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

Mr. ZHONG Tao
Ms. LEUNG Shui Bing

AUTHORISED REPRESENTATIVES

Mr. CHO Man
Mr. ZHONG Tao

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

PRINCIPAL PLACE OF BUSINESS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square, 1 Matheson Street,
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 EXCHANGES 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

Link Market Services (Hong Kong) Pty Limited
Suite 1601, 16/F Central Tower
28 Queen's Road Central, Hong Kong

COMPANY WEBSITE

<http://www.sphchina.com>

CONTACT METHODS

Name: ZHONG Tao
*(Vice President, Secretary to the Board,
Joint Company Secretary)*
Address: Shanghai Pharmaceutical Building,
No. 200 Taicang Road, Shanghai, the PRC
Telephone: +8621-63730908
Facsimile: +8621-63289333
E-mail: pharm@sphchina.com

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				
	2018	2019	2020	2021	2022
Revenue	159,084,397	186,565,796	191,909,156	215,824,259	231,981,300
Profit before income tax	5,343,378	6,262,467	7,175,483	8,143,814	8,808,353
Income tax expenses	(887,117)	(1,431,725)	(1,570,219)	(1,869,245)	(1,816,338)
Profit for the year	4,456,261	4,830,742	5,605,264	6,274,569	6,992,015
Attributable to:					
Owners of the Company	3,881,063	4,080,994	4,496,217	5,093,467	5,617,152
Non-controlling interests	575,198	749,748	1,109,047	1,181,102	1,374,863

Unit: RMB'000

Assets and Liabilities	As at 31 December				
	2018	2019	2020	2021	2022
Total assets	126,879,332	137,026,396	149,185,656	163,435,509	198,134,901
Total liabilities	80,446,061	87,640,468	94,444,926	104,369,299	120,132,450
Total equity	46,433,271	49,385,928	54,740,730	59,066,210	78,002,451
Attributable to:					
Owners of the Company	39,013,575	41,659,059	45,354,678	49,359,480	67,063,006
Non-controlling interests	7,419,696	7,726,869	9,386,052	9,706,730	10,939,445

Note: The financial information of 2020, 2021 and 2022 is extracted from the financial statements of the Company prepared under the China Accounting Standards.

Chairman's Statement



When I took office at the start in 2016, China's pharmaceutical industry had just started a wave of change with the reconstruction of market pattern and rules. A series of policies such as consistency evaluation of generic drugs, two-ticket system, centralized procurement, medical insurance negotiations, priority review and approval were introduced one after another, driving the industry to undergo radical changes over the past few years. On the one hand, many courageous and enterprising entrepreneurs are striving to be the first to innovate in various fields, the industry is booming, and they are starting to represent Chinese companies to go global. On the other hand, the new policy environment, while benefiting people's livelihood, controlling costs and making changes in essence, has also begun a fierce test and screening, driving pharmaceutical companies to constantly innovate and upgrade. In conclusion, the peaceful and comfortable small era is over, and the grim and complicated big era has begun.

As the leading biopharmaceutical enterprise in Shanghai, Shanghai Pharmaceuticals is also riding on the momentum in this era full of opportunities, growing from a local pharmaceutical bureau to a company ranking in China 500, and further in Global 500. Last year, we were again one of the only two Chinese pharmaceutical companies to be ranked among the Fortune Global 500 with revenues of more than RMB200 billion, ranking 430th, up seven places from the previous year. The pharmaceutical manufacturing also re-entered the global pharmaceutical top 50, ranking 41st. The pharmaceutical service steadily ranked second in China and maintained its position as the leading domestic provider of imported drugs and vaccine agency services. Compared with 2016, net assets increased by more than RMB35 billion, operating income increased by more than RMB110 billion, and R&D investment increased by more than RMB2 billion.

The past five years are just a prelude to more changes and opportunities in the next decade. In China, there are bound to be several world-class pharmaceutical companies in the future. These companies will not only be among the Global 500, or the Industry 50, but will be among the top 10 or even the top 5 in the world when compared to world-class enterprises. What should we do to achieve this goal?

Chairman's Statement



Mr. Zhou Jun
Chairman

Based on the current volume, the development model of Shanghai Pharmaceuticals cannot and should not be a canoe. We should build “Noah’s Ark”, that is, to establish a platform to carry the mission of “working together to overcome difficulties with unity and mutual assistance”. I summarize it in the following:

First, to make innovation. Since putting forward the development strategy driven by science and technology innovation in 2017, R&D investment of Shanghai Pharmaceuticals has rapidly increased from RMB670 million in 2016 to RMB2.8 billion last year, nearly quintupling in 6 years. The innovative drug pipeline has also rapidly increased from 16 to 50 at present, and has recently completed the filing and listing of 2 type 1 new drugs, officially entering the harvest period of new drug R&D.

Behind the achievements of our innovation is our improving R&D system. Over recent years, we have not only established a complete R&D system covering small molecules, large molecules, microecology, cell therapy and high-end preparations, but also attracted a large number of innovative talents to gather in our “innovation ecosystem” and make achievements. Through in-depth cooperation with outstanding innovative pharmaceutical companies and teams of scientists, Shanghai Pharmaceuticals has been cautiously moving forward in many fields such as biologics, vaccines, cell therapy, traditional Chinese medicine and high-end preparations. By building “industry-academia-research” platforms with leading research institutes and medical institutions, we have accelerated our progress in the field of first-in-class innovation and transformed the results of many cutting-edge projects, including CAR-T cell therapy. Through the innovation of institutional mechanism of mixed ownership legal entity subsidiaries, we have successively landed high-end innovation platforms including Huiyong and Xun Yao Biotechnology, attracting first-class scientist teams of the state to our R&D system and win the future together. By creating innovation incubators with different focuses in China and abroad, we will cooperate closely with competent and competitive start-up companies in the world and jointly promote original innovations in biomedicine. As a major project of Shanghai Municipality, the SPH Biomedicine Industrial Base is being built in full swing in Shanghai. The Shanghai Biomedical Frontier Industry Innovation Center, jointly established with Shanghai Jiao Tong University School of Medicine and Shanghai Zhangjiang Group, has been formally established. In Hong Kong, the Biomedical Co-

incubation Program with HKSTP is also well underway.

In addition to R&D innovation, business model innovation is also one of our key strengths. The pharmaceutical service segment's new non-pharmaceutical health business achieved a high growth of over 40% last year. SPH Cloud Health features a high-value drug special delivery and prescription flow platform and is promoting the C round of financing, and MediTrust Health gains popularity with its "Huhui Bao" and also completed the C+ round of financing last year, drawing great attention from the industry with their trend-setting new business models.

Second, to focus on capital financing. The combination of industry and finance is both a strategy and a strength of Shanghai Pharmaceuticals. We take the capital as the inheritance medium, grow with the times altogether, and strengthen the Chinese biomedicine fire seed diligently. Our restructuring and listing in Shanghai and Hong Kong ten years ago started our marketization and specialization. Our fast placement in Hong Kong five years ago supported us in acquiring Cardinal's business in China, thus helping us become the second largest pharmaceutical and commercial corporation and leading import pharmaceutical agency platform in China. Two years ago, we supported Shanghai Shangshi in establishing a RMB50 billion biopharmaceutical industry fund, which is dedicated to promoting China's innovators to form a starburst. Last year, we completed the industry's largest private placement project in five years, raising nearly RMB14 billion in total, and introduced Yunnan Baiyao as a strategic investor to further promote the reform of state-owned enterprises. Meanwhile, with close ties, Yunnan Baiyao, Tianjin Pharmaceutical and Shanghai Pharmaceutical have jointly established the "Yuntianshang – Rejuvenating China's Traditional Chinese Medicine Industry Alliance", with the mission of inheriting the fire seed of traditional Chinese medicine and jointly promoting the development of traditional Chinese medicine in the new era.

Third, to adhere to the original intention. As a company engaged in the pharmaceutical industry, our original intention is to provide a better and healthier life for more people, and every step we take is based on this principle. Whether we are innovating to provide more products that better meet clinical needs through research and development, or committed to building a nationwide leading pharmaceutical supply chain network, it is all for this purpose.

During the epidemic, we overcame many difficulties to ensure the supply of anti-epidemic supplies and life-saving drugs. On the area of 9.6 million square kilometers, relying on the second largest supply network and the leading drug production capacity in China, we protected people's health from production to distribution, and achieved a counter-trend growth of more than 10% in results while living up to our mission.

Times may change quickly, but we always keep confident. Innovation will guide us to keep abreast of the times and forge ahead, capital will assist us in speeding up transformation and consolidating our foundation, and original intention will guide us to stick to our mission and follow the right path. By doing so, Shanghai Pharmaceuticals will be able to go through the ups and downs in the future. And these actions will also inspire and attract more like-minded partners to join us, and we will move forward to a bright future together.

Management Discussion and Analysis

PERFORMANCE OVERVIEW

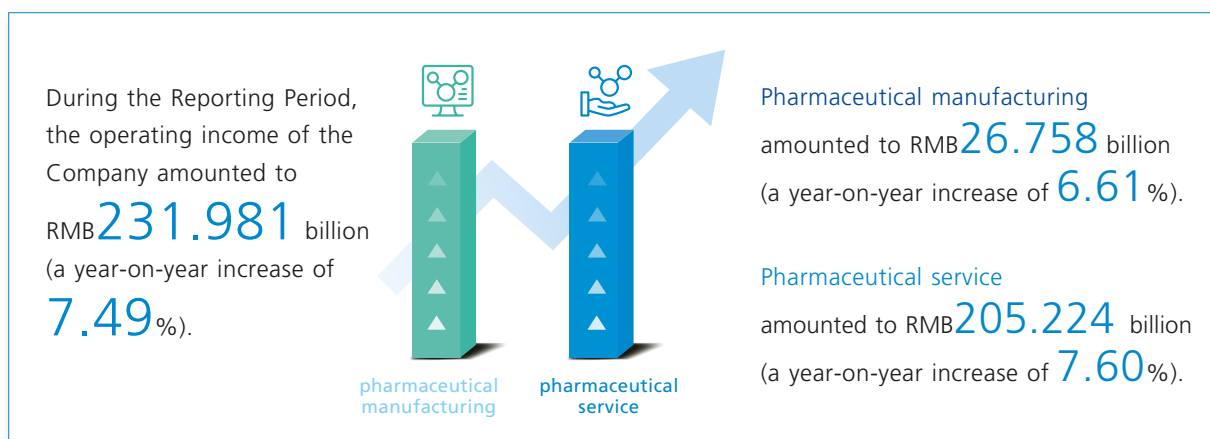
In 2022, the domestic situation was repeated, the international conflicts intensified, the pressure of medical insurance expenditure increased, and the pharmaceutical market was seriously involved. Under the influence of multiple uncertainties, Shanghai Pharmaceuticals complied with the development trend of the times, overcame difficulties, unswervingly served the national strategy, and built a community of destiny for its own development and national development. In 2022, the Company was once again listed among the Fortune Global 500, ranking the 430th, up 7 places from the previous year, and was once again selected as one of the Top 50 Global Pharmaceuticals, advancing its ranking up to 41st.

During the Reporting Period, the Company achieved operating income of RMB231.981 billion, representing a year-on-year increase of 7.49%. The pharmaceutical manufacturing achieved sales revenue of RMB26.758 billion, up 6.61% year-on-year (including sales revenue of RMB15.727 billion for 60 key varieties, up 13.12% year-on-year); the pharmaceutical service achieved sales revenue of RMB205.224 billion, up 7.60% year-on-year.

During the Reporting Period, the Company recorded RMB5.617 billion of net profit attributable to shareholders of the listed company, representing a year-on-year increase of 10.28%. The net profit attributable to shareholders of the listed company after deduction of one-off special income amounted to RMB4.678 billion, representing a year-on-year increase of 11.12%. The net profit attributable to shareholders of listed company after deduction of one-off special income and profits contributed by associates and joint ventures amounted to RMB4.151 billion, representing a year-on-year increase of 21.37%. Among which, the pharmaceutical manufacturing contributed profits of RMB2.247 billion, representing a year-on-year increase of 10.55%; pharmaceutical service contributed profits of RMB3.097 billion, representing a year-on-year increase of 12.56%. The shareholding enterprises contributed profits of RMB435 million, representing a year-on-year decrease of 38.78%. The net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company amounted to RMB4.297 billion, representing a year-on-year increase of 7.40%.

During the Reporting Period, the Company's R&D investment reached RMB2.800 billion, representing a year-on-year increase of 11.87%, including RMB2.112 billion of R&D expenditure, representing a year-on-year increase of 6.29%.

During the Reporting Period, the operating net cash inflow of the Company amounted to RMB4.743 billion, continuously maintaining its high-quality development.



OPERATING HIGHLIGHTS OF THE COMPANY

- **Make a Breakthrough and Highlight the Operation Resilience of the Company under the COVID-19 Epidemic**

Shanghai Pharmaceuticals always insists on putting the people's life safety and health first. Under the special circumstance of the COVID-19 epidemic last year, Shanghai Pharmaceuticals bravely acted as a pioneer in ensuring the supply of medical materials, earnestly fulfilled the social responsibility of a state-owned enterprise, and made positive contributions to the fight against the COVID-19 epidemic. At the same time, under difficult conditions, Shanghai Pharmaceuticals continued to maintain the steady growth in the business performance against the trend, of which the scale of pharmaceutical service exceeded RMB200 billion for the first time, **which had not come easily.**

In the first half of 2022, in the face of a new round of the COVID-19 epidemic in Shanghai, Shanghai Pharmaceuticals started the closed-loop management of the eight major logistics reservoir areas in Shanghai, more than 2,500 employees in various front-line positions such as logistics, hospital supply chain, Internet hospitals and retail pharmacies, etc. adhered to the front line, nearly 50 enterprises successfully entered the white list of resumption of work and production, and more than 2,000 factory employees participated in the closed-loop production, **completing the guaranteed supply of various medical materials under extreme conditions.** Shanghai Pharmaceuticals also actively responded to the unified deployment of the Shanghai Municipal Party Committee and Municipal Government, and **built a nucleic acid detection gas film laboratory in just one week,** and actively cooperated with the shareholder entities to **support the construction and operation management of Shanghai Lingang Mobile Cabin Hospital No.2.**

In January 2022, CanSino SPH realized the mass production and supply of the recombinant COVID-19 vaccine (adenovirus type 5 vector) "Convidecia®". The recombinant COVID-19 vaccine (adenovirus type 5 vector) "Convidecia® Air®" for inhalation was used as a booster for emergency use after being recommended by the National Health Commission and demonstrated and approved by the NMPA, was first used for vaccination in Shanghai in October 2022, and then used for vaccination nationwide. **The COVID-19 vaccine for inhalation produced by CanSino SPH helped the people build an immune barrier.**

At the end of December 2022, the focus of epidemic prevention and anti-epidemic work shifted to medical treatment, and the demand for various antipyretic and analgesic drugs, cold medicines and related materials, etc. increased sharply. Under the condition that the minimum on-the-job rate was less than 40%, the related enterprises such as SPH Sine and SPH TCM provided more than 2.8 million boxes of antipyretic, analgesic and antitussive drugs to the Shanghai market through overtime work, technical improvement and production expansion, and emergency allocation, greatly easing the contradiction between supply and demand of drugs. The commercial distribution system operated around the clock to distribute drugs to meet the drug needs of major medical institutions. Major retail pharmacies such as Shanghai Huashi Pharmacy maximized their allocation of drugs to ensure residents' demand for drugs. SHAPHAR also stepped up its global procurement, and **obtained the exclusive import right and distribution right of the Covid-19-resistant oral drug sold in Japanese market, Ensitrelvir, in mainland China,** so as to meet the market supply of urgently needed drugs.

In the future, ensuring the common people's purchase of drugs, establishing the traceable normal and emergency supply chain of commonly used drugs, and strengthening the construction of international and domestic pharmaceutical supply chains will also become the next research topics of Shanghai Pharmaceuticals.

- **Step forward “steadily” and accelerate the four major transformation and development**

In 2022, according to the general policy of “giving priority to stability, seeking innovation in stability, and seeking change in stability”, Shanghai Pharmaceuticals maintained its strategic strength, further promoted the **four transformation and development of innovation, internationalization, financial and industrial integration and intensification**, actively played its leading role as a leading enterprise in Shanghai's biomedical industry, and promoted a series of major projects to make remarkable progress.

1. ***The ten-billion-scale private placement project was successfully completed***

In 2021, Shanghai Pharmaceuticals started a ten-billion scale private placement project, which was put on record by the China Securities Regulatory Commission in 2022. **The 14 billion-scale private placement project was successfully implemented**, and Yunnan Baiyao was successfully introduced as a strategic investor. This milestone event will bring Shanghai Pharmaceuticals a double blessing from system innovation to business innovation. While increasing financing and further promoting the innovation and development of Shanghai Pharmaceuticals, this milestone event will also provide important support for optimizing the shareholding structure and deepening the reform of state-owned enterprises. At the same time, the strong cooperation between Shanghai Pharmaceuticals and Yunnan Baiyao will also fully urge them to give full play to their respective advantages in the field of Traditional Chinese medicine business, carry out business collaboration, and jointly create a new starting point for the big health business of Traditional Chinese medicine.

2. ***“Yuntianshang” alliance promotes cooperation***

The construction of “Yuntianshang” industrial alliance between Shanghai Pharmaceuticals, Yunnan Baiyao, Tianjin Pharmaceutical has been accelerated, and the all-round business interconnection has been actively carried out, so as to promote coordinated and symbiotic development in various fields. During the Reporting Period, the three parties took the lead in opening cooperation in the field of traditional Chinese medicine resources, and have determined the first batch of 8 varieties of traditional Chinese herbal medicines and promoted their implementation **to ensure the stable supply of traditional Chinese herbal medicines and effectively reduce the costs of raw materials**. The three parties will further give full play to their respective advantages to carry out cooperation from the joint procurement of traditional Chinese herbal medicines and joint construction of GAP base to pharmaceutical service, OTC channel field, health care products, research and development, and supply chain, etc. Taking this as an opportunity, the Company will promote the large varieties and brands of traditional Chinese medicine in the future, revitalize the time-honored brand of traditional Chinese medicine, and especially seize the strategic opportunities such as the adjustment of the new version of Essential Medicine List, the amount of formula granules and the adjustment of the Regulations on Protection of Traditional Chinese Medicines to achieve rapid development.

3. The frontier industry innovation center was formally established

In order to make full use of its own resources and accelerate the transformation to original innovation, Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd. established by Shanghai Pharmaceuticals cooperated with Shanghai Overseas Company, Shanghai Zhangjiang Group Co., Ltd. and Shanghai Jiao Tong University School of Medicine through joint investments during the Reporting Period was formally established in 2022. The Innovation Center intends to gather the superior resources of “famous enterprises”, “famous schools” and “famous hospitals” to form a new trinity biomedical development model together with Shanghai Biomedical Fund, and build an incubation and transformation base and an industrialization platform with the most complete layout and leading technology in the domestic biomedical sector. In December 2022, **Shanghai Pharmaceuticals, Shanghai Biomedical Frontier Industry Innovation Center and HKSTP Corporation jointly implemented the joint cultivation plan of biomedicine in HKSTP** to accelerate the cultivation of biomedical startup companies and the transformation of innovative technologies, and started the cooperation of incubators with 14,000 square feet in HKSTP.

4. Achieve a new breakthrough in the internationalized business

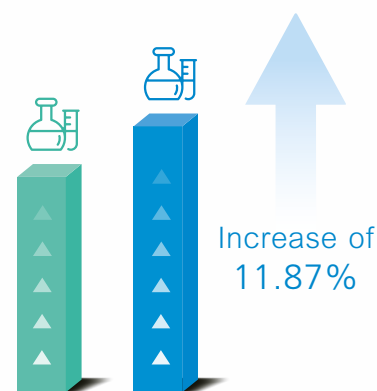
In 2022, Shanghai Pharmaceuticals made a new breakthrough in its international strategic layout, and **Shanghai Pharma (Thailand) Co., Ltd., a wholly-owned subsidiary of Shanghai Pharmaceuticals, and Zynexis Healthcare Private Ltd., a Singapore joint venture, were formally established.** The two overseas companies will make full use of local marketing channels and experience to expand the overseas registration and the scale of sales of the Group’s products, so as to further expand the global business map of Shanghai Pharmaceuticals, enhance the coverage rate of Shanghai Pharmaceuticals’ products in the international market and accelerate the internationalization process.

5. The structural capping of the Base on No.92 Zhangjiang Road was completed during the year

Located in the central region of Shanghai Zhangjiang Hi-tech Park, the SPH Biomedicine Industrial Base aims to build a leading domestic biomedical industry base with three functions of “new R&D center, innovation incubation platform, pilot test and industrialization platform” to promote the develop process of domestic innovation. As a major project in Shanghai, the SPH Biomedicine Industrial Base implemented the protection policies and properly arranged more than 400 construction site persons during the epidemic control period. After the resumption of work and production, the SPH Biomedicine Industrial Base organized the construction personnel to “grab the progress and ensure safety”, and completed the goal of capping the single structure during the year, and no major safety accidents occurred throughout the year.

- **The harvest period is approaching, and the Company has made breakthroughs in new drug research and development**

During the Reporting Period, the Company further accelerated innovation and transformation, **two new drug projects were applied for sale in the market, and breakthrough progress was made in the research and development of new drugs.** The total R&D investment reached RMB2.800 billion, representing a year-on-year increase of 11.87%, and accounting for 10.47% of sales revenue from pharmaceutical manufacturing.



The total R&D investment

RMB **2.800** billion

1. Accelerate the expansion of new drug pipelines

As of the end of the Reporting Period, the Company has marketed three innovative drugs, i.e. Oncorine (recombinant human adenovirus type 5), Kallidinogenase (Urinary) and Peifeikang (bifidobacterium triple viable bacteria). **There have been 62 new drug pipelines for clinical application acceptance and entering the clinical study stage, including 50 innovative drugs (including 3 innovative drugs in American clinical Phase II) and 12 improved new drugs. Among the innovative drug pipelines, two innovative drug pipelines have been applied for pre NDA or marketing, and six innovative drug pipelines are in pivotal studies or clinical Phase III.**

(1) Major new drugs in development

Classification	Quantity (by indication)	Remarks
Innovative drugs	50	2 projects applied for pre NDA or marketing, 37 projects entered the clinical stage, and clinical applications of another 11 projects have been accepted
Improved new drugs	12	1 project has been marketed , 4 projects entered the clinical stage, and clinical applications of another 7 projects have been accepted
Total	62	/

Management Discussion and Analysis

(2) Pipeline of innovative drugs in development

No.	Treatment	Drug name/Code	Indications	R&D progress in China as of the end of the Reporting Period	R&D progress in other countries as of the end of the Reporting Period
1	Digestive and metabolism	X842	Reflux esophagitis	NDA	/
2	Infection	I008-A	AIDS chronic abnormal immune priming	Submitted pre-NDA (Clinical Phase II completed)	/
3	Cardiovascular	I001	Primary mild to moderate hypertension	Clinical Phase III	/
4	Neoplasm	BCD-100	Cervical cancer	Clinical Phase III	/
5	Neoplasm	BCD-100	Non-small cell lung cancer	Clinical Phase III	/
6	Autoimmunity	BCD-085	Psoriasis	Clinical Phase III	/
7	Autoimmunity	BCD-085	Ankylosing spondylitis	Clinical Phase III	/
8	Psychoneurotic	SRD4610	Amyotrophic lateral sclerosis	Clinical Phase II (Pivotal clinical study)	/
9	Digestive and metabolism	I001-A	Diabetic nephropathy	Clinical Phase II	/
10	Autoimmunity	I001-B	Ulcerative colitis	Clinical Phase II	US, Clinical Phase II
11	Autoimmunity	I008	Rheumatoid arthritis	Clinical Phase II	/
12	Neoplasm	I022	Advanced solid tumors/liposarcoma	Clinical Phase I	US, Clinical Phase II
13	Neoplasm	I022 combination drugs	First-line therapies for breast cancer	Clinical Phase II	/
14	Neoplasm	I036	Juventus sarcoma	Clinical Phase IIa	
15	Psychoneurotic	I037	Acute ischaemic stroke	Clinical Phase II	
16	Infection	Benapenem	Anti-infection	Clinical Phase II	/
17	Neoplasm	B003	Breast cancer	Clinical Phase II	/
18	Neoplasm	B013	Breast cancer	Clinical Phase II	
19	Digestive and metabolism	S1006	Irritable bowel syndrome	/	Canada/US, Clinical Phase II
20	Cardiovascular	Salvianolic acid A for injection	Angina pectoris of coronary heart disease	Clinical Phase II	/
21	Neoplasm	I020	Advanced solid tumors	Clinical Phase I	/
22	Neoplasm	I022-K	Advanced solid tumors	Clinical Phase I	/
23	Neoplasm	I025-A	HER2-positive advanced breast cancer	Clinical Phase I	/
24	Neoplasm	I010	Non-small cell lung cancer	Clinical Phase I	/
25	Neoplasm	B001	Non-Hodgkin lymphoma	Clinical Phase I	/
26	Autoimmunity	B001-A	Multiple sclerosis	Clinical approval obtained	/
27	Autoimmunity	B001-C	Neuromyelitis optica	Clinical Phase I	/

No.	Treatment	Drug name/Code	Indications	R&D progress in China as of the end of the Reporting Period	R&D progress in other countries as of the end of the Reporting Period
28	Neoplasm	B002	Breast cancer	Clinical Phase I	/
29	Neoplasm	B006	Progressive large cell lymphoma (PTCL), Hodgkin lymphoma	Clinical Phase Ib	/
30	Neoplasm	B007	Non-Hodgkin lymphoma	Clinical Phase I	/
31	Autoimmunity	B007-A	Membranous nephropathy	Clinical Phase I	/
32	Neoplasm	B015	Advanced solid tumors	Clinical Phase Ib	/
33	Neoplasm	B010-A	Advanced hepatocellular carcinoma	IIT	/
34	Neoplasm	Autologous cell immunotherapy	Lung cancer	IIT	/
35	Neoplasm	B019	Leukemia (Primary Care Program)	IIT	/
36	Psychoneurotic	C012	Alzheimer's disease	IIT	/
37	Psychoneurotic	Tsung-Ming-Tang (聰明湯)	Alzheimer's disease	IIT	/
38	Neoplasm	I025	HER2-positive advanced breast cancer	IND	/
39	Autoimmunity	I039	Inflammatory bowel disease	pre-IND	
40	Psychoneurotic	I040	Depression	pre-IND	/
41	Neoplasm	BCD-021	Non-small cell lung cancer, colorectal cancer	IND	/
42	Neoplasm	BCD-022	Breast cancer	pre-IND	/
43	Autoimmunity	BCD-057	Rheumatoid Arthritis	pre-IND	/
44	Respiratory system	SV001	Idiopathic pulmonary fibrosis	pre-IND	/
45	Digestive and metabolism	WST01	Metabolic syndrome	/	US, pre-IND
46	Neoplasm	Oncorine	Malignant peritoneal effusion	pre-IND	/
47	Neoplasm	I022 combination drugs	Later line therapies for breast cancer	IND	/
48	Neoplasm	I022 combination drugs	Breast cancer and brain metastasis	IND	/

- (3) Introduction to major new drug projects in development
- **I001 project:**

I001 tablets are a new generation of oral non-peptide small molecule renin inhibitors, which belong to type 1 chemical drug. As **an antihypertensive drug with a new mechanism of action**, all subjects of I001 tablets had been enrolled in the clinical phase III. The existing research data show that renin is the initial rate-limiting enzyme of RAS system and the isoenzyme of C3 complement lyase, so renin inhibitor has potential anti-inflammatory effect. On 30 December 2020, I001, **for a new indication UC, was approved by FDA for the phase II clinical trial**. On 31 August 2022, the clinical trial approval for this indication was approved in China. At the same time, I001 was applied on a rhesus monkey model of spontaneous chronic renal insufficiency with chronic heart failure (NYHA class II-IV) and demonstrated a significant improvement of proteinuria. On 30 July 2021, I001 was approved for **Phase II clinical trial of diabetic nephropathy** in China, and clinical trials were conducted.
 - **I022-K project:**

I022-K is a type 1 new chemical drug independently developed by Shanghai Pharmaceuticals, with completely independent intellectual property rights. I022-K tablets have **a broad spectrum of antitumor effects** and are used for the treatment of advanced solid tumors. It has the advantages of high kinase inhibitory activity, good tumor cell proliferation inhibitory activity, strong antitumor efficacy in vivo and obvious synergism of combination drugs. Especially for **KRAS mutant tumors**, there is a significant effect. KRAS mutations have a high correlation with tumors, especially in pancreatic cancer (90%), colon cancer (52%), multiple myeloma (43%) and lung cancer (32%), and currently, there is no standard therapeutic schedule for it and has great market potential. On 27 August 2021, I022-K was approved for clinical trial and Phase I clinical trial is progressing smoothly at present.
 - **B007 project:**

Recombinant anti-CD20 humanized monoclonal antibody is a new type of recombinant monoclonal antibody product for human use, with independent intellectual property rights. B007 is administered through subcutaneous injection, which can significantly shorten clinical infusion time, improve patient compliance and reduce medical burden compared with intravenous preparation. On 30 November 2021, the first subject was enrolled for phase I clinical trial, and the clinical trial is progressing smoothly at present.
 - **B006 project:**

This project is a recombinant human-mouse chimeric anti-CD30 monoclonal antibody-MCC-DM1 coupling agent for injection with independent intellectual property rights, and is intended for anaplastic large cell lymphoma, Hodgkin's lymphoma and cutaneous T-cell lymphoma. This project has completed the phase I clinical dose escalation phase of the trial, and the trial of the dose expansion phase Ib is ongoing.

- **Benapenem Project**

The Benapenem is a new drug of class 1.1 carbapenem antibiotics (β -lactams) introduced by Shanghai Pharmaceuticals and its complicated urinary tract infection indications have completed phase II clinical trials in China and reached the ideal clinical endpoint. At present, the phase III clinical trials are in preparation.

- **X842**

X842 is a class 1.1 new drug introduced by Shanghai Pharmaceuticals and is a new generation of potassium ion competitive acid blocker (P-CAB) oral drug, which can competitively block the potassium ion activity in H-K-ATPase and inhibit gastric acid secretion. It has the **advantages of quick effect, strong and lasting acid inhibition, no individual difference in curative effect and few adverse reactions**. At present, the application for marketing license for reflux esophagitis was accepted by NMPA on 9 February 2023.

- **I037 (“LT3001 for injection”)**

I037 is a **class 1 new drug introduced by Shanghai Pharmaceuticals for the treatment of acute stroke**. The phase I clinical trial has been completed at the end of January 2022, the phase II clinical trial has been approved in September and approval letter from IEC (Independent Ethics Committee) has been obtained in December. The sub-center has submitted the project approval and ethical review materials.

- **NJ-2021-002(Z) (hemorrhoids) and NJ-2021-002(F) (radiation proctitis)**

NJ-2021-002(Z), (F) are improved new drug projects. According to the mechanism of action and pharmacodynamic test results of the product, the R&D team has developed **the world’s first sterile gel preparation that can be used locally in the anorectal region** to promote wound healing after hemorrhoid surgery, relieve edema and pain, and inhibit itching. This indication, which received clinical tacit clearance in 2021, and initiated the Phase I clinical trial in March 2022. **At present, the Phase I clinical trial has been completed, and the research data demonstrates a good tolerability profile and safety**. At the same time, this drug can also promote wound healing, inhibit inflammation and intestinal fibrosis through mucosal protection; it can also be used for anti-oxidative stress, prevention and treatment of oxidative damage caused by radiotherapy. The relevant indications were declared to IND for approval in December 2021, and were approved in March 2022. **At present, the Phase II clinical trial has been initiated**. After the product is marketed, **it is expected to become the world’s first drug with the indication of “radiation proctitis” and fill the gap in clinical medication for radiation proctitis**.

2. Improved new drugs boost new product pipelines

During the Reporting Period, the technology innovation center further accelerated the layout of improved new drugs and high-end preparation and developed a total of 21 Class II new drug projects with an increase of 5 projects compared with 2021. The product pipeline has covered respiratory, cardiovascular, psychoneural, analgesic, anti-infective, digestive and metabolism fields, including 1 inhalation preparation project, 1 sustained-release preparation project, 4 orally soluble film preparation projects, 3 complex injectable projects. During the Reporting Period, the Company and its subsidiaries introduced improved new drugs projects such as NJ-2022-001(M), NJ-2022-001(S), HKS-2021-001, further enriching the Company’s new product pipeline.

Progress as at the end of the Reporting Period	Number
Approved for production	1
Clinical Phase II	2
Clinical Phase I	2
IND (declaration/approval)	5
Preclinical/pre-IND	11
Total	21

3. The new business of rare diseases occupies a leading position in China

Shanghai Pharmaceuticals is one of the enterprises with the largest number of approvals for rare diseases in China. There are 21 varieties, involving 34 rare diseases. **As the only rare disease platform of Shanghai Pharmaceuticals, SPH Ruier** has a total of 15 research projects at present, involving global innovative drugs, first generic drugs and several clinically urgently needed drugs, covering many rare disease categories such as tumor, motor neuron, endocrine, cardiovascular, metabolism, etc., and including 2 Class I new drugs, 2 Class II new drugs and many clinically urgently needed generic drugs.

Classification	Number	Indication
Innovative drugs	2	Hemophilia, Amyotrophic lateral sclerosis
Improved new drugs	2	α – thalassemia, glycogen storage disease
Generic drugs	11	Acute promyelocytic leukemia, acute leukemia, breast cancer, urothelial carcinoma, Pulmonary hypertension, Wilson’s disease, etc.
Total	15	/

The key products of SPH Ruier include SRD4610 for treatment of amyotrophic lateral sclerosis. As of the end of the Reporting Period, all patients had been enrolled in the phase II clinical trial. During the Reporting Period, the registration and declaration of SRD2407 used for the treatment of pulmonary hypertension has been completed. For SRD6214 and SRD6016 used to treat α -thalassemia and all hemophilia types, respectively, the similar products of the former have not been clinically tested in China, and the latter is a global innovative cell gene therapy method, and the preclinical research of SRD6214 and SRD6016 are being carried out currently.

4. *Continuous approval of consistency evaluation*

In terms of generic drug, 14 varieties (15 specifications) of the Company passed the consistency evaluation in terms of quality and effect of generic drugs in 2022, increasing the total number of product varieties passing consistency evaluation to 49 varieties (71 specifications), ranking forefront in the industry. A total of 7 varieties (ceftriaxone sodium for injection, lansoprazole for injection, lidocaine hydrochloride injection, dopamine hydrochloride injection, neostigmine sulfate injection, octreotide acetate injection and furosemide Injection) passed the consistency evaluation of injections. See the “Major R&D projects” below for details of the products passing the consistency evaluation in 2022.

5. *The innovative research and development model has achieved initial results*

The Company continues to expand the group of innovative drug products with clinical value following the principle of “independent R&D + external cooperation”. It adopted the mixed-ownership enterprise or project cooperation methods based on market-based system and mechanism and achieved cooperation with a number of well-known universities, scientific research institutes and medical institutions.

- **Shanghai Xun Yao Biotechnology Co., Ltd.:** the company is a mixed-ownership company that cooperates with the team of Professor Liu Junling from Shanghai Jiao Tong University School of Medicine, and adopts the innovative cooperation mode of “industry-university-research-capital”. In 2022, the Company's projects were rapidly advancing, and currently one project has applied for pre IND and won the final award of the 11th China Innovation and Entrepreneurship Competition.
- **Shanghai Huiyong Medicine Research Co., Ltd.:** as a pilot enterprise of mixed-ownership reform, the company has established six professional platforms including oral sustained and controlled release technology platform for more than four years since its establishment. At present, the company is researching more than 40 projects, and its self-developed nano-micelle technology and polypeptide coupling drug PDC technology are in the leading position in China. At present, the company is carrying out the third round of financing and is favored by the capital market, which fully shows the advantages of the mixed-ownership reform of state-owned assets.

Management Discussion and Analysis

- **Innovate and seek changes in marketing strategies, broaden sources of income and reduce expenditure to exert both efforts**

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

1. The number of varieties exceeding RMB100 million has increased to 48

Focusing on the strategy of concentrating large varieties, the Company **achieved 48 products with annual sales revenue from pharmaceutical manufacturing exceeding RMB100 million, representing an increase of 4 products as compared with the previous year**, covering cardiovascular, digestive system, immune metabolism, systemic anti-infection, mental nerve and anti-tumor fields. The sales revenue of 60 key varieties was RMB15.727 billion, representing a year-on-year increase of 13.12%. During the Reporting Period, the Company achieved rapid year-on-year growth in the sales revenue of the varieties with the sales revenue of more than RMB100 million such as Liushen Pills, ticagrelor series APIs, colistin sulfate for injection, trypsin for injection, isotretinoin soft capsules by improving terminal coverage, optimizing commercial layout, developing overseas markets, expanding sales channels and digitizing marketing.

According to the evaluation from the perspectives of clinical value and market value, the Company screened out several dormant recovery products and products with value re-creation in production and sales, and continuously tracked the product marketing plan and progress. Throughout the year, the Company completed **the resumption of sales of dormant products** such as Dimeflin and the **reshaping of the value chain** of products such as amphotericin B liposomes. At the same time, the Company sorted out the varieties to be cultivated from many Chinese patent medicine products, laying a sound foundation for the subsequent secondary development.

The Company excavated its own resources and strove to create the next giant of Chinese medicine. Relying on its proprietary Chinese medicine enterprises, confidential formulas of traditional Chinese medicine and more than 10 large varieties with the sales revenue of more than RMB100 million, the Company's sales revenue of traditional Chinese medicine segment increased remarkably in 2022, the proportion of revenue from pharmaceutical manufacturing continued to increase, and its scale was in the leading position in China.

2. Reduce costs and increase efficiency to promote production efficiency

The Company continued to promote the "2+6" cost reduction measures, focused on reducing negative gross profit products and scrap materials, and adopted six measures of optimizing production layout, improving technical and economic indicators, increasing centralized procurement, carrying out overall lean management, improving personnel efficiency and strengthening energy conservation and consumption reduction, so as to systematically promote cost reduction and efficiency improvement.

Shanghai Pharmaceuticals has built a quality control network covering the full life cycle of products by focusing on “quality assessment”, “direct information reporting” and “key personnel management”, and its several enterprises have won provincial, municipal and national quality awards. In terms of excellent manufacturing, the construction of the solid preparations continuous manufacturing and co-construction laboratory of SPH-Syntegon has made progress in stages, and the equipment for continuous manufacturing and development has been installed and commissioned. **Shanghai Municipal Science and Technology Major Project “Overrun Manufacturing”** of SPH No.1 Biochemical has completed the continuous synthesis technology research of two products, and simultaneously carried out the continuous synthesis technology research of six products.

- **The pharmaceutical service grew against the trend, and the scale exceeded RMB200 billion for the first time**

While actively maintaining the stable development of the existing commercial business, the Company strives to expand the network coverage, and also explores and builds new business models and core competencies. During the Reporting Period, the pharmaceutical service grew against the trend as it was driven by innovation and development, and its scale exceeded RMB200 billion for the first time, and it achieved “double breakthroughs and double victories” in management and epidemic prevention and control.

1. ***Maintain the leading position in the service of imported drugs and innovative drugs in China***

The Company strives to build an innovative drug service platform, providing one-stop management services of the whole supply chain covering four major areas of pre-marketing cooperation, import and export services, nationwide distribution and innovation and added value for innovative products of pharmaceutical enterprises around the world. In 2022, the Company accelerated the introduction of new products, and the sales of innovative drugs increased by about 15% year-on-year. The Company successfully introduced more than 20 import varieties under general agency throughout the year. The import service capacity of innovative drugs was further improved, and SHAPHAR completed the first marketing of three new varieties in China and the first rapid inspection of two urgently needed drugs. **In terms of agent of imported vaccines**, the Company achieved sales revenue of approximately RMB4.4 billion during the Reporting Period, which was basically the same as the previous year.

2. ***Accelerate the layout of the full network coverage of distribution***

The Company made layout for cities without business in various regions to accelerate the coverage of domestic distribution network through mergers and acquisitions, and at the same time promote the equity integration of provincial platforms and enhance the competitiveness of regional markets. During the Reporting Period, the Company completed the commercial M&A projects in Chongqing, Yunnan and other provinces and cities through cooperation in establishing new companies, increase of capital in the same proportion, mergers and acquisitions, etc., expanded the layout of blank areas in Gansu and other blank provinces, further consolidated its advantages of service network, and actively promoted large-scale commercial M&A projects.

3. **Promote non-pharmaceutical businesses such as device health**

In 2022, the Company's sales of non-pharmaceutical businesses such as devices and big health were about RMB34.1 billion, representing a year-on-year increase of about 40%. The Company actively explores the expansion of new non-pharmaceutical businesses such as devices, medical beauty and health food, speeds up the basic layout of the national device business, improves the service level of the whole value chain, creates a professional platform for segmentation, and further promotes its diversified, multi-variety and multi-channel development.

4. **Optimistic about the "Internet+" medical platform**

SPH Cloud Health is an "Internet+" pharmaceutical business technology platform hatched and continuously supported by Shanghai Pharmaceuticals, and created the China model of pharmaceutical separation. In August 2022, the "Yiyao Comprehensive Flagship Body", a domestic phenomenal professional pharmacy built by SPH Cloud Health, was officially opened, and the "Yiyao Pharmacy", a flagship store of innovative medicine specialty pharmacy, and the "Yiyao Cloud Pharmacy", a flagship store of general slow medicine Internet, were combined into one for the first time. As of the end of 2022, SPH Cloud Health has 203 DTP pharmacies and authorized hospital side stores in the system, and has reached cooperation with more than 300 new special drug enterprises in total. In 2022, more than 30 kinds of innovative drugs were added for the first time in China, and SPH Cloud Health has become one of the main channels for patients with special diseases in China to obtain innovative therapies at home and abroad. During the Reporting Period, the average monthly prescription volume of the light consultation platform of SPH Cloud Health Self-operated Integrated Internet Hospital exceeded 100,000. After nearly a year of concerted efforts, "Yiyao Cloud Pharmacy" achieved a good result of breaking the revenue of RMB100 million throughout the year from scratch.

MediTrust Health, as a leading universal health care service and insurance platform in China, has launched diversified universal health insurances and various medical health benefits and services. Up to now, the medical and pharmaceutical network of the MediTrust Health Platform has covered more than 300 cities across the country, with the number of service policies exceeding 200 million, and the Huimin insurance covers more than 100 cities across the country, benefiting nearly 2 million patients, and providing users with more comprehensive, more economical and better medical and health services and products. **In January 2023, MediTrust Health completed the C+ round of financing, and introduced the HSBC Group as a strategic investor**, so the future development is more imaginative.

SITUATION OF THE INDUSTRY IN WHICH THE COMPANY WAS ENGAGED DURING THE REPORTING PERIOD

Development stage and cyclical characteristics of the industry in which the Company was engaged during the Reporting Period

The Company is a large pharmaceutical industry group listed in Shanghai and Hong Kong, and the core enterprise of the big health industry segment of SIIIC, the Controlling Shareholder. The Company's main business, that is, pharmaceutical manufacturing, distribution and retail, are all in the leading position in China, have unique comprehensive advantages of industrial chain, and can share the sustainable growth opportunities of China's pharmaceutical and health industry to the greatest extent, and generate synergy through resource sharing among business segments.

Pharmaceutical consumption has a rigid attribute, and the pharmaceutical industry is characterized by weak periodicity. The pharmaceutical industry is a strategic industry related to the national economy and people's livelihood, economic development and national security, and it is an important foundation for building a healthy China. During the "14th Five-Year Plan" period, the accelerated evolution of the world's once-in-a-century changes and the start of the new journey of China's socialist modernization construction blend with each other, the impact of the COVID-19 epidemic has been extensive and far-reaching, and the development of the pharmaceutical industry has entered a new stage of development, showing new characteristics:

1. A new round of technological change and crossover integration are accelerating. Breakthroughs have been made in new mechanisms and the basic research and transformation application of new target drugs, biomedicine is deeply integrated with the new generation of information technology, and the new generation of biotechnology, represented by gene therapy and cell therapy, is maturing day by day, providing a broad space for the pharmaceutical industry to seize the new round of scientific and technological revolution and industrial transformation opportunities.
2. The global pharmaceutical pattern is facing adjustment. Since the outbreak of the COVID-19 epidemic, countries have paid more and more attention to the strategic position of the pharmaceutical industry. At the same time, the economic globalization is facing a trend that goes against the general trend, and the industrial chain and the supply chain are being reshaped rapidly. Hence, a group of Chinese pharmaceutical companies extending to a higher value chain is expected to accelerate to become the world's leading pharmaceutical companies.
3. The new development stage brings new development opportunities to the pharmaceutical industry. With the acceleration of population aging, the nationwide promotion of the construction of healthy China, the upgrading of residents' healthy consumption, and the acceleration of supply-side structural reform in the pharmaceutical industry, in order to better meet the people's demand for a better life, and China's economy has turned to a stage of high-quality development, the pharmaceutical industry has accelerated the quality change, efficiency change and momentum change, providing support for the establishment of a new development pattern in which domestic and foreign markets boost each other with the domestic market as the mainstay.

Management Discussion and Analysis

On the whole, during the “14th Five-Year Plan” period, the pharmaceutical industry will enter a new stage of high-quality development of accelerating innovation-driven development, promoting industrial chain modernization and integrating into the global industrial system at a higher level.

Industry Situation

During the Reporting Period, the epidemic prevention and control in various countries and regions gradually normalized, the marginal impact of the COVID-19 epidemic narrowed, and the operation of pharmaceutical industry gradually returned to normal.

Driven by the national top-level design and the relevant ministries and commissions, “three medical” linkage reform continues to deepen. In terms of pharmaceutical, encouraging of innovation, generic drugs and the traditional Chinese medicine industry were still hot spots, and at the same time, it is necessary to further promote the development of drugs related to the management of chronic diseases caused by aging in accordance with the classification of groups, and to promote the improvement of drugs for children and the development of drugs for rare diseases; in terms of medical insurance, China continued to deepen the reform of payment methods, and further promoted the sound development of the industry by combining a set of combination actions including dynamic adjustment of the list of medical insurance medicines, normalized promotion of volume-based procurement and national medical insurance negotiation; in terms of medical care, China implemented the macro layout on the hierarchical diagnosis and treatment system, took advantages of traditional Chinese medicine in diagnosis and treatment at the grassroots level and issued important policies such as adjustment of the list of essential medicines.

Category	Date	Department	Document	Content
Traditional Chinese medicine development	15 January 2022	National Administration of Traditional Chinese Medicine	Promoting the High-quality Integration of Traditional Chinese Medicine into the Jointly Built “Belt and Road” Development Plan (2021-2025)	During the “14th Five-Year Plan” period, cooperating with countries jointly building “the Belt and Road” Initiative, we have built 30 high-quality overseas TCM centers, promulgated 30 international standards on TCM, and created 10 brand projects for overseas communication of TCM culture. We have built 50 international cooperation bases in traditional Chinese medicine, built a number of national traditional Chinese medicine service export bases, and strengthened the construction of overseas registration service platforms for TCM products

Category	Date	Department	Document	Content
Vaccine industry	27 January 2022	The People's Government	"14th Five-Year" Plan for Modernization of Market Supervision	We have steadily improved the safety efficacy and accessibility of drugs. As 130-150 varieties are selected each year in national drug sampling, we have been conducting targeted exploratory research on key varieties, consolidating and improving the capacity of food and drug testing and research institutions for the approval and issuance of biological products (vaccines), and accelerating the development and marketing of new products. We have formulated and revised 2,000 national drug standards, 100 generic technical requirements, and 300 drug guidelines
Pharmaceutical manufacturing	30 January 2022	Ministry of Industry and Information Technology	"14th Five-Year" Plan for the Development of the Pharmaceutical Industry	During the "14th Five-Year Plan" period, the average annual growth rate of pharmaceutical industry revenue and total profit will remain above 8%, and the proportion of value added to all industries will increase to about 5%, and the concentration of leading enterprises in the industry will be further improved; during the "14th Five-Year Plan" period, the average annual growth rate of R&D investment in the industry will be more than 10%; by 2025, the proportion of new sales of innovative products to the incremental revenue of the industry will be further increased
Pricing compensation	21 February 2022	The People's Government	"14th Five-Year" for the Development of Undertakings for the Elderly and the Elderly Service System of the State	We have improved the basic medical insurance policy and gradually realized direct settlement of outpatient expenses across provinces. We have expanded the scope of reimbursement for drugs for chronic diseases for the elderly and included more drugs for chronic diseases in centralized volume-based procurement

Management Discussion and Analysis

Category	Date	Department	Document	Content
Traditional Chinese medicine development	1 March 2022	The National Health Commission	"14th Five-Year" Plan on Healthy Ageing	We have promoted the construction of a number of medical and health care demonstration institutions with traditional Chinese medicine characteristics; we have improved the outpatient medication guarantee mechanism for hypertension and diabetes, and included elderly people suffering from chronic diseases requiring long-term medication or serious illnesses requiring long-term outpatient treatment resulting in high out-of-pocket expenses and difficulties in basic living in the scope of medical assistance according to regulations
Traditional Chinese medicine development	29 March 2022	The People's Government	"14th Five-Year" Plan for the Development of Traditional Chinese Medicine	We have built a number of national TCM medical centers, about 130 key hospitals with TCM characteristics, about 35 national TCM epidemic prevention and treatment bases, about 50 "flagship" hospitals with synergy between traditional Chinese medicines and western medicines, about 30 national TCM heritage and innovation centers, and about 10 national TCM comprehensive reform demonstration zones
Traditional Chinese medicine development	30 March 2022	National Administration of Traditional Chinese Medicine	"14th Five-Year" Action Plan of the Project of Enhancing the Service Capacity of Grass-roots Traditional Chinese Medicine	We have made solid efforts in grassroots TCM service network to comprehensively enhance the service capacity of grassroots TCM in the treatment of future diseases, diseases, rehabilitation, public health, health education, etc.
Pediatric drugs	9 April 2022	The People's Government	Plan for Implementing the 2021-2030 Outline for the Development of Chinese Women and Children	We have developed a scientific and reasonable catalog of rare diseases and strengthened the management of rare diseases; encouraged the R&D and production of medicines for children, expanded the range of varieties, dosage forms and specifications of pediatric medicines in the national catalog of essential medicines, and explored the development of a national catalog of essential medicines for children

Category	Date	Department	Document	Content
Biopharmaceutical development	10 May 2022	National Development and Reform Commission	"14th Five-Year" Plan for the Development of Bioeconomy	We have promoted the integration and innovation of biotechnology and information technology, accelerated the development of biomedicine, bio-breeding, bio-materials, bio-energy and other industries, and made the bio-economy bigger and stronger
Device development	11 May 2022	National Medical Products Administration	"14th Five-Year" Plan for the Construction of Drug Regulatory Cyber Security and Information Technology	We have upgraded our capability to conduct smart supervision of drugs, cosmetics and medical devices, and to provide integrated services for government affairs. We have already promoted the integration and drive of regulatory data, laid a solid digital foundation for smart drug regulation, and consolidated the ability to provide comprehensive protection for cyber security
Centralized procurement	20 May 2022	State Council	"14th Five-Year" Plan for National Health	We have improved the drug supply guarantee system, expanded the scope of centralized drug procurement, the implementation of centralized procurement of medical insurance funds surplus retention policy capacity
Traditional Chinese medicine development	16 August 2022	The National Health Commission	"14th Five-Year" Plan for Cultural Development	We are always looking for, passing on and promoting TCM culture
Traditional Chinese medicine development	27 October 2022	The National Health Commission	"14th Five-Year" Plan for Talents Development of Traditional Chinese Medicine	By 2025, the systems and mechanisms for the development of traditional Chinese medicine talents in line with the characteristics of traditional Chinese medicine will be more complete, and the training and evaluation system will be more reasonable. The scale of talents grows rapidly, the structure and layout become more reasonable, and the growth environment is obviously optimized. We have cultivated and created a high-quality traditional Chinese medicine talent team to provide stronger talent support for the revitalization and development of traditional Chinese medicine

Management Discussion and Analysis

Category	Date	Department	Document	Content
Traditional Chinese medicine development	5 December 2022	National Administration of Traditional Chinese Medicine	“14th Five-Year” Plan for the Development of Traditional Chinese Medicine Informatization	We have consolidated the foundation of TCM information development, and researched and revised 50 basic standards for information classification, system construction, data governance, data sharing, etc. We have deepened digital convenience and services for the people, supported about 20 class 3 TCM hospitals to carry out smart hospital construction, and about 10 TCM medical communities to carry out telemedicine center or shared traditional Chinese medicine room construction. We have strengthened the governance of TCM data resources and promoted the innovation and application of TCM data resources

The Company actively integrated into the national strategy, correctly predicted the industry situation and took precautions beforehand. On the one hand, over the years, the Company has continuously strengthened the academic brand building, expanded the market coverage and optimized the market structure, so as to make more doctors and patients recognize the value of products with wider coverage, better reputation and better curative effect. On the other hand, the Company insisted on taking scientific and technological innovation as the core drive and taking clinical demand as the guide, and through continuous increase of R&D investment, innovation of institutional mechanisms and optimal allocation of resources, the Company’s goal has been changed to make the Company a leading Chinese pharmaceutical company with international competitiveness driven by R&D, focusing on planning the innovative products in the fields of anti-tumor, autoimmune diseases, mental nervous system and cardiovascular diseases, and emphasizing the development of therapeutic antibodies, gene therapy products, new microecological products, vaccines, cell therapy products, improved new medicines of new preparations, rare disease medicines and modern Chinese medicines.

The Company took “service + technology + finance” as the core to promote innovation and transformation, strove to promote service innovation, and continuously expanded new markets, new businesses and new models. The Company focused on innovative medicines, vaccines, equipment, medical cosmetology and other advantageous businesses, developed business model innovation, and accelerated the layout of professional pharmacies with the focus on hospital side stores and dual channels, so as to provide patients with high-quality, characteristic, full-course of disease, multi-level medical professional services.

SITUATION OF THE BUSINESSES IN WHICH THE COMPANY WAS ENGAGED DURING THE REPORTING PERIOD

During the Reporting Period, the Company continued to accelerate innovation breakthrough, deepen intensive development, unite the pool efforts of development, innovate service mode and strengthen capital operation, achieving the growth of business performance and the improvement of business quality, profitability, innovation momentum, operational efficiency and industry status, and continuing to create value for shareholders.

Pharmaceutical Manufacturing: The Company's pharmaceutical manufacturing ranked 41st in the top 50 pharmaceutical companies in the world. The Company had abundant product resources, producing nearly 700 kinds of traditional Chinese medicines and chemicals medicines and more than 20 kinds of dosage forms all the year round. The Company has always adhered to innovation as the core driving force, and achieved the sustained and rapid development of the pharmaceutical manufacturing segment through continuous resource digging and key product focusing strategy. Guided by meeting clinical demands, the Company continuously increased investment in innovation, actively allocated resources, and accelerated self-research and product introduction, thus gradually transforming from an ordinary generic pharmaceutical company to a R&D pharmaceutical company driven by scientific and technological innovation. **In the innovative medicine segment**, the Company, with the R&D management center as the core platform, the Company further improved the input-output efficiency of innovation and development. With development of the domestic Class 1 new drugs and 505b(1) of the United States as the goal, the Company emphasized the layout of biological drugs, focused on the fields of tumor, neuropsychiatry, cardiovascular and cerebrovascular diseases, immune regulation, etc., developed therapeutic antibodies, gene therapy, immune cell therapy, vaccines, microecology, antibiotics and other products, improved the layout of the international innovation R&D system and built an innovative product chain that meets the clinical demands. **In the chemical medicine segment**, the Company took the technology innovation center as the core platform, drove the preparation innovation with the construction of the technology platform, established the competitive advantage of speed and cost based on strong technology, focused on the development of improved new drug industry layout and created a high-end preparation technology platform. **In the traditional Chinese medicine segment**, the Company took the Institute of Chinese Materia Medica as the core platform to conduct evidence-based medicine research, continued to establish large varieties and brands of traditional Chinese medicine and promoted the development of hospital preparations and classic prescriptions. **In the rare diseases drugs segment**, the Company took Shanghai SPH Ruier Drugs Co., Ltd. as the core platform to provide more drugs with clinical value for patients with rare diseases through secondary development of existing products, project cooperation introduction, etc. At the same time, the Company further improved the medical device development platform.

Pharmaceutical Service: The Company is the second largest national pharmaceutical circulation enterprise and the largest service platform for imported drugs in China. The Company's distribution network covers 31 provinces, municipalities directly under the central government and autonomous regions in China, including directly covering 25 provinces, municipalities directly under the central government and autonomous regions through its holding subsidiaries, and covers more than 32,000 medical institutions of all kinds. The Company's retail network is distributed in 16 provinces, autonomous regions and municipalities in China, and the total number of retail pharmacies exceeds 2,000, continuously providing efficient, convenient and reliable services to medical institutions, retail institutions and partners at all levels and patients. The Company has established strategic cooperative relations with major pharmaceutical manufacturers at home and abroad, continuously promoted service innovation, led the industry value innovation by providing integrated supply chain services and innovative service solutions such as modern logistics, information services, financial services and omni-channel integrated marketing services, and gradually transformed into a "scientific and technological health service enterprise". The Company actively promoted the upgrading of the domestic supply chain of medicines and health products, accelerated the promotion of resource coordination by means of scientific and technological informatization and taking advantage of the advantages of its own platform, and continuously expanded new services, new varieties and new markets with a new mechanism.

During the Reporting Period, the Company's position in the industry continued to improve:

- Ranked 430th in the Fortune Global 500 in 2022;
- Ranked 59th in the 2022 Fortune China Top 500 published by the Fortune (Chinese version);
- Ranked 1017th in the 2022 Global Top 2000 Enterprises published by the Forbes;
- Ranked 123rd in the 2022 Top 500 Chinese Enterprises and 52nd in the Top 500 Chinese manufacturing enterprises published by the China Enterprise Confederation and the China Enterprise Directors Association;
- Ranked 7th in the Top 100 Chinese pharmaceutical industry enterprises published by the China National Pharmaceutical Industry Information Center;
- Ranked 41st in the top 50 global pharmaceutical companies published by the Pharmaceutical Executive;
- Ranked 7th in the 2021 China's Top 30 Big Pharma Enterprises in Innovation published by Menet;
- Ranked 12th in the 2022 Top 100 Shanghai Enterprises and 4th in the Top 100 Shanghai Manufacturing Enterprises jointly published by Shanghai Enterprise Confederation, Shanghai Federation of Economic Organizations, Shanghai Enterprise Directors Association and Jiefang Daily Press.

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 enable 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 approximately 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, gathered the resources of "famous enterprises, famous universities and famous institutes" to jointly establish the Shanghai Biomedical Frontier Industry Innovation Center, 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 25 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.

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".

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	231,981,299,764.51	215,824,259,035.31	7.49	Increase of sales income during the Reporting Period
Operating cost	201,494,923,087.47	187,281,149,284.71	7.59	Increase of sales income during the Reporting Period
Costs of sales	14,278,974,907.54	13,318,033,452.43	7.22	Increase of sales income during the Reporting Period
Management expense	4,991,689,173.97	5,143,417,730.84	-2.95	Decrease of operation and administration expense during the Reporting Period
R&D expenditure	2,112,197,580.39	1,987,277,619.33	6.29	Increase of investment in R&D during the Reporting Period
Finance costs	1,313,192,468.06	1,245,369,014.83	5.45	Increase of interest expense during the Reporting Period
Assets impairment loss	331,471,295.70	140,441,120.37	136.02	Increase of impairment provisions of bearer biological assets during the Reporting Period
Credit impairment loss	312,460,488.87	-677,891.56	/	Increase of impairment provisions of receivables during the Reporting Period
Other income	393,760,191.69	498,785,787.96	-21.06	Decrease of government grants received during the Reporting Period
Investment income	533,117,089.08	1,811,393,898.70	-70.57	Decrease in investment income recognized due to disposal of subsidiaries during the Reporting Period
Gains arising from changes in fair value	218,737,860.49	-206,003,766.29	/	Increase in fair value of financial assets measured at fair value during the Reporting Period
Gains on assets disposal	1,438,918,138.68	58,289,306.83	2,368.58	Increase in gains from disposal of fixed assets and intangible assets during the Reporting Period
Non-operating income	32,778,070.70	81,956,962.86	-60.01	Decrease in compensation received during the Reporting Period
Non-operating expenses	239,075,178.84	143,628,375.65	66.45	Increase in expenditure for expected compensation during the Reporting Period
Net cash flow generated from operating activities	4,743,361,181.87	5,061,326,276.35	-6.28	Increase in payment for goods during the Reporting Period
Net cash flow generated from investing activities	-12,473,124,179.46	-6,015,575,888.57	-107.35	Increase in cash paid for investment in financial assets held for trading during the Reporting Period
Net cash flow generated from financing activities	12,138,594,111.89	1,565,628,486.68	675.32	Increase in cash received from non-public issuance of shares during the Reporting Period

Management Discussion and Analysis

2. Income and cost analysis

(1) Principal business by industry

Unit: RMB0'000

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	2,675,764.46	1,109,152.80	58.55	6.61	7.12	-0.20 percentage point
Distribution	20,573,289.25	19,219,025.71	6.58	7.93	7.86	+0.06 percentage point
Retail	826,352.43	722,010.15	12.63	6.38	7.04	-0.54 percentage point
Others	14,409.32	12,098.76	16.04	-40.45	-16.92	-23.78 percentage points
Offsetting	-965,809.71	-960,020.41	/	/	/	/

(2) Principal business by region

Unit: RMB0'000

By region	Operating income	Operating cost	Gross profit margin (%)	Increase/ decrease in operation income year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year
Domestic Sales	22,838,207.28	19,906,053.87	12.84	7.39	7.41	-0.02 percentage point
Overseas Sales	285,798.47	196,213.14	31.35	20.08	29.02	-4.75 percentage points

(3) Principal business by product field

Unit: RMB0'000

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	497,965	152,439	69.39	-4.28	0.59	-1.48	56.14
Digestive and metabolism	243,678	74,574	69.40	14.91	12.32	0.71	67.35
Systemic anti-infection	276,664	185,452	32.97	9.54	15.53	-3.47	22.27
Central nervous system	187,269	40,498	78.37	13.30	18.19	-0.90	70.92
Anti-tumour and immunomodulatory agents	161,114	30,840	80.86	8.68	9.51	-0.15	69.18
Musculoskeletal system	100,115	28,104	71.93	-2.53	8.44	-2.84	/
Respiratory system	175,409	41,246	76.49	16.20	26.22	-1.87	/
Others	1,033,550	556,000	46.20	7.91	3.75	2.16	/
Total	2,675,764	1,109,153	/	6.61	7.12	/	/

Notes:

- 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 products in the same industry and field of cardiovascular system was sourced from the gross profit margin of “cardiovascular drug” products in the 2021 annual report of Zhejiang Hisun.
- ③ Gross profit margin of the same products in the same industry and field of digestive and metabolism, systemic anti-infection, anti-tumour and immunomodulatory agents was sourced from the gross profit margin of “digestive system”, “anti-viral infection” and “anti-tumor” products in the 2021 annual report of Harbin Pharmaceutical.
- ④ Gross profit margin of the same products in the same industry and field in terms of central nervous system, systemic anti-infection, anti-tumour and immunomodulatory agents was sourced from the gross profit margin of “nervous, blood system drug” products set out in the 2021 annual report of North China Pharmaceutical.
- 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	Cost composition	Amount for the current period	By industry		Proportion of the cost to the total cost of the corresponding period of last year (%)	Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
			Proportion of the cost to the total cost of the Reporting Period (%)	Amount for the corresponding period of last year			
Manufacturing	Raw materials, ancillary materials and packaging materials	802,267.86	72.33	732,355.28	70.73	9.55	/
Manufacturing	Power expenses	31,590.34	2.85	30,963.78	2.99	2.02	/
Manufacturing	Depreciation expense	59,337.69	5.35	56,783.96	5.48	4.50	/
Manufacturing	Salaries	85,613.14	7.72	82,264.09	7.95	4.07	/
Manufacturing	Other manufacturing cost	130,343.77	11.75	133,033.72	12.85	-2.02	/
Manufacturing	Total manufacturing cost	1,109,152.80	100.00	1,035,400.83	100.00	7.12	/
Service and others	Cost	20,026,607.08	/	18,564,336.23	/	7.88	/
Offsetting total cost		-986,267.57	/	-871,622.13	/	/	/
Total operating cost		20,149,492.31	/	18,728,114.93	/	7.59	/

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: RMBO'000

Expensed R&D investment for the current period	211,219.76
Capitalized R&D investment for the current period	68,803.63
Total investment in R&D	280,023.39
Proportion of the total amount of R&D investment to operating income (%)	10.47
Proportion of capitalized R&D investment (%)	24.57
Number of R&D personnel of the Company	1,539
Proportion of the number of R&D personnel to the total number of personnel of the Company (%)	3.21

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

(2) R&D investment in major projects

Unit: RMBO'000

R&D project	R&D Investment amount	Expensed R&D Investment amount	Capitalized R&D Investment amount	Proportion of R&D investment to the operation income (%)	Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
I001	7,847.07	7,549.22	297.85	0.29	62	Clinical Phase III enrollment of the project has been completed
B013	3,357.36	3,357.36	/	0.13	23	/
B006	2,663.73	2,663.73	/	0.10	195	A total of 23 subjects enrolled in clinical phase I in 2022
I035	2,030.67	2,030.67	/	0.08	143	Basically completed pre-clinical research in 2022
I008A	1,529.90	1,529.90	/	0.06	22	/

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

(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	/	Class 1 of chemical drugs	Hypertension	No	No	Clinical phase III
2	I037	/	Class 1 of chemical drugs	Acute ischemic stroke	No	No	Clinical phase II
3	I008	/	Class 1 of chemical drugs	Rheumatoid arthritis; Anti Aids	No	No	Clinical phase II
4	B007	/	Class 1 of biological products for therapeutic use	Non-hodgkin lymphoma	No	No	Clinical phase I
5	B015	/	Class 1 of biological products for therapeutic use	Advanced solid tumor	No	No	Clinical phase I

Note: "No" 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, the Company has obtained the approval for the consistency evaluation for a total of 14 varieties (15 specifications).

No.	Name of drugs (products)	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	Terazosin Hydrochloride Tablets	Supplementary Application	Urinary system drugs	Yes	No	Approved
2	Azithromycin Tablets	Supplementary Application	Antimicrobial drugs	Yes	No	Approved
3	Furosemide Injection	Supplementary Application	Urinary system drugs	Yes	No	Approved
4	Warfarin Sodium Tablets	Supplementary Application	Blood system drugs	Yes	No	Approved
5	Folic Acid Tablets	Supplementary Application	Blood system drugs	Yes	No	Approved
6	Octreotide Acetate Injection	Supplementary Application	Hormone system drugs	Yes	No	Approved
7	Clindamycin Hydrochloride Capsules (2 specifications)	Supplementary Application	Antimicrobial drugs	Yes	No	Approved
8	Aripiprazole Tablets	Supplementary Application	Antipsychotic drugs	Yes	No	Approved
9	Neostigmine Methylsulfate Injection	Supplementary Application	Nervous system drugs	Yes	No	Approved
10	Methotrexate Tablets	Supplementary Application	Antineoplastic drugs	Yes	No	Approved
11	Flunarizine Hydrochloride Capsules	Supplementary Application	Nervous system drugs	Yes	No	Approved
12	Amiodarone Hydrochloride Tablets	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
13	Osetamivir Phosphate Capsules	Supplementary Application	Antiviral drugs	Yes	No	Approved
14	Hydroxychloroquine Sulfate Tablets	Supplementary Application	Antiparasitic drugs	Yes	No	Approved

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.

Management Discussion and Analysis

- (5) Information about drug (product) that obtained approval
 During the Reporting Period, the Company obtained clinical approval for 5 drugs and obtained production approval for 5 drugs.

No.	Drugs (products) that obtained approval	Approval matters	Acceptance of application No./ Approval No.	Indications	Classification of registration
1	SPH3127 Tablets	Clinical	2022LP01389 2022LP01390	Ulcerative colitis	Class 1 of chemicals drug
2	B013 Injection	Clinical	2022LP01285	First-line treatment of locally advanced or metastatic triplenegative breast cancer	Class 1 of biological products for therapeutic use
3	Recombinant Anti- CD20 Humanized Monoclonal Antibody Subcutaneous Injection (B007-A)	Clinical	2022LP01377	Primary membranous nephropathy	Class 1 of biological products for therapeutic use
4	Montelukast Sodium Gel	Clinical	2022LP00445 2022LP00446	Radiation proctitis	Class 2.2 and Class 2.4 of chemicals drug
5	Rasagiline Mesylate Sublingual Film	Clinical	2022LP01749	Idiopathic Parkinsonism	Class 2.2 of chemicals drug
6	Tofacitinib Citrate Tablets	Manufacturing	Guoyaozhunzi No. H20223896	Rheumatoid arthritis, ankylosing spondylitis	Class 4 of chemicals drug
7	Salbutamol Sulfate Solution for Inhalation	Manufacturing	Guoyaozhunzi No. H20227161	Chronic bronchitis, acute asthma	Class 4 of chemicals drug
8	Amiodarone Hydrochloride Injection	Manufacturing	Guoyaozhunzi No. H20223022	Severe arrhythmia	Class 4 of chemicals drug
9	Aripiprazole Oral Solution	Manufacturing	Guoyaozhunzi No. H20223532	Schizophrenia	Class 3 of chemicals drug
10	Lacosamide tablets	Manufacturing	Guoyaozhunzi No. H20223722	Epilepsy	Class 4 of chemicals drug

- (6) Information on international certification of drugs (products)
 During the Reporting Period, the Company's Oseltamivir Phosphate for Suspension (Zhongxi) applied for ANDA.

5. Cash flows

During the Reporting Period, the net cash flow generated from operating activities of Shanghai Pharmaceuticals was RMB4.743 billion, representing a year-on-year decrease of 6.28%; the net cash flow generated from investing activities was -RMB12.473 billion; and the net cash flow generated from financing activities was RMB12.139 billion. The net cash flow generated from operating activities accounted for 67.84% of net profit.

Assets and liabilities

Unit: RMB

Item	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 (%)	Explanation
Financial assets held for trading	9,613,554,659.84	4.85	-	-	/	Increase in financial assets held for trading purchased during the Reporting Period
Notes receivable	1,799,584,411.55	0.91	1,278,880,689.20	0.78	40.72	Increase in bank acceptance bills held during the Reporting Period
Derivative financial assets	4,820,057.40	0.002	3,284,464.66	0.002	46.75	Increase in fair value of derivative financial assets held during the Reporting Period
Advances to suppliers	3,867,582,698.57	1.95	2,457,761,134.48	1.50	57.36	Increase in advances to suppliers during the Reporting Period
Non-current assets due within one year	185,619,908.99	0.09	126,505,618.81	0.08	46.73	Increase in long-term receivables due within one year during the Reporting Period
Other equity instruments investment	101,487,525.55	0.05	73,392,413.17	0.04	38.28	Increase in fair value of financial assets during the Reporting Period
Other non-current financial assets	2,143,040,116.40	1.08	1,388,900,666.61	0.85	54.30	Increase in investments of financial assets during the Reporting Period
Bearer biological assets	137,191,760.75	0.07	402,569,065.33	0.25	-65.92	Increase in impairment provision of bearer biological assets during the Reporting Period
Other non-current assets	443,800,743.79	0.22	856,897,933.62	0.52	-48.21	Decrease in fixed-term deposits with over one year during the Research and Reporting Period
Development costs	342,605,253.63	0.17	259,227,946.08	0.16	32.16	Increase in research and development costs capitalized during the Reporting Period
Derivative financial liabilities	1,569,907.10	0.001	774,097.78	0.0005	102.80	Increase in fair value of derivative financial liabilities held during the Reporting Period
Non-current liabilities due within one year	3,249,433,102.21	1.64	582,042,566.55	0.36	458.28	Increase in long-term borrowings due within one year during the Reporting Period
Other current liabilities	6,384,934,548.00	3.22	9,232,381,601.62	5.65	-30.84	Increase of extra short-term financing bills repaid during the Reporting Period
Contract liabilities	2,242,823,457.63	1.13	1,310,920,870.47	0.80	71.09	Increase in advance received from customers during the Reporting Period
Long-term payables	7,995,923.88	0.004	315,161,494.71	0.19	-97.46	Decrease in long-term payables with over one year during the Reporting Period
Deferred income	534,581,050.48	0.27	2,349,080,148.54	1.44	-77.24	Increase in transfer of demolition compensation during the Reporting Period

Management Discussion and Analysis

Analysis on Investment Conditions

1. Overall analysis on external equity investments

Unit: RMB0'000

Amount of investment during the Reporting Period	311,362.32
Increase or decrease in amount of investment	35,421.28
Amount of investment in the same period of last year	275,941.04
Percentage of increase or decrease in amount of investments (%)	12.84

2. Major equity investment

As at 31 December 2022, 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, in accordance with the disclosure requirements of the Shanghai Listing Rules, the material acquisitions or disposal of subsidiaries, associates and joint ventures were as follows:

Unit: RMB0'000

Name of Investee	Main business	Whether the investment business is the main business of the subject	Investment method	Investment amount	Percentage of shareholding	Consolidated or Not	Capital source	Partner (if applicable)	The development as at the date of balance sheet	Impact on profit or loss	Whether involved in litigation
SPH Luoxin Pharmaceutical (Shandong) Co., Ltd.	Distribution	No	Acquisition	41,496.00	70%	Yes	Own fund	Third parties	Completed	-3,480.57	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 Pharmaceutical Co., Ltd.	Sales of drugs	100.00%	50.00	796.06	175.58	1,277.90	19.63
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100.00%	13.00	311.82	84.06	490.91	10.34
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100.00%	11.92	67.27	35.09	52.16	5.63
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	2.25	40.56	14.01	41.44	2.51
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	21.03	12.47	19.52	0.31
Shanghai TCM Co., Ltd.	Production and sales of drugs	100.00%	14.76	82.27	43.94	65.74	4.56
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75.00%	1.29	39.21	29.24	12.84	12.59
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	1.58	49.32	27.65	61.00	2.43
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	5.46	37.91	30.31	11.64	4.01
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	16.36	10.14	17.83	1.47
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	9.84	8.14	8.99	1.56
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	2.00	6.66	5.12	6.33	0.89
Liaoning Herbex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	1.02	10.79	3.11	10.02	0.99
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	5.27	2.97	3.93	0.11
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical instruments	100.00%	3.27	8.35	5.58	4.48	0.29
TECHPOOL Bio-pharma Co., Ltd.	Production and sales of drugs	67.14%	1.00	21.01	16.81	15.03	2.41
SPH Changzhou Kony Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.15	3.37	2.68	2.38	0.31

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” period, the overall compound growth rate of the industry will slow down and the industry will gradually transform from high-speed development to high-quality development. The year 2023 is a key year for the Chinese market to transform to the “post-pandemic” era, and also an important window period for the reshaping of the pharmaceutical and health industry as well as the transformation and upgrading of enterprises. The development trend of the pharmaceutical industry will be mainly reflected in the following aspects:

1. Policies such as volume-based procurement drive pharmaceutical companies to innovate and transform. With the exchange of price for quantity of generic drugs, pharmaceutical companies pay more attention to the development of out-of-hospital markets. At the same time, pharmaceutical companies gradually focus on varieties with higher barriers and better competitive pattern, improve the R&D innovation models, further improve the input-output efficiency of research and development and integrate with the international market to accelerate the transformation to innovation.
2. National medical insurance negotiation is accelerated to improve the accessibility of innovative products. Innovative drugs, especially the fact that more and more domestic innovative drugs participate in national medical insurance negotiation need to be given the opportunity to be promoted rapidly and improve patient accessibility in order to achieve rapid volume release and speed up commercialization.
3. The development of domestic innovative vaccines is accelerated. The research and development of COVID-19 vaccines promote the rapid development and maturity of industry technology. With the change of supply and demand structure in the industry, the safety, protective efficacy and scope of domestic vaccines, especially the category 2 vaccines, are constantly improving. Policies, products with technological innovation, increase consumer awareness, demand side expansion due to consumption upgrading and other factors bring new opportunities for domestic vaccines.
4. The development of traditional Chinese medicines continues to improve. We have to seize the opportunity of development of traditional Chinese medicine in the post-pandemic era, continue to do well with large varieties and brands of traditional Chinese medicine, and revitalize old brands of traditional Chinese medicine. By doing so, we hope to realize rapid development.
5. 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 become a leading pharmaceutical enterprise in China with international reputations”, deeply promotes the four major transformation and development initiatives of “innovative development, international development, combined development of industry and finance and intensive development”, comprehensively promotes the digitalization construction of Shanghai Pharmaceuticals, maintains the leading position in the domestic pharmaceutical industry, and makes positive contributions to the health of the public.

- **Focusing on “innovation-driven development”.** Taking meeting unmet 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 continuously improve the integration with scientific research institutes and biomedical industries in various places around the world, 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.

Management Discussion and Analysis

- **Focusing on “international development”.** The Company will accelerate the pace of international development, actively participate in international competition, and seek a breakthrough by exporting preparations passing the certification of European and the U.S.A. and reaching the internationally advanced level. “Expanding generic drugs and actively deploying innovative drugs” is a strategic measure for international development, strengthening the systemic ability of the Company’s preparation products in international registration and sales. The Company will 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.
- **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, improve the synergy between business and resources, 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, do a good job in innovation business and risk management and control, 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.
- **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 2023, the Company will actively respond to the changes in the industry, strive to overcome the impact of various unfavorable factors, and fully implement the spirit of the 20th CPC National Congress and the Central Economic Work Conference. To follow the pace of national development, we will fully promote scientific and technological innovation, accelerate innovative development, international development and digital development of Shanghai Pharmaceuticals. By doing so, we hope to improve the market-oriented systems and mechanisms and continuously enhance the Company’s competitive advantage in the industry.

In terms of business development, the Company will continue to dig the potential stock businesses in the industrial segment, accelerate the expansion of increment, introduce new products and enhance new business contributions. In the pharmaceutical service segment, the Company will continue to expand new markets, new businesses and new models, and continue to promote the series of work of improving quality and efficiency, and improve its business quality.

In terms of scientific and technological innovation, the Company will further deepen the reform of scientific and technological innovation mechanism in the manufacturing segment, build an efficient innovation platform, and further improve the quality and quantity of R&D results with the patient demands as the core and the clinical value and market value as guide.

In terms of talent team, the Company will further improve the manpower system, optimize the layout of talents, focus on leading talents, compound talents and related professional skills talent reserve and improve the quality of talents.

In terms of system capability, the Company will continue to promote the digitalization construction of SPH, improve the level of management refinement by means of big data, enhance the system capability and build an efficient organization.

Potential risk factors

In consideration of the impact of geopolitics and international economic situation, 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.

Report of the Board of Directors

The board of directors of the Company (the "Board" or 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 2022. The annual report has been reviewed by the audit committee of the Company and approved at the 37th meeting of the seventh session of the Board. 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, SIIIC. Its principal business covers pharmaceutical industry, distribution and retail, and Shanghai Pharma possesses unique comprehensive advantages of industry chain, is capable of sharing the sustainable growth opportunity of China's healthcare and pharmaceutical industry, and furthermore, bringing synergy effect via resources sharing among business sectors.

Details of the principal business of the Group's main subsidiaries are set out in note 6 (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

The details of Business review (including major risks and uncertainties of relevant business and its likely future developments), 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 2022 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 2022: The Company proposes to distribute cash dividend of RMB6.10 (tax inclusive) for every ten Shares to all shareholders. As at the 31 December 2022, total proposed cash dividend of RMB2,255,503,164.92 (tax inclusive) shall be distributed based on 3,697,546,172 shares of the total share capital of the Company, accounting for 40.15% of consolidated net profit attributable to shareholders of the listed company for the year. After distribution, the Company's balance of the consolidated undistributed profit will be RMB30,224,369,174.20. During the Reporting Period, there is no conversion of capital reserve into share capital of the Company.

If the total share capital of the Company changes during the period up to the record date regarding execution of the profit distribution, the Company intends to maintain distribution amount per share unchanged based on the total share capital on the record date regarding execution of profit distribution and the total profit distribution amount will be adjusted accordingly.

The above profit distribution plan needs to be approved by the 2022 annual general meeting of the Company.

Cash dividend of H Shares is expected to be paid before 30 August 2023. 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 2022 was RMB3,000,421,926.62 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 2022 are set out in the Note 17 (6) to the financial statements.

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.

Report of the Board of Directors

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 “2022 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 RMB16,304.09 million, accounting for 7.03% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB3,827.18 million, accounting for 1.65% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB16,798.45 million, accounting for 8.34% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB1,771.90 million, accounting for 0.88% 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 2022, 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.

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.

MANAGEMENT CONTRACTS

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

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

Unit: Share

Name of shareholders	Increase/Decrease during the Reporting Period	Number of Shares		Shareholding percentage (%)	Number of		Nature of shareholders
		held at the end of the Reporting Period			trade restricted Shares held	Pledged or frozen	
Shanghai Pharmaceutical (Group)	0	716,516,039		19.378	0	Nil	State-owned legal person
HKSCC NOMINEES LIMITED ^{note 1}	-58,350,200	690,766,124		18.682	0	Unknown	Foreign legal person
Yunnan Baiyao	665,626,796	665,626,796		18.002	665,626,796	Nil	Domestic non-state-owned person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi and its wholly-owned subsidiaries ^{note 2}	245,356,000	613,179,198		16.583	187,000,000	Nil	State-owned legal person
China Securities Finance Corporation Limited	-26,014,460	59,319,243		1.604	0	Unknown	Unknown
Hong Kong Securities Clearing Company Limited ^{note 3}	-1,497,900	51,614,508		1.396	0	Unknown	Foreign legal person
Guosheng Group	0	44,632,100		1.207	0	Nil	State-owned legal person
China Merchants Bank Co., Ltd. – Industrial Income Enhancement Bond Securities Investment Fund	7,821,567	16,104,292		0.436	0	Unknown	Unknown
Bank of Ningbo Co., Ltd. – Zhongtai Xingyuan Value Selected Flexible Allocation Mixed Securities Investment Fund	11,767,864	14,581,367		0.394	0	Unknown	Unknown
Yinhua Fund – Agricultural Bank – Yinhua China Securities and Financial Assets Management Program	-256,345	11,708,022		0.317	0	Unknown	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 203,877,400 H Shares held by SIIC's wholly-owned subsidiaries and 23,515,100 H Shares held by Guosheng Group 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: The 187,000,000 A Shares held by Shanghai Tandong are included in the number of Shares held by Shanghai Shangshi and its wholly-owned subsidiaries.

Note 3: 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 2022, 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 A Shares or H Shares at the general meetings of the Company. Interests and short positions of Directors, Supervisors and Chief Executive are set out in the “Chapter 7 Directors, Supervisors and Senior Management”.

Name of shareholder	Class of Shares	Nature of interests in shares	Number of shares	Percentage of A Shares/H Shares held as at the end of the Reporting Period to the entire issued A Shares/H 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 corporations	1,329,695,237(L)	40.52 (A Shares)/ 22.18 (H Shares)	35.96
Shanghai Shangshi Group ^{Note 1(2)}	A Shares	Beneficial owner/Interests of controlled corporations	1,125,317,837(L)	40.50	30.43
Shanghai Pharmaceutical (Group) ^{Note 1(3)}	A Shares	Beneficial owner	716,516,039(L)	25.79	19.38
Yunnan Baiyao	A Shares	Beneficial owner	665,626,796(L)	23.96	18.00
BlackRock, Inc.	H Shares	Interests of controlled corporations	73,797,753(L) 143,300(S)	8.03 0.02	2.00 0.00
Citigroup Inc.	H Shares	Interests of controlled corporations/ Approved lending agent	46,441,283(L) 1,145,400(S) 44,868,450(P)	5.05 0.12 4.88	1.26 0.03 1.21

(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 1,329,695,237 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 203,877,400 H Shares were directly held by SIIC group, and 1,125,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi Group.
- (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi Group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 1,125,317,837 A Shares held by Shanghai Shangshi Group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group) and 187,000,000 A Shares were indirectly held by Shanghai Shangshi through Shanghai Tandong.

Report of the Board of Directors

- (3) As at the end of the Reporting Period, Shanghai Pharmaceutical (Group) is held as to 60% by Shanghai Shangshi and as to 40% by S.I. Yangtze River Delta. S.I. Yangtze River Delta is held as to 50% by Shanghai Industrial and as to 50% by Shanghai Overseas Company. SIIC held approximately 62.9% equity interest in Shanghai Industrial and was authorized to manage Shanghai Overseas Company.

- 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 2022, 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 25,680,000 to 25,600,000 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.

Due to the resignation or unfulfillment of performance assessment requirements of some employees, the Company considered and approved at the meeting of the Board on 5 January 2022 to adjust the number of the initial participants from 210 to 190 and the number of initial granted options was adjusted from 25,600,000 to 23,258,120 accordingly. Due to fulfillment of the exercise conditions for the first exercise period of the initial granted share options of the Option Incentive Scheme, the Company considered and approved at the meeting of the Board on 5 January 2022 that 190 participants can exercise 7,667,220 options for the first exercise period. As at 31 December 2022, 2,830,054 A-share share options were exercised by the Company.

In conclusion, as at 31 December 2022, 23,158,066 A-share share options were granted by the Company, which had not been exercised.

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 and other employee participants 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 Association.

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.

As at 31 December 2022, the distribution of the share options to participants is as follows:

Name	Position(s)	Number of the share options granted (in 10,000 A Shares)	Percentage to total number of the share options granted	Percentage to total share capital of the Company as of the Grant Date
Cho Man	Executive Director, President	48.00	1.847%	0.017%
Li Yongzhong	Executive Director, Vice President	39.00	1.501%	0.014%
Shen Bo	Executive Director, Vice President, Chief Financial Officer	39.00	1.501%	0.014%
Zhao Yong	Vice President	33.00	1.270%	0.012%
Mao Jianyi	Vice President	33.00	1.270%	0.012%
Gu Haoliang ^{Note 1}	Vice President (resigned)	33.00	1.270%	0.012%
Zhang Yaohua	Vice President	33.00	1.270%	0.012%
Chen Jinzhu ^{Note 2}	Vice President, Secretary to the Board, Joint Company Secretary (resigned)	33.00	1.270%	0.012%
Pan Deqing ^{Note 3}	Vice President	18.00	0.691%	0.006%
Middle level management and core employees of the Company (181 persons in total after adjustment) under the initial grant		2,016.812	77.605%	0.710%
Middle level management and core employees (28 persons in total) under the reserved options grant		273.00	10.505%	0.096%
Total		2,598.812	100.000%	0.917%

Report of the Board of Directors

Note 1: Mr. Gu Haoliang ceased to be the vice president of the Company from 29 March 2022 (for details, please refer to the Company's overseas regulatory announcement dated 30 March 2022 (A share announcement Lin No. 2022-025)) and his granted share options remained unchanged as at 31 December 2022.

Note 2: Ms. Chen Jinzhu ceased to be the vice president of the Company from 29 March 2022, and ceased to be the secretary to the Board and joint company secretary of the Company from 29 August 2022. For details, please refer to the Company's overseas regulatory announcement dated 30 March 2022 (A share announcement Lin No. 2022-025) and the Announcement on Proposed Re-election and Election of Directors and Supervisors, etc dated 29 August 2022 (A share announcement Lin No. 2022-066).

Note 3: Mr. Pan Deqing was appointed as the vice president of the Company on 29 March 2022 (for details, please refer to the Company's overseas regulatory announcement dated 30 March 2022 (A share announcement Lin No. 2022-025)) and his share options granted before serving as the vice president remained unchanged as at 31 December 2022.

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 25,988,120, representing approximately 0.7% of the total number of Shares of the Company in issue as of the date of this report and not more than 1% of the total number of Shares of the Company in issue as of the date of this report.

4. MAXIMUM NUMBER OF SHARE OPTIONS GRANTED TO EACH PARTICIPANT UNDER THE OPTION INCENTIVE SCHEME

The total number of Shares to be granted to the participants under the Option Incentive Scheme which are still in the Validity Period of the Option Incentive Scheme shall not exceed 1% of the Company's total share capital at the time of the approval of the Option Incentive Scheme 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 lawfully 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 of the share options shall be adjusted accordingly.

Report of the Board of Directors

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.

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 2022 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 during the Reporting Period (in 10,000 A Shares)	Grant Date	Exercise period	Exercise Price	The weighted average closing price of A shares of the Company immediately before the exercise date during the Reporting Period
Cho Man	Executive Director, President	48.00	0	15.84	0	0	0	48.00	19 December 2019	From 14 February 2022 to 13 February 2025	RMB18.41 per A Share	
Li Yongzhong	Executive Director, Vice President	39.00	0	12.87	0	0	0	39.00				
Shen Bo	Executive Director, Vice President, Chief Financial Officer	39.00	0	12.87	0	0	0	39.00				
Zhao Yong	Vice President	33.00	0	10.89	0	0	0	33.00				
Mao Jianyi	Vice President	33.00	0	10.89	0	0	0	33.00				
Gu Haoliang	Vice President (resigned)	33.00	0	10.89	0	0	0	33.00				
Zhang Yaohua	Vice President	33.00	0	10.89	-4.00	0	0	29.00				RMB20.01
Chen Jinzhu	Vice President, Secretary to the Board (resigned)	33.00	0	10.89	0	0	0	33.00				
Pan Deqing	Vice President	18.00	0	5.94	0	0	0	18.00				
Middle level management and core employees of the Company (181 persons in total after adjustment) under the initial grant		2,251	0	664.752	-279.0054	0	-234.188	1,737.8066				RMB20.04
Middle level management and core employees (28 persons in total) under the reserved options grant		273.00	0	0	0	0	0	273.00	15 December 2020	From 8 February 2023 to 7 February 2026	RMB20.16 per A Share	
Total		2,833	0	766.722	-283.0054	0	-234.188	2,315.8066				

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 participant, 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 overseas regulatory announcement dated 11 February 2020 and the supplement announcement to the 2019 Share Option Incentive Scheme of the Company dated 22 August 2020 (A share announcement Lin No. 2020-003, 048).

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

As of 31 December 2022, exercise conditions for the first exercise period had been fulfilled for 190 participants under the 2019 Option Incentive Scheme of the Company. According to the exercise arrangement for the Option Incentive Scheme of the Company, exercisable options for the first exercise period accounted for 33% of the granted share options, that is, 190 participants under the Share Option Scheme of the Company exercised 7,667,220 share options in total for the first exercise period. The closing date for the first exercise period was 13 February 2023.

As of the beginning and end of the Reporting Period, no options were granted by the Company according to the Option Incentive Scheme.

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 17.07 and 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 the Laws of Hong Kong) (the "Category Two Grantees").

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 year ended 31 December 2022 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	7,251,420	23,277,058.20	7,263,300	25,639,449.00	7,483,400	37,716,336.00
Total	7,667,220	24,611,776.20	7,679,100	27,107,223.00	7,911,800	39,875,472.00

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.

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 year ended 31 December 2022 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 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	900,900	3,066,700	900,900	3,485,300	928,200	3,694,600
Total	900,900	3,066,700	900,900	3,485,300	928,200	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 exercisable 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”.

11. WEIGHTED AVERAGE NUMBER OF THE GRANTED SHARE OPTIONS

	For the year ended 31 December 2022
Number of shares	2,830,054
Effect of dilutive potential ordinary shares:	
Effect of the issuance of share options by the Company	Nil

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 2022, 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 C.1.8. 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 2022, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

ISSUANCE OF EQUITY SECURITIES

Directed non-public issuance of A Shares

To enhance the Company's working capital, strategic investors were brought to optimize the shareholding structure. On 8 April 2022, Shanghai Pharmaceuticals has completed registration of 187,000,000 A Shares and 665,626,796 A Shares under non-public issuance of A shares to Shanghai Tandong and Yunnan Baiyao, at the issue price of RMB16.39 per A share (par value per A share was RMB1, the closing price of A Shares on that day was RMB20.91), and the aggregate proceeds raised amounted to RMB13,974,553,186.44, and the net proceeds raised amounted to RMB13,932,172,375.54. Pursuant to the non-public issuance proposal, the aforesaid raised funds of the Company, after deduction of issuance costs, will be fully used to supplement the working capital and repay the Company's debts. Among which, RMB3 billion was used to repay the Company's debts, and the remaining was used to supplement the working capital. During the Reporting Period, the proposed use of the above-mentioned net proceeds disclosed in the non-public issuance proposal remains unchanged.

In the first half of 2022, under strict control of the pandemic in Shanghai, some of the raised funds have been temporarily idle. The Board of the Company has approved the use of the temporarily idle raised funds of not more than RMB10.8 billion in total amount for cash management on 29 April 2022, and the funds may be applied on a rolling basis within the above quota. The term of use shall not exceed 12 months from the date on which it is adopted upon consideration and approval at the thirty meeting of the seventh session of the Board in 2022, and the investment period for a single product shall not exceed 12 months.

As at 31 December 2022, the above proceeds have been fully utilized.

PUBLIC FLOAT

As at 31 December 2022, the total share capital of the Company was 3,697,546,172 Shares (2,778,473,468 A Shares and 919,072,704 H Shares), including 2,844,837,776 Shares without trade restrictions (1,925,765,072 A Shares and 919,072,704 H Shares). During the Reporting Period and as at the date of this 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.

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

Property Leasing Framework Agreement renewed between the Company and Shanghai Pharmaceutical (Group) and its subsidiaries

The Company approved the Proposal regarding the Renewal of Property Leasing Framework Agreement with Shanghai Pharmaceutical (Group) and the Daily Related Transactions/Continuing Connected Transactions at the 14th meeting of the seventh session of the Board held on 29 October 2020. On the same date, the Company (as the lessee) and Shanghai Pharmaceutical (Group) (as the lessor) entered into Property Leasing Framework Agreement in relation to provision of property leasing to the Group by Shanghai Pharmaceutical (Group) and its subsidiaries. The term of lease is three years commencing from 1 January 2021 and ending on 31 December 2023. The annual caps of continuing connected transactions for 2021, 2022 and 2023 under this agreement were RMB100 million, respectively. The annual caps of the total value of the use right assets involved were RMB180 million, respectively.

In 2022, 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, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction shall be subject to the reporting, annual review and announcement requirements and is exempt from the approval of the independent shareholders (as defined under Chapter 14A of the Hong Kong Listing Rules, the same below). Details are as follows:

Unit: RMB0'000

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2022 connected transaction	Annual cap for the 2022 connected transaction
During the period from January to December 2022	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	Housing, machinery leasing and property service	4,435.82	10,000.00
		Leasing premises and production equipment from connected persons	The value of the use right assets involved	4,250.90	18,000.00

Note: For details, please refer to Company's announcement dated 30 October 2020 in relation to entering into the Property leasing Framework Agreement (A share announcement Lin No. 2020-061). 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 2021 annual general meeting held on 30 June 2022. The agreement is effective from the date of the 2021 annual general meeting to 31 December 2024. During the term of the agreement, the maximum daily balance of deposits of the Group with the Finance Company from the date of the 2021 annual general meeting to 31 December 2022 and for the years ended 31 December 2023 and 31 December 2024, shall not exceed RMB4.0 billion, RMB4.5 billion and RMB5.0 billion, respectively, and the maximum outstanding balance of comprehensive credit facilities provided to the Group by the Finance Company shall not exceed RMB6.0 billion.

From the date of the 2021 annual general meeting of the Company to 31 December 2022, 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 of deposit service was higher than 5%. Therefore, the transaction shall be subject to reporting, annual review, announcement and independent shareholders’ approval requirements. Actual loan services were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for such loan services; the highest applicable percentage ratio for actual settlement and financial services provided by connected company, calculated on an annual basis, were less than 0.1%. Details are as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2022 connected transaction	Annual cap for the 2022 connected transaction
During the period from 30 June to December 2022	Finance Company	Deposit service provided by connected company	Deposit service (maximum daily balance)	39.20	40

Note: For details, please refer to Company’s announcement dated 30 March 2022 in relation to the renewal of financial services agreement and the Company’s announcement dated 1 July 2022 in relation to poll results of general meetings (A share announcements Lin No. 2022-027, 053); 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 Finance Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

Report of the Board of Directors

Commercial Factoring Services Framework Agreement renewed between the Company 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 15 December 2020, the 15th meeting of the seventh session of the Board 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 Group. The agreement is effective from 1 January 2021 to 31 December 2022, and the total amount of comprehensive credit to be obtained by the Group from the Factoring Company shall not exceed RMB800 million annually. The transaction amount of other commercial factoring services shall not exceed RMB100 million for each year.

In 2022, 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, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction is only subject to reporting, annual review and announcement requirements, and is exempt from independent shareholders’ approval requirements. Details are as follows:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2022 connected transaction	Annual cap for the 2022 connected transaction
During the period from January to December 2022	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	–	8
			Other commercial factoring services	–	1

Note: For details, please refer to the Company’s announcement dated 16 December 2020 in relation to the renewal of commercial factoring services framework agreement (A share announcement Lin No. 2020-071), 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.

Procurement Framework Agreement entered into between the Company and Wing Fat Printing Co., Ltd. (“Wing Fat Printing”)

The Company approved the Proposal regarding the Renewal of Procurement Framework Agreement and the Daily Related Transactions/Continuing Connected Transactions with Wing Fat Printing Co., Ltd. at the 27th meeting of the seventh session of the Board of Directors held on 29 October 2021. On the same day, the Company entered into the Procurement Framework Agreement with Wing Fat Printing, pursuant to which, the Wing Fat Group will provide printed packaging materials for pharmaceutical products to the Group with an annual cap of RMB80 million for the purchase amount, which will be valid from 1 January 2022 to 31 December 2022.

In 2022, as the actual amount of continuing connected transactions between the Group and Wing Fat Group under the Procurement Framework Agreement did not exceed the aforementioned maximum amount approved by the Board, and the maximum applicable percentage ratio of the actual amount exceeded 0.1% but was less than 5%, and was subject to the reporting, annual review and announcement requirements but exempt from independent shareholders’ approval requirement with details as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2022 connected transaction	Annual cap for the 2022 connected transaction
During the period from January to December 2022	Wing Fat Printing Group	Procure the printed packaging materials from connected companies	Printed packaging materials	0.46	0.8

Note: For details, please refer to Company’s announcement dated 30 October 2021 in relation to entering into the Procurement Framework Agreement (A share announcement Lin No. 2021-087). As SIIC is the controlling shareholder of the Company as well as Shanghai Industrial, and Wing Fat Printing is an indirect non-wholly owned subsidiary of Shanghai Industrial, Wing Fat Printing is a connected person of the Company and such transaction constituted a continuing connected transaction.

Sales and Procurement Framework Agreement between the Company and Yunnan Baiyao

The Company approved the Proposal regarding Entering into Framework Agreement and the Daily Related Transactions/Continuing Connected Transactions with Yunnan Baiyao at the 33rd meeting of the seventh session of the Board of Directors held on 29 August 2022. On the same day, the Company and Yunnan Baiyao entered into the Sales and Procurement Framework Agreement with a valid term until 31 December 2022, pursuant to which, the Group agrees to sell to Yunnan Baiyao the medicines, medical devices, health care products and food products that the Group produces or is the main distributor, with a cap of RMB508 million for the sales amount from 1 April 2022 to 31 December 2022; and the Group agrees to procure from Yunnan Baiyao the medicines, medical devices, health care products and food products that it produces or is the main distributor, with a cap of RMB243 million for the purchase amount from 1 April 2022 to 31 December 2022.

Report of the Board of Directors

From 1 April 2022 to 31 December 2022, the actual amount of continuing connected transaction between the Group and the Yunnan Baiyao under the Sales and Procurement Framework Agreement did not exceed the above-mentioned maximum amount approved by the Board, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction is only subject to reporting, annual review and announcement requirements, and is exempt from independent shareholders' approval requirements. Details are as follows:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2022 connected transaction	Annual cap for the 2022 connected transaction
During the period from April to December 2022	Yunnan Baiyao	Sell products to connected companies	Sell the medicines, medical devices, health care products and food products	4.48	5.08
		Purchase products from connected companies	Purchase the medicines, medical devices, health care products and food products	2.43	2.43

Note: For details, please refer to Company's announcement dated 29 August 2022 in relation to entering into the Sales and Procurement Framework Agreement (A share announcement Lin No. 2022-067). On 8 April 2022, the registration of 665,626,796 A shares subscribed by Yunnan Baiyao under the non-public issuance was completed, Yunnan Baiyao became a substantial shareholder of the Company, therefore, Yunnan Baiyao is a connected person of the Company and such 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 of the Group;
- 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 Company and the shareholders as a whole.

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

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

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

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 8 (5) to the financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Refer to the "2022 Corporate Social Responsibility Report of Shanghai Pharmaceuticals Holding Co., Ltd." disclosed by the Company for details.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is fully aware of the importance of compliance with the requirements of laws and regulations and sets internal compliance and risk management policies and procedures in place to ensure that the Group complies and is in compliance with all material and applicable laws and regulations in the PRC and Hong Kong. For the year ended 31 December 2022 and up to the date of this report, to the best of the Directors' knowledge, the Group has complied in all material respects with the applicable laws and regulations of the PRC and Hong Kong, which have a significant impact on the business and operations in areas including the Group's principal activities, employment and labor practices and environmental protection. The Group has also obtained all licenses, approvals and permits from the relevant regulatory authorities which are material to its business operations in the PRC.

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

During the year ended 31 December 2022, the Company has not issued, repurchased, sold or redeemed bonds.

CAPITAL STRUCTURE AND LIQUIDITY

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 60.63% as at 31 December 2022, representing a decrease of 3.23 percentage points on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 6.21 times (2021: 6.36 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 20.70%.

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 2022 were RMB36.659 billion, nil and RMB6.060 billion, respectively, of which the balance of loans in US Dollar amounted to RMB3.274 billion, the balance of loans in New Zealand Dollar amounted to RMB248 million, the balance of loans in Euro amounted to RMB4 million, the balance of loans (including long and short-term bonds) at a fixed interest rate amounted to approximately RMB38.396 billion. The net amount of accounts receivable and notes receivable as at 31 December 2022 was RMB68.559 billion, representing an increase of 15.45% 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 2022, the balance of accounts payable and notes payable was RMB51.566 billion, representing an increase of 22.79% on a year-on-year basis.

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

MAJOR ASSETS RESTRICTION AT THE END OF THE REPORTING PERIOD

As at 31 December 2022, the balance of the Group's other monetary funds was RMB2,868 million, which was mainly the margin deposit for security for applying to the bank for issuing bank acceptance bills and letters of credit.

As at 31 December 2022, the Group pledged the accounts receivable with the book value of RMB142 million to the bank as a guarantee for long-term borrowings of RMB114 million and long-term borrowings due within one year of RMB28 million.

As at 31 December 2022, houses, buildings, machinery and equipment with a book value of RMB197 million (original price: RMB367 million) and land use rights of 295,500 square meters (original price: RMB389 million, book value: RMB370 million) were used as collateral for RMB348 million of short-term borrowings and RMB298 million of long-term borrowings.

As at 31 December 2022, the bank pledged borrowings of RMB1,155 million were short-term borrowings obtained by discounting commercial acceptance bills of RMB171 million, the short-term borrowings obtained by discounting bank acceptance bills of RMB301 million and the short-term borrowings obtained by using the accounts receivable with book value of RMB702 million as collaterals.

As at 31 December 2022, the equity interest in subsidiary of the Group was pledged for the pledged bank borrowings of RMB74 million and RMB10 million of long-term borrowings due within one year.

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 closed. There were no contingent liabilities resulting from debt guarantee provided by the Company to other entities and guarantee provided to related parties.

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	Collateral (if any)	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter Guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	426,450.78		2022/9/19	2022/12/19	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	614,208.00		2022/9/19	2023/3/19	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,559,950.12		2022/9/26	2023/3/26	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	6,616,106.70		2022/10/24	2023/1/24	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	289,065.00		2022/10/24	2023/4/24	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,224,882.27		2022/12/20	2023/3/20	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,669,900.47		2022/12/20	2023/6/20	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	400,297.80		2022/10/24	2023/4/24	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	33,880.00		2022/12/6	2023/3/6	Joint guarantee		No	No		Nil	No	Associate
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													18,834,741.14	
Total remaining balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)													18,408,290.36	
Guarantees provided by the Company and its subsidiaries to its subsidiaries														
Total value guaranteed for its subsidiaries during the Reporting Period													9,027,740,044.09	
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)													8,699,552,401.17	
Total value guaranteed by the Company (including guarantees to subsidiaries)														
Total value guaranteed (A+B)													8,717,960,691.53	
Proportion of total value guaranteed in the Company's net assets (%)													13.00%	
Among which:														
Value guaranteed for shareholders, de facto controller and related parties (C)														
Value directly or indirectly guaranteed for guaranteed parties whose gearing ratio exceeds 70% (D)													2,914,185,715.32	
Amount of total value guaranteed exceeding 50% of net assets (E)														
Total of value guaranteed for the above three items (C+D+E)													2,914,185,715.32	
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	201
Number of in-service employees of the major subsidiaries	47,676
Total number of in-service employees	47,877
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	255

Composition of professions

Type of profession	Number of staff in the profession
Production staff	14,915
Sales staff	18,626
Technical staff	7,157
Finance staff	1,973
Administrative staff	3,879
Others (service staff)	1,327
Total	47,877

Education level

Type of Education Level	Number of persons
PhD	153
Master	1,873
University graduate	14,156
College graduate	14,611
Specialized secondary school (high school) graduate	4,895
Below specialized secondary school graduate	12,189
Total	47,877

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.

FIVE HIGHEST PAID INDIVIDUALS

Details of five highest paid individuals of the Group set out in the note 8 (8) of financial statements.

In 2022, no emoluments have been paid by Shanghai Pharmaceuticals to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and there is no director waived or agreed to waive any of their emoluments.

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 4 (30) of financial statements.

TRAINING PROGRAM

Focusing on the Group'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 learning programs 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 Group carried out the leadership and professional competence development project in forms of wild goose array project, Mini-MBA project, Internationalization Ability Development Class, Overseas Registration Special Class, Management Competency Improvement Class for Various Professional Lines, 4 Major Theme Forums (medical professional class, management new knowledge class, professional skill class and humanities and general education class), etc.

In 2022, Shanghai Pharma University continued to improve version 2.0 system, promoted business-driven, practical and customized training, optimized Shanghai Pharmaceuticals' talent training system and organized training projects at various levels. In 2022, Shanghai Pharma University carried out 26 programs, 62 classes and 24 forums. A total of 12,802 people participated in the training of Shanghai Pharma University. Among them, based on different stages and orientation of talent development, the main program was expanded and deepened and the training series were optimized around six "new" (new employees from campus recruitment, new employees from social recruitment, management trainees, new managers, new M&A companies and new organizations) on the basis of the Jing Yan and Hong Yan. In terms of professional programs, Shanghai Pharma University held more than 10 professional programs with various functional lines at the headquarters to enhance the professional management ability of each function; in terms of thematic programs, Shanghai Pharma University held the internationalization ability development class and overseas registration special class to broaden the horizons of international management for leaders and grassroots employees, interpret the real-time international situation and policies, and better decompose and implement the Group's internationalization strategy. As a supplement to the Yan array, Mini MBA, a rotational training program, was customized for middle managers to update their up-to-date management knowledge and promoted the integrated development of subordinate enterprises. Online + offline business English rotational training helped employees improve their language competency and provided guarantee for internationalization strategy.

CHANGES IN AUDITORS FOR PAST THREE YEARS

The Company has not changed its auditor in any of the past three years.

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

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

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 2022.

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 (before tax) (RMB10,000)	Whether obtained salary from connected parties of the Company
Zhou Jun	Chairman, Non-Executive Director	Male	54	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	0	Yes
Ge Dawei	Vice Chairman, Non-Executive Director	Male	60	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	0	Yes
Cho Man	Executive Director, President	Male	62	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	20,009 A Shares	20,009 A Shares ^{Note 1}	0	/	606.40	No
Li Yongzhong	Executive Director, Vice President	Male	53	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0 ^{Note 2}	0	/	652.12	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	50	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	71,700 A Shares	71,700 A Shares ^{Note 3}	0	/	579.90	No
Li An	Non-Executive Director	Female	62	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	0	No
Cai Jiangnan	Independent Non-Executive Director	Male	66	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	30.00	No
Hong Liang	Independent Non-Executive Director	Male	48	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	30.00	No
Gu Zhaoyang	Independent Non-Executive Director	Male	57	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	30.00	No
Manson Fok	Independent Non-Executive Director	Male	66	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	30.00	No
Xu Youli	Chief Supervisor	Male	49	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	0	Yes
Huan Jianchun	Employee Supervisor	Male	61	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	3,000 H Shares	3,000 H Shares	0	/	0	Yes
Xin Keng	Supervisor	Male	56	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	0	No

Directors, Supervisors and Senior Management

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 (before tax) (RMB10,000)	Whether obtained salary from connected parties of the Company
Zhao Yong	Vice President	Male	51	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	450.16	No
Mao Jianyi	Vice President	Male	55	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	400.59	No
Zhang Yaohua	Vice President	Male	50	2019-06-27	Expiry date of the term of the 7th session of the Board of Directors	0	40,000 A Shares	40,000 A Shares	Exercise of options	461.14	No
Zhong Tao	Vice President	Male	51	2022-03-29	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	93.08	No
	Secretary to the Board of Directors, Joint Company Secretary			2022-08-29							
Pan Deqing	Vice President	Male	54	2022-03-29	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	404.20	No
Li Dongming	Vice President	Male	54	2022-03-29	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	93.24	No
Shao Shuai	Vice President	Female	35	2022-08-29	Expiry date of the term of the 7th session of the Board of Directors	0	0	0	/	18.06	No
Gu Haoliang	Vice President (resigned)	Male	61	2019-06-27	2022-03-29	0	0	0	/	464.82	No
Chen Jinzhu	Vice President Secretary to the Board of Directors, Joint Company Secretary	Female	37	2019-08-29	2022-03-29 2022-08-29	0	0	0	/	386.39	No
Total ^{Note 4}	/	/	/	/	/	91,709 A Shares 3,000 H Shares	131,709 A Shares 3,000 H Shares	40,000 A Shares	/	4,730.10	/

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.

Note 4: As at the end of the Reporting Period, for details of the share options of others in the above table obtained under the share option scheme of the Company, please refer to the section headed "share option scheme" above.

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zhou Jun

Mr. Zhou Jun obtained a bachelor degree in Arts from Nanjing University, a master degree in Economics in International Finance from Fudan University and a Ph.D degree in business management from the Advanced Institute of Finance of Shanghai Jiao Tong University – Arizona State University in the United States of America. He is currently the chairman of the Board and a non-executive director of the Company. Mr. Zhou Jun has nearly 30 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 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 chairman of the board of directors 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), the chairman of Shanghai Galaxy Investments Co., Ltd., Shanghai Shangshi Capital Management Co., Ltd. (上海上實資本管理有限公司) and Shanghai Cultural Industry Development Investment Fund Management Co., Ltd. (上海文化產業發展投資基金管理有限公司). Mr. Zhou Jun is also the representative of the 16th Shanghai Municipal People's Congress, the chairman of Shanghai Pharmaceutical Profession Association, Shanghai Environment Protection Industry Association, Shanghai Young Entrepreneurs Association and director of Shanghai Immunotherapy Innovation Research Institute.

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), which is listed on the Hong Kong Stock Exchange; 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 obtained a bachelor degree in pharmacy from Sichuan University (former West China University of Medical Science) and a master 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 obtained an executive master degree in 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 Pharmaceutical 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 obtained a master degree in professional accountancy from Chinese University of Hong Kong and is 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 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 of 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 a director of Shanghai Tunnel Engineering Co., Ltd. (stock code 600820) and a director of East China Construction Group Co., Ltd. (華東建築集團股份有限公司) (stock code 600629), a director and the vice president of Shanghai Guosheng (Group) Co. Ltd., 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.

Cai Jiangnan

Mr. Cai Jiangnan obtained a bachelor degree in Economics from East China Normal University, a master 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), Beta Pharmaceuticals Co., Ltd. (a company listed on the Shenzhen Stock Exchange) (stock code 300558) and Nanjing Vazyme Biotech Co., Ltd. (a company listed on the Shanghai Stock Exchange) (stock code: 688105). 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 degree in Economic Law from East China University of Political Science and Law and a master 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), Shanghai Jiaoyun Group Co., Ltd. (上海交運集團股份有限公司, stock code: 600676) 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 the standing committee of China Youth Federation, secretary general of Legal Functional Constituency, 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 and the Hong Kong Stock Exchange, etc.

Directors, Supervisors and Senior Management

Gu Zhaoyang

Mr. Gu Zhaoyang obtained 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 and an independent director of Tianjin Pharmaceutical Co., Ltd. (津藥藥業股份有限公司, stock code: 600488) listed on the Shanghai Stock Exchange. 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 degree in Economics from the University of Finance and Economics in Shanghai and a master 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 obtained a university degree. He currently serves as 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., member of the Party Committee and secretary to the Disciplinary Committee of Shanghai Pharmaceutical (Group) Co., Ltd. and the Company, etc.

Xin Keng

Mr. Xin Keng obtained a bachelor degree and a master 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 obtained a master degree in Laws 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 chairman of Shanghai Medical Education and Training Co., Ltd. (上海醫藥教育培訓有限公司). 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. 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.

Zhang Yaohua

Mr. Zhang Yaohua obtained a bachelor degree in Polymer Chemistry from Fudan University and a MPAcc degree 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.

Directors, Supervisors and Senior Management

Zhong Tao

Mr. Zhong Tao graduated from Fudan University with a postgraduate degree in business management and obtained a master's degree. He is currently the vice president, board secretary and joint company secretary of the Company and holds directorship and other positions in certain subsidiaries of the Company. He was a member of the Party Committee, an executive director and a vice president of Shanghai Industry City Development Group Co., Ltd., and a member of the Party Committee, a director and a vice president of Shanghai Chengkai (Group) Co., Ltd., a director of Tianjin Trust Co., Ltd., a director of Shangshi Management (Shanghai) Co., Ltd., the person in charge of the preparation for the party organization of Jinhushen Biopharmaceutical Technology Co., Ltd., a director of planning of Shangshi Management (Shanghai) Co., Ltd., an assistant to the general manager of Shanghai Galaxy Investment Co., Ltd., and a project manager of the investment department of Shangshi Real Estate (Shanghai) Co., Ltd., etc.

Pan Deqing

Mr. Pan Deqing graduated from Central Communist Party School and obtained a bachelor degree. He is currently the vice president and director of Marketing Center of the Company and holds directorship and other positions in certain subsidiaries of the Company. He served as the party secretary and the general manager of SPH Sine Pharmaceutical Factory Co., Ltd., executive vice president of Chiatai Qingchunbao Pharmaceutical Co., Ltd., the party secretary and the deputy general manager of Shanghai Sine Pharmaceutical Laboratories Co., Ltd., the assistant to the president of the prescription drug division of Shanghai Pharmaceuticals (Group) Limited, the party secretary and the general manager of Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., the deputy general manager of Shanghai Yan'an Wanxiang Pharmaceutical Co. Ltd., the vice chairman of Shanghai Pharmaceutical Trade Union, the director of the party office and the director of solid preparation workshop and other positions of Shanghai Sine Pharmaceutical Laboratories Co., Ltd..

Li Dongming

Mr. Li Dongming graduated from the Chemistry Department of Fudan University with a major in Chemistry and obtained a bachelor degree. He is currently the vice president of the Company and holds directorship and other positions in certain subsidiaries of the Company. He served as the chief operation officer of Shanghai Baoji Pharmaceutical Co., Ltd. (上海寶濟醫藥有限公司), the vice president and the joint president of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a senior vice president and the general manager of Overseas Marketing Headquarter of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., a director and general manager of Shanghai Pharmaceutical Group Pharma Sales Co., Ltd., a director and the general manager of Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., a director and the deputy general manager of Shanghai Roche Pharmaceutical Co., Ltd., the vice president of the OTC business department, the strategic director of the strategy and investment committee office under the board of directors of Shanghai Pharmaceuticals (Group) Limited, a deputy general manager of Shanghai Yan'an Wanxiang Pharmaceutical Co., Ltd. and the deputy plant manager, the assistant to the plant manager and director in the workshop and other positions of Shanghai Yan'an Pharmaceutical Plant.

Shao Shuai

Ms. Shao Shuai obtained a postgraduate degree and a master degree. She is currently the vice president of the Company, the chairman of the supervisory committee of Shanghai Fumed Tianjian Co., Ltd, and a supervisor of New Huadu Industrial Group Co., Ltd.. She served as an assistant to the chairman of Yunnan Baiyao Group Co., Ltd., the general manager, the general manager of investment department and an assistant to the chief executive officer of Jingzhun Beauty BU, the executive director of Hainan Yunfan Private Equity Fund Management Co., Ltd., the investment manager of China Investment Corporation, a senior manager and a vice president of New Huadu Industrial Group (Shanghai) Investment Co., Ltd., a managing director of New Huadu Group (HongKong) Investment Co., Ltd., the legal representative and the executive director of Shanghai Yunzhen Medical Technology Co., Ltd. and a director of Skynet (Shanghai) Band Management Co., Ltd..

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, president	September 2016	Up to date
	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director, president	February 2017	Up to date
Ge Dawei	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice chairman, executive director	September 2017	Up to date
	Shanghai Pharmaceutical (Group) Co., Ltd.	Vice chairman	December 2019	Up to date
Xu Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice president	April 2016	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
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
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	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 SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)	Chairman	August 2020	Up to date
Cho Man	Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd. (上海生物醫藥前沿產業創新中心有限公司)	Chairman, President	September 2021	Up to date
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	Director	April 2010	Up to date
		General manager	October 2012	Up to date
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	Director	August 2014	Up to date
Li Yongzhong	Zeus Investment Limited	Director	July 2016	May 2022
Li Yongzhong	Shanghai Pharmaceutical Grand Health Cloud Commerce Co., Ltd.	Chairman	August 2016	Up to date
Li Yongzhong	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
		Director	April 2011	Up to date
Li Yongzhong	Shanghai Pharma Northern Investment Co., Ltd.	Chairman	August 2016	Up to date
		Director	January 2012	Up to date
Li Yongzhong	Cardinal Health (L) Co., Ltd.	Director	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	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

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	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	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
		Director	June 2007	Up to date
Shen Bo	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	December 2017	Up to date
Shen Bo	SPH Project Biocad Limited	Director	May 2019	Up to date
Shen Bo	SPH-Biocad (HK) Limited	Director	October 2019	Up to date
		Chief executive officer	December 2019	February 2022
Shen Bo	Shanghai Pharmaceutical Imp. & Exp. Co., Ltd.	Executive director	December 2019	May 2022
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
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chairman	January 2021	Up to date
Shen Bo	Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd. (上海生物醫藥前沿產業創新中心有限公司)	Director	September 2022	Up to date
Huan Jianchun	Shanghai Pharmaceutical Co., Ltd.	Supervisor	June 2020	July 2022
Zhao Yong	Shanghai Medical Education and Training Co., Ltd. (上海醫藥教育培訓有限公司)	Chairman	July 2018	Up to date
Zhao Yong	Shanghai SPH Biological Medicine Co., Ltd.	Chairman	December 2019	Up to date
Zhao Yong	Shanghai Pharmaceutical Grand Health Cloud Commerce Co., Ltd.	Director	June 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	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	May 2019	Up to date
Zhang Yaohua	Shanghai SPH Biological Medicine Co., Ltd.	Director	June 2020	Up to date
Zhang Yaohua	SPH Materials Supply and Sales Co., Ltd.	Executive Director	February 2020	May 2022
		Chairman	May 2022	Up to date
Zhang Yaohua	SPH PHILILAB,INC	Director	March 2020	Up to date
Zhang Yaohua	SPH New Asia Pharmaceutical Co., Ltd.	Chairman	March 2021	Up to date
Zhang Yaohua	SPH Changzhou Kony Pharmaceutical Co., Ltd.	Executive director	March 2015	Up to date
Zhong Tao	Shanghai Pharmaceuticals (HK) Investment Limited	Director, general manager	July 2022	Up to date
Zhong Tao	Shanghai Ruijian Capital Management Co., Ltd.	Director	July 2022	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
Zhong Tao	Shanghai Lianyi Investment Center	Member of the investment committee	July 2022	Up to date
Zhong Tao	Shanghai Biomedical Industrial Equity Investment Fund Management Co Ltd.	Director	July 2022	Up to date
Pan Deqing	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	May 2022	Up to date
Pan Deqing	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	July 2022	Up to date
Pan Deqing	Shanghai Pharma Sales Co., Ltd.	Chairman	July 2022	Up to date
Pan Deqing	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Director	July 2022	Up to date
Pan Deqing	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	May 2022	Up to date
Pan Deqing	Shanghai Sine United Medicinal Herbs Co., Ltd.	Director, chairman general manager	May 2022	Up to date
Pan Deqing	Shanghai Shangke Pharmaceutical Co., Ltd.	Chairman	July 2022	Up to date
Pan Deqing	Liaoning Herbex Pharmaceutical (Group) Co., Ltd.	Director, chairman	July 2022	Up to date
Pan Deqing	SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. (上藥華西(四川)醫藥有限公司)	Director	July 2022	Up to date
Pan Deqing	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	July 2022	Up to date
Pan Deqing	SPH Industrial Marketing Management Co., Ltd. (上海醫藥集團工業營銷管理有限公司)	Director, chairman	July 2022	Up to date
Pan Deqing	SPH Longhu Pharmaceutical Sales Co., Ltd. (上藥龍虎醫藥銷售有限公司)	Director, chairman	June 2022	Up to date
Pan Deqing	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Director, chairman	June 2022	Up to date
Li Dongming	China International Pharmaceutical (Holding) Corporation Limited	General manager	May 2022	Up to date
Li Dongming	Zeus Investment Limited	Director	May 2022	Up to date
Li Dongming	CanSino SPH Biologics Inc.	Director, vice chairman	July 2022	Up to date
Li Dongming	Zynexis Healthcare Private Co.,Ltd	Director	September 2022	Up to date
Li Dongming	Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd. (上海生物醫藥前沿產業創新中心有限公司)	Director	September 2022	Up to date

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change situation	Reasons for changes
Gu Haoliang	Vice President	Resignation	Reaching the age for retirement
Chen Jinzhu	Vice President, Secretary to the Board of Directors, Joint Company Secretary	Resignation	Work re-arrangement
Zhong Tao	Vice President, Secretary to the Board of Directors, Joint Company Secretary	Appointment	Work re-arrangement
Pan Deqing	Vice President	Appointment	Work re-arrangement
Li Dongming	Vice President	Appointment	Business need
Shao Shuai	Vice President	Appointment	Business need

Corporate Governance Report

The board of directors is pleased to present the corporate governance report of the Group for the year ended 31 December 2022. The Company is committed to maintaining a high standard of corporate governance and believes that good and effective corporate governance is vital for the long term success and sustainability of Shanghai Pharmaceuticals's business.

CORPORATE GOVERNANCE PRACTICE

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 (other than code provision B.2.2) during the Reporting Period.

CORPORATE CULTURE

A healthy corporate culture across the Group is integral to attain its vision and strategy. The board of directors is committed to creating a positive and progressive culture based on the following core concepts.



OUR MISSION

Perseverance, committed to enhancing people's healthy living quality



OUR VISION

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



OUR CORE VALUES

Innovation, integrity, cooperation, tolerance, responsibility

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.

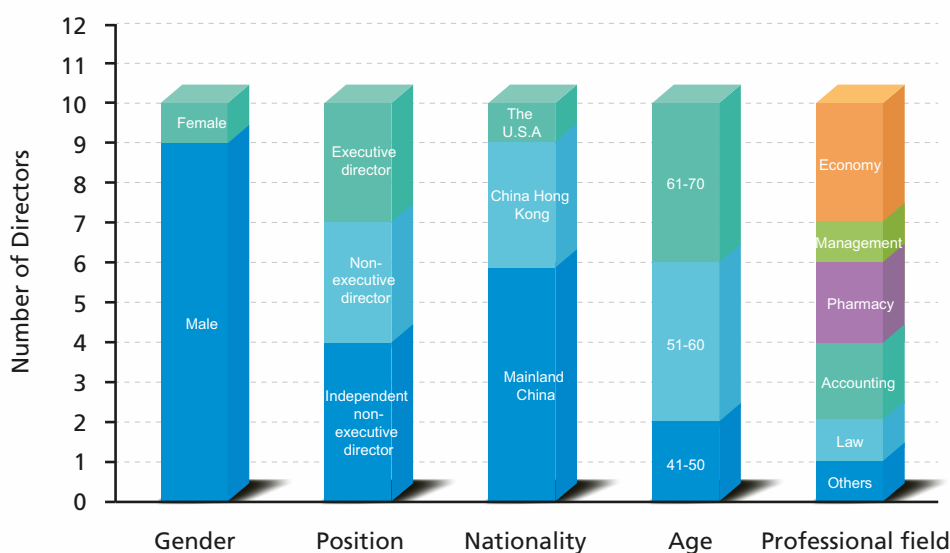
As far as the Company is aware, the members of the board of directors, the chairman and the president had no relationship in respect of finance, business or family or relevant material relationship with each other.

Pursuant to the Articles of Association and Code Provision B.2.2, 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.

In accordance with the announcement of the Company dated 28 June 2022, the term of the seventh session of the board of directors and the board of supervisors of the Company expired on 27 June 2022. As the relevant nomination of candidates for a new session of the board of directors and the board of supervisors is still in process, in order to ensure the continuity and stability of the work of the board of directors and the board of supervisors, the election of the seventh session of the board of directors and the board of supervisors will be postponed, and the terms of each special committee of the board of directors and senior management appointed by the board of directors will be extended accordingly. Before the completion of the election process, all the members of the seventh session of the board of directors and the board of supervisors, each special committee of the board of directors and the senior management of the Company will continue to perform their respective obligations and duties in accordance with relevant laws and regulations and the Articles of Association. On 29 August 2022, the Company published a list of certain candidates for a new session of the board of directors and the board of supervisors, please refer to the announcement disclosed by the Company on the same date for details.

BOARD AND EMPLOYEE DIVERSITY

The Company has adopted the board diversity policy. When assessing candidates for the Board, the Company will take into consideration of 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 of Directors. The Board of Directors reviewed the implementation and effectiveness of the board diversity policy during the Reporting Period and considered it was still valid. During the Reporting Period, the Board of Directors has also met the expected goal of the member diversity policy and kept an appropriate balance of member structure. Details are as follow:



In terms of employees, the ratio of male to female employees of the Group is 49.7:50.3. Among the 10 members of senior management, 9 are male and 1 is female, and different departments are led by different male and female employees. Therefore, the board of directors believes that the Company has achieved the expected goal in terms of gender diversity during the Reporting Period.

The Company values gender diversity and will continue to take steps to promote gender diversity at all levels of the Company, in particular at the Board level. In addition, the Company is committed to providing career development and training opportunities for its staff who have the suitable experience, skills and knowledge with an aim to promote them to senior management or directors. The Company will also ensure that there is gender diversity in staff recruitment at mid to senior levels so as to develop a pipeline of potential successors to the board of directors.

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, corporate governance function as well as other functions and powers as authorized by laws, administrative regulations, departmental rules, Articles of Association or general meetings. The management is responsible for daily operations and implementation of relevant decisions.

Board meetings

In accordance with Code Provisions C.5.1 and C.2.7, 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 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 equity incentives, connected transactions as well as the performance of the corporate governance function (including environmental, social and governance matters), etc.

The Directors are allowed to learn the information necessary for the decision-making from the Office of the Board, the meeting convener, the president and other senior management, various special committees, accounting firms and law firms and other relevant personnel and institutions before the meeting, or to suggest the president to invite the above-mentioned persons and the representatives of the above-mentioned institutions to attend the meeting to explain the relevant situations. The Board has reviewed the implementation status and effectiveness of the mechanism for directors to obtain independent opinions and advice during the Reporting Period, and considered that such mechanism was effectively implemented.

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. In January 2022, all directors (except Mr. Cai Jiangnan) participated in the online training course for directors and supervisors of listed companies in Shanghai in 2021, which was hosted by the Listed Companies Association of Shanghai. Mr. Cai Jiangnan read and studied the consultation conclusions on proposed amendments to the Hong Kong Listing Rules relating to the share schemes of listed issuers. In December 2022, Mr. Zhou Jun and Mr. CHO Min participated in the "Special Training on Corporate Governance" of listed companies organized by the China Association for Public Companies. In March 2022, Mr. Gu Chaoyang and Mr. Manson FOK participated in the follow-up training for independent directors of listed companies in 2022 (first phase) organized by Shanghai Stock Exchange.

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.

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, and reviewing and/or approving matters relating to the share scheme described in Chapter 17 of the Hong Kong Listing Rules. For details of the remunerations of directors, supervisors and senior management, please refer to "Report of the Board of Directors" and "Directors, Supervisors and Senior Management" respectively.

During the Reporting Period, the remunerations of 10 members of senior management by band are as follows:

Remuneration Band (RMB)	Number
6,000,001 to 7,000,000	2
5,000,001 to 6,000,000	1
4,000,001 to 5,000,000	4
Below 1,000,000	3

During the Reporting Period, the remuneration and assessment committee held one meeting, 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, supervising the financial reporting mechanism and risk management and internal control systems of the Company and considering and supervising the environmental, social and governance matters of the Company.

During the Reporting Period, the audit committee held a total of six 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, etc.

In accordance with Code Provision D.3.3 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 implementation of the "14th Five" Operation and Development Plan Summary for the Company in 2022 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, mainly reviewed the structure, size and composition of the Board (including skill, knowledge and experience), evaluated the independence of independent non-executive directors and proposed to nominate the candidates for non-independent directors of the eighth session of the Board.

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, and the situation of the Board diversity, etc.

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 2022:

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	1/1				1/1
Ms. Li An	8/8					0/1
Independent non-executive directors						
Mr. Cai Jiangnan	8/8			1/1	1/1	0/1
Mr. Hong Liang	8/8	1/1	6/6		1/1	1/1
Mr. Gu Zhaoyang	8/8	1/1	6/6			1/1
Mr. Manson Fok	8/8		6/6	1/1		1/1

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS AND SUPERVISORS

The Board of Directors 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.

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 2022 was set at RMB25.70 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.70 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 2022, a non-audit service fee of approximately RMB1.8374 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 2022.

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 management and internal control system of the Company's risks (including environmental, social and governance risk, the same as below) 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 accounting, internal review, financial reporting function and resources relevant to the Company's performance in environment, social and governance and reporting as well as the qualification of the employees and their experience and makes sure the employees receive enough training with sufficient budget. In the progress of reviewing, the audit committee (on behalf of the Board) as well as the audit division are responsible for supervision of management to design, implement and monitor the risk management and internal control system. As the risk management and internal control system has its limitations, the system is designed to manage rather than eliminate the risk of failing to achieve business objectives and only provide reasonable and not absolute assurance against material misstatement or loss. As of 31 December 2022, 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 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.

The Company has established a complaint and whistleblower mechanism, pursuant to which employees can, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Such arrangements shall be reviewed by the audit committee to ensure that proper arrangements are in place for fair and independent investigation of such matters.

The Company has also published anti-bribery and anti-corruption policies such as the Measures for Management of Honesty and Compliance of Suppliers of Shanghai Pharmaceuticals and organized the study and publicity on various laws and regulations such as the Anti-Corruption and Bribery Law of the People's Republic of China and the Criteria of Honesty and Self-discipline for the Communist Party of China.

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. Mr. Zhong Tao (appointed on 29 August 2022) and Ms. Leung Shui Bing 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 2022, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. The main internal contact person of the Company of Ms. Leung Shui Bing is the vice president, board secretary and joint company secretary of the Company, Mr. Zhong Tao.

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 specifies 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.

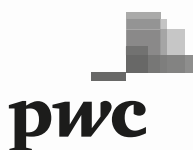
INVESTOR RELATIONS

The Company attaches great importance to maintaining continuous communication with shareholders. The Company's shareholder communication policy includes: establishing the Company's website (<http://www.sphchina.com>) for the public to access the information and updated information about the Company's business development and operation, financial information, corporate governance practices, ESG and other information; shareholders and the public can make inquiries about the Company or express their opinions in writing at any time through the "SSE E interactive platform" and the Company's email; the board of directors and the management communicate directly with shareholders through the annual general meeting, results announcement, investor roadshow activity, etc.

The board of directors has reviewed the participation and communication activity of shareholders and investors conducted by the Company in 2022. During the Reporting Period, the information on the Company's website was updated in time, the investors' inquiries were answered on a regular basis, and shareholders had the opportunity to communicate with directors and senior management at the general meeting. Based on the above situation, the board of directors believed that the shareholder communication policy was effective.

ARTICLES OF ASSOCIATION

During the Reporting Period, the Company did not amend the Articles of Association.

**PwC ZT Shen Zi (2023) No.10006**

**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 2022;
- 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 2022, 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 receivables
- Inventory provisions

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Goodwill impairment assessment</p> <p>Refer to notes 2(30)(a)(iii) (Critical accounting estimates and judgements) and notes 4(21) (Goodwill) to the financial statements.</p> <p>At 31 December 2022, Shanghai Pharmaceuticals had goodwill amounting to RMB13,175,614,322.48, against which a provision of RMB1,839,687,697.00 was set aside in the consolidated financial statements.</p> <p>In assessing the recoverable amounts of Shanghai Pharmaceuticals' cash generating unit (CGU) or CGUs which 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:</p> <ul style="list-style-type: none"> • compound annual growth rate within the budget period; • growth rates to extrapolate cash flows beyond the budget period; • gross margin rate; and • pre-tax discount rate. 	<p>We understood, evaluated and validated the design and operating effectiveness of the key internal controls of Shanghai Pharmaceuticals over the goodwill.</p> <p>For the relevant CGU or CGUs, we compared the current year actual results (year 2022) with the forecast included in the prior year forecast to consider whether management's cash flow forecasts were reliable.</p> <p>We compared the management's future cash flow forecasts with its historical data, budgets approved, and business plans developed.</p> <p>With the assistance of our valuation experts, we performed the following procedures:</p> <ul style="list-style-type: none"> • We assessed the valuation approaches and methodologies adopted by management 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;

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>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.</p>	<ul style="list-style-type: none"> • Comparing the compound annual growth rates within the budget period with the CGU or CGUs' historical growth rates and industry historical data; • Comparing the growth rates to extrapolate cash flows beyond the budget period with our independent expectation based on economic data; • Comparing the gross margin rate with 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 or CGUs 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. <p>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.</p> <p>Based on the procedures performed, we considered that management's judgements in the impairment assessment of goodwill were supported by the evidence we gathered.</p>

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of trade receivables</p> <p>Refer to notes 2(30)(a)(v) (Critical accounting estimates and judgements) and notes 4(5) (Trade receivables) to the financial statements.</p> <p>At 31 December 2022, Shanghai Pharmaceuticals held trade receivables amounting to RMB68,774,584,380.90, against which an impairment provision of RMB2,014,730,430.45 was set aside in the consolidated financial statements.</p> <p>Management applied expected credit losses (“ECL”) model under “Accounting standards for business enterprises No.22 – recognition and measurement of financial instruments ” to measure the impairment against trade receivables at the reporting date.</p> <p>Management estimated the loss allowance of trade receivables based on the lifetime expected credit losses. For trade receivable balances with objective evidence of impairment, individual provision was made based on a probability-weighted estimation 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. Trade 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 trade receivables. The expected credit loss rates are adjusted to reflect current and forward-looking information.</p>	<p>We understood, evaluated and validated the controls which management adopted to monitor the recoverability of trade receivables, including controls over identification of objective evidence of impairment and calculation of the impairment.</p> <p>We checked the accuracy of aging of trade receivables prepared by management on sample basis and tested the IT general controls related to the maintenance of aging analysis where relevant.</p> <p>We independently assessed the recoverability of individually-impaired trade receivable balances on sample basis. 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.</p> <p>We assessed management’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.</p> <p>With the assistance of our credit model experts, we performed the following procedures:</p> <ul style="list-style-type: none"> • 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

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>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.</p>	<ul style="list-style-type: none"> • 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. <p>Based on the procedures performed, we considered management's judgments in assessing the recoverability of trade receivables were supported by the evidence we gathered.</p>

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Inventory provisions</p> <p>Refer to notes 2(30)(a)(iv) (Critical accounting estimates and judgements) and notes 4(9) (Inventories) to the financial statements.</p> <p>At 31 December 2022, Shanghai Pharmaceuticals held inventories amounting to RMB35,578,492,119.57, against which a provision of RMB1,118,275,354.55 was set aside in the consolidated financial statements.</p> <p>Inventories are carried at the lower of cost and net realisable value (NRV). For inventories managed with expiration date, 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.</p> <p>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.</p>	<p>We understood, evaluated and validated the controls which management adopted to monitor inventory close to expiration dates, analysis of aging report 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.</p> <p>We checked the accuracy of aging report of inventories prepared by management on sample basis and tested the IT general controls related to the maintenance of inventory aging analysis where relevant.</p> <p>We tested inventories close to expiration dates for which no provision was made and examined the contracts or agreements with the suppliers for return arrangements on sample basis.</p> <p>We assessed appropriateness of the estimated probability of selling for inventories close to expiration dates by reviewing the historical sales pattern.</p> <p>We tested the mathematical accuracy of the calculations of inventory provisions.</p> <p>Based on the procedures performed, we considered the key data used in management's assessment of inventory provision was supported by the evidence gathered.</p>

OTHER INFORMATION

Management of Shanghai Pharmaceuticals is responsible for the other information. The other information comprises all of the information included in 2022 annual report of Shanghai Pharmaceuticals other than the financial statements and our auditor's report thereon.

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 intends to liquidate the Company or to cease operations, or has 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.
- 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' 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 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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

Signing CPA **LIU WEI**
(Engagement Partner)

Signing CPA **ZHOU LINJIE**

30 March 2023

Consolidated and Company Balance Sheet as at 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2022 Consolidated	31 December 2021 Consolidated	31 December 2022 Company	31 December 2021 Company
Current assets					
Cash at bank and on hand	4(1)	27,401,395,968.43	22,390,385,718.86	8,896,325,941.88	4,956,241,685.91
Derivative financial assets	4(3)	4,820,057.40	3,284,464.66	-	-
Financial assets held for trading	4(2)	9,613,554,659.84	-	9,613,554,659.84	-
Notes receivables	4(4)	1,799,584,411.55	1,278,880,689.20	-	-
Accounts receivables	4(5), 17(1)	66,759,853,950.45	58,107,770,169.75	-	-
Receivables financing	4(6)	1,627,386,138.71	1,619,009,831.53	-	-
Advances to suppliers	4(7)	3,867,582,698.57	2,457,761,134.48	9,345,489.16	5,462,462.14
Other receivables	4(8), 17(2)	2,574,814,141.06	2,419,107,971.82	14,647,589,803.23	19,489,191,886.01
Inventories	4(9)	34,460,216,765.02	27,104,035,290.12	-	-
Current portion of non-current assets	4(13)	185,619,908.99	126,505,618.81	10,366,305.70	-
Other current assets	4(10)	1,218,041,919.77	987,691,443.81	763,269.11	3,728,979.13
Total current assets		149,512,870,619.79	116,494,432,333.04	33,177,945,468.92	24,454,625,013.19
Non-current assets					
Long-term receivables	4(13)	212,299,836.32	197,742,289.76	37,320,278.77	-
Long-term equity investments	4(14), 17(3)	9,232,643,602.19	9,073,275,353.92	27,646,745,649.54	26,939,075,300.25
Other equity instrument investments	4(11)	101,487,525.55	73,392,413.17	-	-
Other non-current financial assets	4(12)	2,143,040,116.40	1,388,900,666.61	1,787,298,345.06	1,000,330,863.71
Investment properties	4(15)	246,415,460.32	213,323,262.12	-	-
Fixed assets	4(16)	11,539,289,437.00	10,484,118,204.34	100,582,376.49	95,247,382.34
Construction in progress	4(17)	2,777,363,094.05	2,914,130,007.74	35,354,623.28	41,134,707.27
Bearer biological assets	4(18)	137,191,760.75	402,569,065.33	-	-
Right-of-use assets	4(19)	1,868,659,922.65	1,992,433,702.85	86,593,287.17	80,816,751.81
Intangible assets	4(20)	6,244,139,954.44	6,049,431,213.09	68,262,180.37	67,951,930.43
Development costs	4(20)	342,605,253.63	259,227,946.08	76,703,026.05	75,797,743.15
Goodwill	4(21)	11,335,926,625.48	11,238,972,360.76	-	-
Long-term prepaid expenses	4(22)	462,438,552.91	429,117,473.86	18,064,854.14	8,013,318.30
Deferred tax assets	4(23)	1,534,728,993.68	1,367,544,935.42	-	-
Other non-current assets	4(25)	443,800,743.79	856,897,933.62	9,319,539.50	305,634,463.20
Total non-current assets		48,622,030,879.16	46,941,076,828.67	29,866,244,160.37	28,614,002,460.46
TOTAL ASSETS		198,134,901,498.95	163,435,509,161.71	63,044,189,629.29	53,068,627,473.65

Consolidated and Company Balance Sheet as at 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2022 Consolidated	31 December 2021 Consolidated	31 December 2022 Company	31 December 2021 Company
Current liabilities					
Short-term borrowings	4(26)	27,750,588,556.87	22,514,574,027.35	1,300,997,638.89	1,051,400,832.59
Derivative financial liabilities	4(3)	1,569,907.10	774,097.78	-	-
Notes payables	4(27)	5,961,723,663.49	4,764,748,001.67	-	-
Accounts payables	4(28)	45,603,805,328.17	37,230,666,373.90	61,884,185.13	43,111,344.29
Contract liabilities	4(29)	2,242,823,457.63	1,310,920,870.47	33,097,189.17	20,097,189.17
Employee benefits payable	4(30)	1,580,488,152.99	1,433,028,127.78	90,700,319.82	64,292,350.69
Taxes payable	4(31)	1,440,823,418.19	1,692,660,081.03	1,867,369.51	2,024,631.71
Other payables	4(32)	16,474,855,895.13	13,062,527,812.97	13,518,512,556.02	14,675,113,166.07
Current portion of non-current liabilities	4(34)	3,249,433,102.21	582,042,566.55	932,166,278.43	26,539,361.75
Other current liabilities	4(35)	6,384,934,548.00	9,232,381,601.62	6,060,361,643.84	9,077,033,424.66
Total current liabilities		110,691,046,029.78	91,824,323,561.12	21,999,587,180.81	24,959,612,300.93
Non-current liabilities					
Long-term borrowings	4(36)	6,259,799,370.32	7,157,751,703.48	139,360,000.00	1,380,000,000.00
Lease liabilities	4(37)	1,301,611,079.90	1,434,274,148.94	59,390,904.05	60,875,539.35
Long-term payables	4(38)	7,995,923.88	315,161,494.71	-	-
Provisions	4(33)	23,978,898.02	23,243,898.02	-	-
Deferred income	4(39)	534,581,050.48	2,349,080,148.54	83,641,136.76	53,628,980.57
Long-term employee benefits payable	4(40)	38,911,958.10	39,007,184.36	-	-
Deferred tax liabilities	4(23)	1,049,237,452.75	998,768,820.78	5,859,736.77	5,859,736.77
Other non-current liabilities	4(41)	225,288,678.29	227,688,064.66	-	-
Total non-current liabilities		9,441,404,411.74	12,544,975,463.49	288,251,777.58	1,500,364,256.69
Total liabilities		120,132,450,441.52	104,369,299,024.61	22,287,838,958.39	26,459,976,557.62
Owners' equity					
Share capital	4(42)	3,697,546,172.00	2,842,089,322.00	3,697,546,172.00	2,842,089,322.00
Capital surplus	4(43), 17(4)	29,098,103,770.87	16,070,723,052.49	32,275,668,338.76	19,094,211,080.76
Other comprehensive income	4(44), 17(5)	(371,323,663.92)	(144,394,206.19)	(302,235.46)	(146,268.20)
Surplus reserve	4(45)	2,158,807,271.16	1,992,463,708.39	1,783,016,468.98	1,616,672,906.21
Undistributed profits	4(46), 17(6)	32,479,872,339.12	28,598,598,034.67	3,000,421,926.62	3,055,823,875.26
Total equity attributable to equity owners of the Company		67,063,005,889.23	49,359,479,911.36	40,756,350,670.90	26,608,650,916.03
Minority interests		10,939,445,168.20	9,706,730,225.74	Not applicable	Not applicable
Total owners' equity		78,002,451,057.43	59,066,210,137.10	40,756,350,670.90	26,608,650,916.03
TOTAL LIABILITIES AND OWNERS' EQUITY		198,134,901,498.95	163,435,509,161.71	63,044,189,629.29	53,068,627,473.65

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

Consolidated and Company Income Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2022 Consolidated	2021 Consolidated	2022 Company	2021 Company
Revenue	4(47), 17(7)	231,981,299,764.51	215,824,259,035.31	272,524,965.04	137,484,511.05
Less: Cost of sales	4(47), 4(53), 17(7)	(201,494,923,087.47)	(187,281,149,284.71)	(91,813,141.57)	(998,811.10)
Taxes and surcharges	4(48)	(716,273,653.18)	(666,227,626.41)	(3,791,386.45)	(621,968.29)
Selling expenses	4(49), 4(53)	(14,278,974,907.54)	(13,318,033,452.43)	-	-
General and administrative expenses	4(50), 4(53)	(4,991,689,173.97)	(5,143,417,730.84)	(276,735,226.50)	(280,808,601.20)
Research and development expenses	4(51), 4(53)	(2,112,197,580.39)	(1,987,277,619.33)	(414,459,913.62)	(419,700,462.71)
Financial expenses – net	4(52)	(1,313,192,468.06)	(1,245,369,014.83)	(142,838,866.60)	(343,942,150.12)
Including: Interest expenses		(1,689,278,922.64)	(1,518,228,462.53)	(296,683,048.19)	(360,851,524.34)
Interest income		438,297,667.03	338,179,842.70	111,809,549.99	40,801,170.16
Add: Other income	4(56)	393,760,191.69	498,785,787.96	20,972,385.30	18,495,647.54
Investment income	4(57), 17(8)	533,117,089.08	1,811,393,898.70	2,078,436,916.45	2,446,699,468.98
Including: Share of profit of associates and joint ventures		526,743,273.33	789,596,389.32	100,263,098.41	236,429,165.15
Derecognition of financial assets at amortised cost		(80,508,182.24)	(78,213,297.37)	-	-
Profit/(losses) arising from changes in fair value	4(58)	218,737,860.49	(206,003,766.29)	249,266,541.68	78,687,958.67
Credit impairment (losses)/reversals	4(55)	(312,460,488.87)	677,891.56	(25,710,227.19)	33,027,784.76
Asset impairment losses	4(54)	(331,471,295.70)	(140,441,120.37)	-	-
Gains on disposals of assets	4(59)	1,438,918,138.68	58,289,306.83	-	17,457.89
Operating profit		9,014,650,389.27	8,205,486,305.15	1,665,852,046.54	1,668,340,835.47
Add: Non-operating income	4(60)	32,778,070.70	81,956,962.86	117,332.78	2,970,284.49
Less: Non-operating expenses	4(61)	(239,075,178.84)	(143,628,375.65)	(2,533,751.63)	(7,256,764.90)
Total profit		8,808,353,281.13	8,143,814,892.36	1,663,435,627.69	1,664,054,355.06
Less: Income tax expenses	4(62)	(1,816,338,512.58)	(1,869,245,448.24)	-	-
Net profit		6,992,014,768.55	6,274,569,444.12	1,663,435,627.69	1,664,054,355.06
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		6,992,014,768.55	6,274,569,444.12	1,663,435,627.69	1,664,054,355.06
Net profit from discontinued operations		-	-	-	-
Classified by ownership of the equity					
Attributable to equity owners of the Company		5,617,152,003.01	5,093,467,260.97	Not applicable	Not applicable
Minority interests		1,374,862,765.54	1,181,102,183.15	Not applicable	Not applicable

Consolidated and Company Income Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2022 Consolidated	2021 Consolidated	2022 Company	2021 Company
Other comprehensive income, net of tax	4(44)	(226,480,312.21)	87,438,895.87	(155,967.26)	(438,877.11)
Attributable to equity owners of the Company		(226,929,457.73)	121,016,553.39	(155,967.26)	(438,877.11)
Other comprehensive income that will not be reclassified to profit or loss		28,095,112.38	40,340,692.85	-	-
Changes in fair value of other equity instrument investments		28,095,112.38	40,340,692.85	-	-
Other comprehensive income that will be reclassified to profit or loss		(255,024,570.11)	80,675,860.54	(155,967.26)	(438,877.11)
Shares of other comprehensive income of the investee accounted for using equity method that will be reclassified to profit or loss		(234,871.05)	(660,939.74)	(155,967.26)	(438,877.11)
Allowance of debt investments at FVOCI		2,999,800.89	(1,989,081.17)	-	-
Effective portion of gains or losses on hedging instruments in a cash flow hedge		689,923.74	11,147,712.98	-	-
Translation differences on translation of foreign currency financial statements		(258,479,423.69)	72,178,168.47	-	-
Attributable to minority interests		449,145.52	(33,577,657.52)	-	-
Total comprehensive income		6,765,534,456.34	6,362,008,339.99	1,663,279,660.43	1,663,615,477.95
Attributable to equity owners of the Company		5,390,222,545.28	5,214,483,814.36	Not applicable	Not applicable
Attributable to minority interests		1,375,311,911.06	1,147,524,525.63	Not applicable	Not applicable
Earnings per share	4(63)				
Basic earnings per share (RMB)		1.61	1.79	Not applicable	Not applicable
Diluted earnings per share (RMB)		1.61	1.79	Not applicable	Not applicable

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

Consolidated and Company Cash Flow Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2022 Consolidated	2021 Consolidated	2022 Company	2021 Company
Cash flows from/(used in) operating activities					
Cash received from sales of goods or rendering of services		249,910,618,787.16	233,373,894,734.94	292,808,799.91	150,289,597.50
Refund of taxes and surcharges		301,039,086.97	114,145,887.15	1,830,018.26	-
Cash received relating to other operating activities	4(64)(a)	2,185,485,346.00	1,981,936,627.02	393,267,818.20	423,466,387.79
Sub-total of cash inflows		252,397,143,220.13	235,469,977,249.11	687,906,636.37	573,755,985.29
Cash paid for goods and services		(218,783,372,902.25)	(203,678,913,822.90)	(92,001,292.67)	(72,065,415.30)
Cash paid to and on behalf of employees		(9,154,060,898.28)	(8,701,743,133.50)	(259,458,651.25)	(228,794,138.94)
Payments of taxes and surcharges		(7,900,017,746.47)	(6,353,145,276.65)	(3,760,235.82)	(1,474,462.98)
Cash paid relating to other operating activities	4(64)(b)	(11,816,330,491.26)	(11,674,848,739.71)	(551,218,316.81)	(683,095,914.83)
Sub-total of cash outflows		(247,653,782,038.26)	(230,408,650,972.76)	(906,438,496.55)	(985,429,932.05)
Net cash flows from/(used in) operating activities	4(65)(a)	4,743,361,181.87	5,061,326,276.35	(218,531,860.18)	(411,673,946.76)
Cash flows used in investing activities					
Cash received from disposal of investments		29,387,100,000.00	2,535,871,480.76	29,387,100,000.00	2,535,871,480.76
Cash received from returns on investments		879,943,189.71	752,325,069.60	2,018,249,457.69	2,037,188,541.97
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		160,338,007.81	190,900,213.51	-	-
Net cash received from disposal of subsidiaries and other business units	4(65)(b)	106,800,079.70	113,700,452.16	6,812,374.58	-
Cash received relating to other investing activities	4(64)(c)	1,164,683,198.93	1,474,979,036.17	6,122,137,579.36	2,051,371,223.03
Sub-total of cash inflows		31,698,864,476.15	5,067,776,252.20	37,534,299,411.63	6,624,431,245.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(2,684,863,778.16)	(4,118,771,490.69)	(68,505,699.33)	(116,984,554.13)
Cash paid to acquire investments		(39,683,750,000.00)	(3,147,839,640.48)	(39,683,750,000.00)	(2,950,000,000.00)
Net cash paid to acquire subsidiaries and other business units	4(65)(b)	(84,332,523.97)	(1,153,023,103.87)	(26,400,000.00)	(95,960,000.00)
Cash paid relating to other investing activities	4(64)(d)	(1,719,042,353.48)	(2,663,717,905.73)	(4,645,745,403.02)	(4,244,388,117.49)
Sub-total of cash outflows		(44,171,988,655.61)	(11,083,352,140.77)	(44,424,401,102.35)	(7,407,332,671.62)
Net cash flows used in investing activities		(12,473,124,179.46)	(6,015,575,888.57)	(6,890,101,690.72)	(782,901,425.86)

Consolidated and Company Cash Flow Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2022 Consolidated	2021 Consolidated	2022 Company	2021 Company
Cash flows from financing activities					
Cash received from capital contributions		14,123,275,110.13	169,344,191.63	13,981,730,821.02	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries		141,544,289.11	169,344,191.63	-	-
Cash received from borrowings		48,651,964,571.21	37,554,016,283.18	1,659,360,000.00	2,150,392,561.76
Cash received from issuance of debentures		14,992,508,333.36	18,992,660,269.71	14,992,508,333.36	18,992,660,269.71
Cash received relating to other financing activities	4(64)(e)	513,362,703.56	1,619,233,415.92	3,138,145,240.36	2,410,541,959.96
Sub-total of cash inflows		78,281,110,718.26	58,335,254,160.44	33,771,744,394.74	23,553,594,791.43
Cash repayments of borrowings		(59,808,668,525.07)	(52,214,562,424.96)	(19,750,392,561.76)	(19,500,000,000.00)
Cash payments for distribution of dividends, profits or interest expenses		(3,768,832,770.38)	(3,323,089,290.53)	(1,854,974,479.22)	(1,464,984,822.64)
Including: Cash payments for distribution of dividends or profits to minority shareholders of subsidiaries		(674,941,095.70)	(647,169,358.44)	-	-
Cash payments relating to other financing activities	4(64)(f)	(2,565,015,310.92)	(1,231,973,958.27)	(1,172,114,276.29)	(667,713,547.42)
Sub-total of cash outflows		(66,142,516,606.37)	(56,769,625,673.76)	(22,777,481,317.27)	(21,632,698,370.06)
Net cash flows from financing activities		12,138,594,111.89	1,565,628,486.68	10,994,263,077.47	1,920,896,421.37
Effect of foreign exchange rate changes on cash and cash equivalents		(12,440,028.24)	(50,323,444.55)	(5,545,270.60)	359,009.09
Net increase in cash and cash equivalents	4(65)(a)	4,396,391,086.06	561,055,429.91	3,880,084,255.97	726,680,057.84
Add: Cash and cash equivalents at beginning of period		20,137,500,219.76	19,576,444,789.85	4,716,238,699.67	3,989,558,641.83
Cash and cash equivalents at end of period	4(65)(c)	24,533,891,305.82	20,137,500,219.76	8,596,322,955.64	4,716,238,699.67

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

Consolidated Statement of Changes in Owners' Equity for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Attributable to equity owners of the Company							Total owners' equity
		Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserves	Undistributed profits	Minority interests	
Balance at 1 January 2021		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
Movements for the year ended									
31 December 2021		-	173,135,177.31	-	121,016,553.39	166,405,435.51	3,544,245,056.58	320,678,144.66	4,325,480,367.45
Total comprehensive income									
Net profit	4(46)	-	-	-	-	-	5,093,467,260.97	1,181,102,183.15	6,274,569,444.12
Other comprehensive income	4(44)	-	-	-	121,016,553.39	-	-	(33,577,657.52)	87,438,895.87
Total comprehensive income		-	-	-	121,016,553.39	-	5,093,467,260.97	1,147,524,525.63	6,362,008,339.99
Capital contribution and withdrawal by owners									
Capital contribution by owners		-	-	-	-	-	-	169,344,191.63	169,344,191.63
Amount recorded in owners' equity arising from share-based payment arrangements	4(43)	-	31,332,721.62	-	-	-	-	-	31,332,721.62
Others	4(43)	-	141,802,455.69	-	-	-	-	(125,863,012.68)	15,939,443.01
Profit distribution									
Appropriation to surplus reserves	4(45)	-	-	-	-	166,405,435.51	(166,405,435.51)	-	-
Profit distribution to equity owners	4(46)	-	-	-	-	-	(1,364,202,874.56)	(852,571,713.20)	(2,216,774,587.76)
Others	4(46)	-	-	-	-	-	(18,613,894.32)	(17,755,846.72)	(36,369,741.04)
Balance at 31 December 2021		2,842,089,322.00	16,070,723,052.49	-	(144,394,206.19)	1,992,463,708.39	28,598,598,034.67	9,706,730,225.74	59,066,210,137.10
Balance at 1 January 2022		2,842,089,322.00	16,070,723,052.49	-	(144,394,206.19)	1,992,463,708.39	28,598,598,034.67	9,706,730,225.74	59,066,210,137.10
Movements for the year ended									
31 December 2022		855,456,850.00	13,027,380,718.38	-	(226,929,457.73)	166,343,562.77	3,881,274,304.45	1,232,714,942.46	18,936,240,920.33
Total comprehensive income									
Net profit	4(46)	-	-	-	-	-	5,617,152,003.01	1,374,862,765.54	6,992,014,768.55
Other comprehensive income	4(44)	-	-	-	(226,929,457.73)	-	-	449,145.52	(226,480,312.21)
Total comprehensive income		-	-	-	(226,929,457.73)	-	5,617,152,003.01	1,375,311,911.06	6,765,534,456.34
Capital contribution and withdrawal by owners									
Capital contribution by owners	4(42)	855,456,850.00	13,137,901,293.19	-	-	-	-	148,247,211.08	14,141,605,354.27
Amount recorded in owners' equity arising from share-based payment arrangements	4(43)	-	12,907,658.39	-	-	-	-	-	12,907,658.39
Others	4(43)	-	(123,428,233.20)	-	-	-	-	350,337,700.32	226,909,467.12
Profit distribution									
Appropriation to surplus reserves	4(45)	-	-	-	-	166,343,562.77	(166,343,562.77)	-	-
Profit distribution to equity owners	4(46)	-	-	-	-	-	(1,552,494,013.56)	(624,924,107.71)	(2,177,418,121.27)
Others	4(46)	-	-	-	-	-	(17,040,122.23)	(16,257,772.29)	(33,297,894.52)
Balance at 31 December 2022		3,697,546,172.00	29,098,103,770.87	-	(371,323,663.92)	2,158,807,271.16	32,479,872,339.12	10,939,445,168.20	78,002,451,057.43

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

Company Statement of Changes In Owners' Equity for The Year Ended 31 December 2022

(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 2021		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
Movements for the year ended 31 December 2021								
December 2021		-	124,694,851.27	-	(438,877.11)	161,723,858.43	91,311,851.31	377,291,683.90
Total comprehensive income								
Net profit	17(6)	-	-	-	-	-	1,664,054,355.06	1,664,054,355.06
Other comprehensive income	17(5)	-	-	-	(438,877.11)	-	-	(438,877.11)
Total comprehensive income		-	-	-	(438,877.11)	-	1,664,054,355.06	1,663,615,477.95
Capital contribution and withdrawal by owners								
Capital contribution by owners		-	-	-	-	-	-	-
Amount recorded in owners' equity arising from share-based payment arrangements	17(4)	-	31,332,721.62	-	-	-	-	31,332,721.62
Others	17(4)	-	93,362,129.65	-	-	-	-	93,362,129.65
Profit distribution								
Appropriation to surplus reserves	17(6)	-	-	-	-	166,405,435.51	(166,405,435.51)	-
Profit distribution to equity owners	17(6)	-	-	-	-	-	(1,364,202,874.56)	(1,364,202,874.56)
Others		-	-	-	-	(4,681,577.08)	(42,134,193.68)	(46,815,770.76)
Balance at 31 December 2021		2,842,089,322.00	19,094,211,080.76	-	(146,268.20)	1,616,672,906.21	3,055,823,875.26	26,608,650,916.03
Balance at 1 January 2022		2,842,089,322.00	19,094,211,080.76	-	(146,268.20)	1,616,672,906.21	3,055,823,875.26	26,608,650,916.03
Movements for the year ended 31 December 2022		855,456,850.00	13,181,457,258.00	-	(155,967.26)	166,343,562.77	(55,401,948.64)	14,147,699,754.87
Total comprehensive income								
Net profit	17(6)	-	-	-	-	-	1,663,435,627.69	1,663,435,627.69
Other comprehensive income	17(5)	-	-	-	(155,967.26)	-	-	(155,967.26)
Total comprehensive income		-	-	-	(155,967.26)	-	1,663,435,627.69	1,663,279,660.43
Capital contribution and withdrawal by owners								
Capital contribution by owners		855,456,850.00	13,137,901,293.19	-	-	-	-	13,993,358,143.19
Amount recorded in owners' equity arising from share-based payment arrangements	17(4)	-	12,907,658.39	-	-	-	-	12,907,658.39
Others	17(4)	-	30,648,306.42	-	-	-	-	30,648,306.42
Profit distribution								
Appropriation to surplus reserves	17(6)	-	-	-	-	166,343,562.77	(166,343,562.77)	-
Profit distribution to equity owners	17(6)	-	-	-	-	-	(1,552,494,013.56)	(1,552,494,013.56)
Balance at 31 December 2022		3,697,546,172.00	32,275,668,338.76	-	(302,235.46)	1,783,016,468.98	3,000,421,926.62	40,756,350,670.90

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

Notes to the Financial Statements for The Year Ended 31 December 2022

(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.

Pursuant to the document “Approval for the Non-public Issuance of Shares by Shanghai Pharmaceutical Group Co., Ltd.” (Zheng Jian Xu Ke [2022] No. 584) issued by CSRC on March 22, 2022, the Company was approved to issue 852,626,796 A shares to Yunnan Baiyao Group Co., Ltd. and Shanghai Tandong Enterprise Consulting Service Co., Ltd. at RMB16.39 per share. As at 25 March 2022, Yunnan Baiyao and Shanghai Tandong has completed the non-public issuance payment. PricewaterhouseCoopers Zhong Tian LLP has issued an report, PwC ZT Yan Zi (2022) No. 0271, for capital verification. As at 8 April 2022, the Company has completed the share registration of non-public issuance of A shares.

For the year ended 31 December 2022, according to the share-based payment plan, the Company issued 2,830,054 shares listed (A shares) at an exercise price of RMB18.41 per share.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

1 GENERAL INFORMATION (continued)

On 31 December 2022, the Company's share capital was RMB3,697,546,172.00 with a total share capital of 3,697,546,172 shares, of which, 2,778,473,468 (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.

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. Shanghai Shangshi is the controlling shareholder of Shanghai Pharmaceutical Group. Shanghai Shangshi is a state-owned enterprise, and its actual controller is Assets Supervision and Administration Commission of Shanghai Municipal Government ("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 30 March 2023.

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 accounts 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 and right-of-use 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).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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.

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

The financial statements of the Company for the year ended 31 December 2022 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the Consolidated and the Company’s financial position as of 31 December 2022 and their financial performance, cash flows and other information for the year ended 31 December 2022.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(5) Business combinations (continued)

(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.

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 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 realised 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(6) Preparation of consolidated financial statements (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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.

(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 recognizes a financial asset or a financial liability when the Group becomes a party to the contractual provisions of financial instrument.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Financial instruments (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification and measurement (continued)

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 recognizes 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.

(ii) Impairment

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

Giving consideration to reasonable and supportable information on past events, current conditions and forecasts of future economic conditions, and using default risk as weight, the Group recognises the ECL as the probability-weighted amount of the present value of the difference between the cash flows receivable from the contract and the cash flows expected to collect.

For notes receivable, accounts receivable, financing receivables and contract assets arising from the sales of goods and rendering of services in the ordinary course of operating activities, the Group recognises the lifetime ECL regardless of whether a significant financing component exists. For lease receivables, the Group measures the loss provision according to the lifetime ECL.

At each balance sheet date, the ECL of financial instruments other than aforesaid notes receivable, accounts receivable, financing receivables, contract assets and lease receivables is measured based on different stages. A 12-month ECL provision is recognised for financial instruments in Stage 1, that have not had a significant increase in credit risk since initial recognition, lifetime ECL provision is recognised for financial instruments in Stage 2, that have had a significant increase in credit risk without credit impairment since initial recognition, and lifetime ECL provision is recognised for financial instruments in Stage 3, that have had a credit impairment since initial recognition.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Financial instruments (continued)

(a) *Financial asset (continued)*

(ii) *Impairment (continued)*

For the financial instruments with low credit risk as at the balance sheet date, the Group assumes there is no significant increase in credit risk since initial recognition. The Group determined them as the financial instruments in Stage 1 and recognizes the 12-month ECL.

For the financial instruments in Stage 1 and Stage 2, the Group calculates the interest income by applying the effective interest rate to the gross carrying amount (before net of expected credit loss provision). For the financial instrument in Stage 3, the interest income is calculated by applying the effective interest rate to the amortised cost (net of expected credit loss provision).

When the ECL of individual financial asset cannot be assessed at a reasonable cost, the Group groups the receivables based on shared risk characteristics, and measures the ECL based on each group. The Group determines groupings and loss allowance recognition of the financial assets as follows:

Group 1	Account receivables
Group 2	Notes receivables – bank acceptance notes
Group 3	Notes receivables – trade acceptance notes
Group 4	Receivables financing
Group 5	Compensation receivable from suppliers
Group 6	Guarantees (including deposits)
Group 7	Other receivables
Group 8	Amount due from subsidiaries

For accounts 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 considers the historical credit loss experience, current situation and forecasts of economic conditions to measure the ECL based on exposure at default and lifetime ECL ratio.

For notes receivables, receivables financing not resulting from transactions of daily operation, other receivables and long-term receivables in groups, the Group considers the historical credit loss experience, current situation, and forecasts of economic conditions to measure the ECL based on exposure at default and 12-month or lifetime ECL ratio.

Impairment losses (and reversal of impairment losses) are 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(9) Financial instruments (continued)

(a) *Financial asset (continued)*

(iii) *Derecognition*

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 that 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(10) Inventories

(a) *Classification*

Inventories include raw materials, turnover materials, finished goods, work in progress, consigned processing materials and consumable biological assets are stated at the lower of cost and net realizable 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 labor 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) *Amortization 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Long-term equity investments (continued)

(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 recognizes the investment income according to its share of net profit or loss of the investee. The Group discontinues recognizing 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 recognizing 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Long-term equity investments (continued)

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

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 of the Company's financial statements is recognised. When preparing the consolidated financial statements, for unrealised gains or losses attributable to the Group on downstream transactions from the Group to investees on investment or sale of assets, the Group eliminates the transactions on the Company's financial statements, eliminates the unrealised revenues and costs or gains or losses on disposal of assets attributable to the Group, and adjust the investment income accordingly. For unrealised gains or losses attributable to the Group on upstream transactions from investees to the Group on investment or sale of assets, the Group eliminates the transactions on the Company's financial statements, eliminates the unrealised gains or losses attributable to the Group in the carrying amount of the related assets, and adjust the carrying amount of long-term equity investments accordingly. For the loss on the intra-group transactions amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(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)).

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(11) Long-term equity investments (continued)

(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 the Group, the relevant other comprehensive income under equity method previously is determined as if the relevant assets or liabilities are derecognised directly by the Group 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.

(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 amortization 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 amortization policy on similar intangible assets is applicable to land use rights for lease purpose.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(12) Investment properties (continued)

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. (Note 2(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. Fixed 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.

(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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(13) Fixed assets (continued)

(b) Depreciation method of fixed assets (continued)

The estimated useful lives, the estimated net 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 capitalization 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)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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 capitalization 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. Capitalization 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 capitalization 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 capitalization, 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 capitalization 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(16) Biological assets (continued)

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.

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 and trademarks, outsourcing in-licenses, 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 the useful lives of 30-50 years. The land use right is amortised evenly. 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 acquired in a business combination are recognised at fair value at the acquisition date. Business network is amortised using the straight-line method over its estimated useful lives of 5-20 years.

(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. Brands with indefinite useful lives are not amortised are assessed for impairment on an annual basis. Trademarks are amortised using the straight-line method over their estimated useful lives of 10-20 years.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(17) Intangible assets (continued)

(d) *Outsourcing In-licenses*

In-licenses acquired separately are measured on initial recognition at cost.

In-licenses are for license of intellectual properties in development, with non-refundable upfront payment, milestone payment and royalty payment. Upfront prepayments recognizable as asset is capitalised when paid. Milestone payment recognizable as asset is capitalised as intangible assets when incurred, unless the payment is for outsourced research and development work which would follow the capitalization policy in Note 2(17)(i). Royalty payment would be accrued for in line with the underlying sales and recognised as cost of sales.

In-licenses with indefinite useful lives or not available for use will not be amortised but tested for impairment annually. Certain in-licenses have indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows.

In-licenses with finite useful life are amortised using the straight-line basis over the commercial lives of the underlying products (generally less than 20 years), commencing from the date when the products are put into commercial production.

(e) *Know-how*

Know-how is amortised using the straight-line method over its estimated useful lives of 2-20 years.

(f) *Patent rights*

Patent rights are amortised using the straight-line method over its protection period of 10-20 years as stipulated by law.

(g) *Software*

Software is amortised using the straight-line method over its estimated useful lives of 2-10 years.

(h) *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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(17) Intangible assets (continued)

(i) *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.

(j) *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)).

(18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to right-of-use assets, 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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 carried 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 and indefinite-lived intangible assets 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(20) Employee benefits (continued)

(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.

(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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(20) Employee benefits (continued)

(c) Termination benefits (continued)

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 employee benefits payable.

(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.

Loss provision for financial guarantee contracts and provision for loan commitments as determined based on the ECL model are recognised as provisions.

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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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. 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 with no distinct good or service received from those customers, the consideration is recognised as a reduction of the revenue.

(b) Rendering services

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

Revenue is recognised by the stage of completion of the services. Trade receivables are recognised when the Group has an unconditional right to 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(24) Government grants (continued)

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 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 in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(25) Deferred tax assets and deferred tax liabilities (continued)

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.

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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(26) Lease (continued)

The Group as the lessee (continued)

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 conditions permitted by the Ministry of Finance 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 rent concessions agreed on existing lease contracts as a direct result of permitted conditions, the Group applies the practical expedient and records the undiscounted concessions in profit or loss when the agreement is reached to discharge the original payment obligation with corresponding adjustment to 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.

(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.

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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 has been 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(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 needs to determine 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 or groups of asset groups is the higher of fair value less the cost of disposal and the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 4(21)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(30) Critical accounting estimates and judgements (continued)

(a) *Critical accounting judgements and key assumptions (continued)*

(iii) *Accounting estimates on impairment of goodwill (continued)*

If management revises the growth rate that is used in the calculation of the future cash flows of asset groups or 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.

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups or 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 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. For inventories with expiration management, management determined the provision for inventory based on the level of inventories close to expiration date taking into consideration of good return arrangement with suppliers and estimated probability of selling. 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, 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 6.25%, 4.90% and 2.75% respectively (2021: 6.60%, 5.20% and 3.00%). The Group monitors and reviews assumptions related to the calculation of expected credit losses on a regular basis. For the year ended 31 December 2022, the Group had considered the uncertainties arising from different macroeconomic scenarios and updated relevant assumptions and parameters accordingly.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(30) Critical accounting estimates and judgements (continued)

(a) Critical accounting judgements and key assumptions (continued)

(vi) Current and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. 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.

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.

(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 uses 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

(30) Critical accounting estimates and judgements (continued)

(b) Critical judgments in applying the accounting policies (continued)

(i) Classification of financial assets (continued)

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

When the Group classifies the stages of financial instruments into different stages, its criteria for significant increase in credit risk and credit-impaired are as follows:

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

The Ministry of Finance released the Circular on Issuing Interpretation No. 15 of Accounting Standards for Business Enterprises (Interpretation No. 15) in 2021, and Q&A on Implementation of Accounting Standards for Business Enterprises, Circular on Compliance of Accounting Standards of Business Enterprises to Preparation of 2022 Annual Report (Cai Kuai [2022] No. 32) and Q&A on Implementation of Long-term Equity Investment Standards in 2022 and 2023. The financial statements for the year ended 31 December 2022 have been prepared by the Group and the Company in accordance with the above circulars and Q&A. The revisions have no significant impacts on the financial statements for the year ended 31 December 2021 of the Group and the Company.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

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 provisions including 'Circular on Enterprise Income Tax Policy concerning Deductions for Equipment and Appliances' (Cai Shui [2018] No. 54) and the 'Announcement on Extending the Implementation Period of Certain Preferential Tax Policies' (Cai Shui [2021] No. 6) issued by the State Administration of Taxation, during the period from 1 January 2018 to 31 December 2023, the cost of newly purchased equipment with the original cost less than RMB5 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.

In addition, pursuant to the Announcement on Increasing the Pre-tax Deductions in Support of Technological Innovation (Announcement [2022] No. 28) issued by the Ministry of Finance, the State Taxation Administration and the Ministry of Science and Technology, during the period from 1 October 2022 to 31 December 2022, the cost of newly purchased equipment can be fully deducted against taxable profit in 2022, and entitled to additional pre-tax deduction at 100%.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

3 TAXATION (continued)

(2) Preferential tax rate policy and approval documents (continued)

Enterprise income tax

The actual income tax rate applicable to the Company was 25% for the year ended 31 December 2022 and 31 December 2021.

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

The subsidiaries, Shanghai Jinhe Bio-Pharmaceutical Co.,Ltd., Shanghai Zhongxi Pharmaceutical Co., Ltd., Shanghai Zhongxi Sunve Pharmaceutical Co.,Ltd., Shanghai Zhonghua Pharmaceutical Nantong Co.,Ltd., Shanghai Zhonghua Pharmaceutical Co.,Ltd., SPH Shenxiang Health Pharmaceutical Co., Ltd., Shanghai Xingling Sci.&Tech. Pharmaceutical Co., Ltd., Zhejiang Jiuxu Pharmaceutical Co.,Ltd. Shanghai Lei Yun Shang Pharmaceutical Co., Ltd., Gansu Xinyi Tiansen Pharmaceutical Co.,Ltd., Shandong Sine Pharmaceutical Co., Ltd, Shanghai Harvest Pharmaceutical Co.,Ltd., Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Shanghai Sine Jinzhu Pharmacy Co., Ltd. Shanghai Sine Tianping Pharmaceutical Co.,Ltd.,Shanghai Sine Wanxiang Pharmaceuticals Co., Ltd. Shanghai Sine Yan'an Pharmaceutical Co., Ltd., Tianjin Jinjin Pharmaceutical Co.,Ltd., Shanghai SPH New ASIA Pharmaceutical Co., Ltd., Shanghai New Asiatic Medicine Industry Minhong Co., Ltd., Liaoning Medya Pharmaceutical Co., Ltd., Shanghai Haichang Medical Plastic Factory, Hislink (Beijing) Information Technology Co., Ltd., Liaoning SPH Good Nurse Pharmaceutical(Group) Co.,Ltd., Xiamen Traditional Chinese Medicine Co., Ltd. SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Qingdao Shanghai Pharmaceutical Growful Pharmaceutical Co., Ltd., SPH Kony (Changzhou) Co., Ltd., Oval Technologies Inc, Techpool Bio-Pharma Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., SPH Changzhou Pharmaceutical Factory Co., Ltd.,Nantong Changyou Pharmaceutical Technology 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 2022 was 15%.

The subsidiaries, SPH Keyuan Xinhai Pharmaceutical Enshi Co., Ltd., SPH Ke Yuan Xinhai Pharmaceutical Tongliao Co., Ltd., SPH Cardinal Health (Sichuan) Pharmaceutical Co., Ltd., SPH Cardinal Health (Chongqing) Pharmaceutical Co., Ltd., Chongqing SPH Qinglong Pharmaceutical Co.,Ltd., Chongqing Tianbao Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Sichuan Biological Products Co., Ltd., SPH Qiannan Pharmaceutical Co., Ltd., SPH Zhunyi Pharmaceutical Co., Ltd.,Chifeng Aike Pharmaceutical Technology Co., Ltd., Chifeng Mysun Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Holding Yunnan Co., Ltd., Inner Mongolia Keyuan Xinhai Pharmaceutical Co., Ltd. Shanghai Pharmaceutical Holding Chongqing Medical Instrument Co., Ltd., Shanghai Pharmaceutical Holding Yunan (Chongqing) Pharmaceutical 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 year ended 31 December 2022.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

3 TAXATION (continued)

(2) Preferential tax rate policy and approval documents (continued)

Enterprise income tax

The subsidiary, SPH Keyuan Xinhai Hainan Co., Ltd. was recognised as an enterprise in the encouraged industry category of Hainan Free Trade Port. According to the Notice on Preferential Policies on Enterprise Income Tax for Hainan Free Trade Port (Cai Shui [2020] No. 31) issued by the State Administration of Taxation, the corporate income tax rate applicable to the company is 15% for the year ended 2022.

The subsidiaries, SPH (Dali) Chinese Yew Biology Co., Ltd., Sichuan Shangyao Shendu Traditional Chinese Medicine Co., Ltd., Shanghai Huapu Traditional Chinese Medicine Tablet Co., Ltd. were 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 2022 with the exemption from enterprise income tax.

The subsidiaries, Shanghai Qiyi Dental Equipment Co., Ltd., Shanghai Shangyi Kangge Medical Equipment Co., Ltd., Shanghai Dental Materials Factory Changshu Branch, Shanghai Wuzhou Medical Treatment Equipment Wholesale Department, Shanghai Leishuofentang TCM Outpatient Department Co., Ltd., Shanghai Leiyunshang Nanxiang Medicine Co., Ltd., SPH Huayu (Linyi) Traditional Chinese Medicine Resource Co. Ltd., Shandong SPH Traditional Chinese Medicine Tablets Co., Ltd., Shanghai Xinde Traditional Chinese Medicine Company, SPH Keyuan Health Pharmacy (Luoyang) Co., Ltd. Shanxi SPH Medical Instruments Co., Ltd., SPH Keyuan Xinhai Shengyun Yi'an Pharmaceutical Co., Ltd., SPH Keyuan (Heilongjiang) Pharmacy Limited, Beijing Xinhai Keyuan Pharmacies Co., Ltd., Beijing Heanchangtai Drug Store Co., Ltd., Jilin SPH Keyuan Pharmacy Limited, SPH Keyuan Pharmacy Jilin Co., Ltd., SPH Keyuan Xinhai (Jilin) Medical Equipment Co., Ltd., Keyuan Pharmacy Jilin City Co., Ltd. SPH Keyuan Xinhai (Beijing) Biological Products Co.,Ltd., Beijing Xinhai Chengkang Pharmacy Limited, SPH Keyuan Health Pharmacy (Henan) Co., Ltd. Shanxi Shangyao Pharmacy Co., Ltd., Shanghai Pharmaceutical Keyuan Pharmacy (Hainan) Co., Ltd., Shanghai Pharmaceutical Keyuan Pharmacy Shijiazhuang Co., Ltd., Qingdao Yanhuang Yiyi Culture Communication Co., Ltd., SPH Jinzhou Pharmaceutical Co., Ltd., Liaoning SPH Technology Development Co., Ltd., Shanghai Minhang District Medicinal Materials Pharmaceutical Co., Ltd., SPH Ande Pharmacy Co., Ltd., Ningbo Cishui Pharmacy Co., Ltd., Ningbo Haishu Xinzhi Medicine Retail Co., Ltd., Pingdu SPH Pharmacy Co., Ltd., Shanghai Yueyi Huashi Yutiancheng Clinic Co., Ltd., Shanghai Huashi Western Pharmacy Co., Ltd., Shanghai Huashi Yimeijian Pharmacy Co., Ltd., Shanghai Huafen Cosmetics Co., Ltd., Shanghai Huashi North Pharmacy Co., Ltd., Shanghai Leiyunshang Wuxing Tcm Clinic Co., Ltd., Shanghai Leiyunshang Pingshun TCM Clinic Co., Ltd., Shanghai Yutiancheng Pharmaceutical Chain Co., Ltd., Shanghai Yunhu Pharmaceutical Chain Operation Co., Ltd., Shangyao (Hangzhou) Medical Instrument Co., Ltd., Wuhan Kehaiyuan Pharmacy Chain Co., Ltd., 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, Announcement on Implementing Preferential Income Tax Policy for Small and Micro Enterprises and Individual Business (SAT Announcement [2021] No.12) and announcement on further implementing Preferential Income Tax Policy for Small and Micro Enterprises and Individual Business(SAT Announcement[2022] NO.13) the above companies, the sales of which per month is below RMB0.15 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 12.5%, 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 25%, with the applicable enterprise income tax rate of 20%.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS

(1) Cash at bank and on hand

	31 December 2022	31 December 2021
Cash on hand	5,257,740.96	5,022,850.35
Cash at bank	20,611,935,516.50	17,241,733,169.02
Financial company deposits	3,916,698,048.36	2,890,744,200.39
Others	2,867,504,662.61	2,252,885,499.10
	27,401,395,968.43	22,390,385,718.86
Including: cash at bank and on hand overseas	713,212,994.19	523,925,501.63

As at 31 December 2022, there was no restricted cash at bank and on hand in the cash at bank of the Group (31 December 2021: Nil); other cash balances of RMB1,575,631,959.74 were pledged as collateral by the Group for the purpose of bank acceptance notes (31 December 2021: RMB1,441,333,204.83); other cash balances of RMB47,581,074.67 were pledged as collateral by the Group for the purpose of letters of credit (31 December 2021: RMB55,627,218.49); other cash balances of RMB1,081,341,000.00 were time deposits due over three months (31 December 2021: RMB570,000,000.00); other restricted cash balances were RMB162,950,628.20 (31 December 2021: RMB185,925,075.78).

(2) Financial assets held for trading

	31 December 2022	31 December 2021
Structured deposit	9,613,554,659.84	–

(3) Derivative financial assets and derivative financial liabilities

	31 December 2022	31 December 2021
Derivative financial assets		
– forward foreign exchange contract(i)	4,820,057.40	3,284,464.66
Derivative financial liabilities		
– forward foreign exchange contract (i)	1,569,907.10	774,097.78

(i) As at 31 December 2022 and 31 December 2021, the derivatives financial assets and derivative financial liabilities were mainly forward foreign exchange contracts held by the Group.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO CONSOLIDATED FINANCIAL STATEMENT ITEMS (continued)

(4) Notes receivables

	31 December 2022	31 December 2021
Bank acceptance notes	1,303,310,018.04	939,017,596.40
Trade acceptance notes	506,739,521.68	346,862,027.97
Less: Provision for bad debts	(10,465,128.17)	(6,998,935.17)
	1,799,584,411.55	1,278,880,689.20

(a) As at 31 December 2022, notes receivable endorsed or discounted but unmatured for the Group were listed as follows:

	Not derecognised
Bank acceptance notes	698,968,988.07
Trade acceptance notes	170,505,127.40
	869,474,115.47

For the year ended 31 December 2022, insignificant portion of the trade acceptance notes were endorsed or discounted and not derecognised by the Group, which thereby categorised the balance of trade acceptance notes receivable as financial assets at amortised cost. Bank acceptance notes are grouped based on bank types, credit level etc. for management. For bank acceptance notes increased in the current year and are not derecognised, they are categorised financial assets at amortised cost to hold for collection of the contractual cash flows.

(b) *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 2022, the Group's notes receivables are all in the first stage and had no notes receivable for which the related provision for bad debts was provided on the individual basis.

(ii) As at 31 December 2022, notes receivable for which the related provision for bad debts were provided on the grouping basis were analysed as follows:

Group – Bank acceptance notes:

As at 31 December 2022, the Group measured the provision for bad debts of notes receivables based on the lifetime expected credit losses, and the related amount was RMB5,641,014.86 (31 December 2021: RMB3,849,972.15).

Group – Trade acceptance notes:

As at 31 December 2022, the Group measured the provision for bad debts of notes receivables based on the lifetime expected credit losses, and the related amount was RMB4,824,113.31 (31 December 2021: RMB3,148,963.02).

(iii) As at 31 December 2022, the Group had no notes receivable written off.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) Accounts receivables

	31 December 2022	31 December 2021
Accounts receivables	68,774,584,380.90	60,001,944,426.20
Less: Provision for bad debts	(2,014,730,430.45)	(1,894,174,256.45)
	66,759,853,950.45	58,107,770,169.75

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.

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

	31 December 2022	31 December 2021
Within 1 year	66,016,263,778.32	57,677,153,312.42
1-2 years	1,699,867,768.66	1,081,604,623.11
Above 2 years	1,058,452,833.92	1,243,186,490.67
	68,774,584,380.90	60,001,944,426.20

(b) As at 31 December 2022, the top five accounts receivables based on the balance of the debtors are summarised and analysed as follows:

	Account Balance	Amount of bad debt provision	% of total balance
Total top five accounts receivables	3,419,175,506.26	(27,183,282.30)	4.97%

(c) Accounts receivables derecognised due to the transfer of financial assets were analysed as follows: For the year ended 31 December 2022, the Group carried out factoring without recourse to a few accounts receivables. As at 31 December 2022, the balance of accounts receivables that was derecognised due to factoring without resource was RMB4,554,994,982.20 (31 December 2021: RMB863,243,694.43). The provision for bad debts was RMB16,530,433.15 (31 December 2021: RMB4,944,810.83), and related expenses were RMB58,950,359.84 (31 December 2021: RMB22,136,651.01).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) Accounts receivables (continued)

(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 2022, 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	121,103,445.32	100.00%	(121,103,445.32)	Through assessment, provision on an individual basis
Accounts receivable 2	32,217,861.48	100.00%	(32,217,861.48)	Through assessment, provision on an individual basis
Accounts receivable 3	31,916,220.45	100.00%	(31,916,220.45)	Through assessment, provision on an individual basis
Accounts receivable 4	11,546,794.10	100.00%	(11,546,794.10)	Through assessment, provision on an individual basis
Others	239,309,184.30	100.00%	(239,309,184.30)	Through assessment, provision on an individual basis
	436,093,505.65		(436,093,505.65)	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) Accounts receivables (continued)

(d) Provision for bad debts (continued)

(i) (continued)

As at 31 December 2021, 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	121,103,445.32	100.00%	(121,103,445.32)	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	31,916,220.45	100.00%	(31,916,220.45)	Through assessment, provision on an individual basis
Others	265,728,364.62	100.00%	(265,728,364.62)	Through assessment, provision on an individual basis
	594,638,233.29		(594,638,233.29)	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) Accounts receivables (continued)

(d) Provision for bad debts (continued)

(ii) As at 31 December 2022 and 31 December 2021, the analysis of bad debt provisions of accounts receivables on grouping basis is as follows:

	31 December 2022		
	Accounts balance	Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount
Within 6 months	55,343,835,021.98	0.47%	(261,901,871.13)
6 – 12 months	10,655,012,986.05	2.62%	(279,435,795.89)
1 – 2 years	1,671,623,974.41	22.09%	(369,280,364.97)
Above 2 years	668,018,892.81	100.00%	(668,018,892.81)
	68,338,490,875.25		(1,578,636,924.80)

	31 December 2021		
	Accounts balance	Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount
Within 6 months	49,951,861,069.10	0.45%	(227,069,741.17)
6 – 12 months	7,707,662,561.26	2.19%	(168,845,739.53)
1 – 2 years	1,036,382,297.24	18.55%	(192,220,277.15)
Above 2 years	711,400,265.31	100.00%	(711,400,265.31)
	59,407,306,192.91		(1,299,536,023.16)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) Accounts receivables (continued)

(d) *Provision for bad debts (continued)*

- (iii) For the year ended 31 December 2022, the provision for bad debts on an individual basis amounted to RMB40,390,512.71 (for the year ended 31 December 2021: RMB43,844,780.66). RMB21,710,136.11 (for the year ended 31 December 2021: RMB5,578,269.60) was collected or reversed, and the relevant balance was RMB21,710,136.11 (for the year ended 31 December 2021: RMB5,578,269.60). 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 year	Through assessment, provision on an individual basis	5,283,452.49	Cash
Accounts receivable 2	Collection in the current year	Through assessment, provision on an individual basis	3,619,966.56	Cash
Accounts receivable 3	Collection in the current year	Through assessment, provision on an individual basis	2,645,981.10	Cash
Others	Collection in the current year	Through assessment, provision on an individual basis	10,160,735.96	Cash
			21,710,136.11	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) Accounts receivables (continued)

- (e) For the year ended 31 December 2022, RMB12,433,306.87 accounts receivables were written off by the Group, and the relevant provision for bad debts amounted to RMB12,433,306.87, among which important accounts receivables analysis was as follows:

	Nature	Amount of written-off	Reasons for written-off	Process for written-off	Arise from related transaction
Accounts receivable 1	Payment for goods	12,354,306.87	Unable to collect	Management approval and special audit	No
Accounts receivable 2	Payment for goods	79,000.00	Unable to collect	Management approval and special audit	No
		12,433,306.87			

(6) Receivables financing

	31 December 2022	31 December 2021
Bank acceptance notes	1,627,386,138.71	1,619,009,831.53

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.

As at 31 December 2022, the Group measured the provision for bad debts based on the lifetime expected credit losses, and the related amount was RMB7,633,278.59 (31 December 2021: RMB4,824,701.57). 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(6) Receivables financing (continued)

As at 31 December 2022, notes receivable endorsed or discounted but unmatured as shown in the receivables financing were as follows:

	Derecognised
Bank acceptance notes	2,853,844,314.88

(7) Advances to suppliers

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

	31 December 2022		31 December 2021	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	3,797,016,905.05	98.18%	2,426,552,095.39	98.73%
Above 1 year	70,565,793.52	1.82%	31,209,039.09	1.27%
	3,867,582,698.57	100.00%	2,457,761,134.48	100.00%

As at 31 December 2022, advances to suppliers aged over 1 year were RMB70,565,793.52 (31 December 2021: RMB31,209,039.09), which were mainly advances of raw materials.

(b) As at 31 December 2022, the top five advances to suppliers based on the balance of the debtors are summarised and analysed as follows:

	Amount	% of total balance
Total top five advances to suppliers	475,537,840.50	12.30%

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(8) Other receivables

	31 December 2022	31 December 2021
Compensation receivable from suppliers	1,133,691,130.84	1,088,089,537.78
Guarantees (including deposits)	803,671,452.23	759,946,986.28
Receivables from enterprises	380,375,569.12	248,231,914.45
Reserves	58,115,897.52	53,019,804.70
Dividends receivable	54,661,017.74	60,223,172.44
Others	949,317,636.82	988,952,268.26
	3,379,832,704.27	3,198,463,683.91
Less: Provision for bad debts	(805,018,563.21)	(779,355,712.09)
	2,574,814,141.06	2,419,107,971.82

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

	31 December 2022	31 December 2021
Within 1 year	2,181,720,924.43	2,051,560,611.61
1-2 years	272,197,726.50	260,952,317.05
Above 2 years	925,914,053.34	885,950,755.25
	3,379,832,704.27	3,198,463,683.91

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(8) Other receivables (continued)

(b) As at 31 December 2022, 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	41,505,667.38	100.00%	(41,505,667.38)	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	255,716,434.32	100.00%	(255,716,434.32)	Unable to collect
	484,630,874.18		(484,630,874.18)	

As at 31 December 2021, 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	46,195,001.63	100.00%	(46,195,001.63)	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	246,491,665.37	100.00%	(246,491,665.37)	Unable to collect
	480,095,439.48		(480,095,439.48)	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(8) Other receivables (continued)

- (c) As at 31 December 2022, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

	31 December 2022			31 December 2021		
	Accounts	Provision for bad debts	% of total	Accounts	Provision for bad debts	% of total
	balance			balance		
	Amount	Amount	balance	Amount	Amount	balance
The first stage – Expected credit loss rate within the next 12 months on grouping basis						
Compensation receivable from						
suppliers	1,088,022,216.03	(10,601,531.08)	0.97%	1,054,441,861.59	(19,950,279.82)	1.89%
Guarantees (including deposits)	800,017,364.10	(14,800,399.15)	1.85%	758,133,389.46	(8,279,467.97)	1.09%
Receivables from enterprises	239,072,890.55	(789,328.15)	0.33%	115,279,427.30	(1,275,963.68)	1.11%
Reserves	56,941,580.17	(844,329.29)	1.48%	52,198,108.14	(540,296.33)	1.04%
Dividends receivable	54,661,017.74	(263,772.53)	0.48%	60,223,172.44	(43,795.43)	0.07%
Others	366,620,663.89	(10,084,784.95)	2.75%	410,387,799.54	(11,328,578.48)	2.76%
	2,605,335,732.48	(37,384,145.15)		2,450,663,758.47	(41,418,381.71)	

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

Compensation receivable from						
suppliers	45,668,914.81	(45,004,876.16)	98.55%	23,017,063.78	(22,564,381.79)	98.03%
Receivables from enterprises	23,906,329.02	(23,749,699.22)	99.34%	31,433,597.69	(29,305,868.33)	93.23%
Reserves	1,174,317.35	(1,172,865.80)	99.88%	821,696.56	(820,696.56)	99.88%
Others	219,116,536.43	(213,076,102.70)	97.24%	212,432,127.93	(205,150,944.22)	96.57%
	289,866,097.61	(283,003,543.88)		267,704,485.96	(257,841,890.90)	

As at 31 December 2022 and 31 December 2021, the Group has no other receivables in the second stage.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(8) Other receivables (continued)

- (d) For the year ended 31 December 2022, RMB9,515,896.12 and RMB32,328,075.54 were made separately 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 year 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 year.

For the year ended 31 December 2022, the Group had reversal of provision for bad debts on an individual basis of RMB11,684,978.73, and the relevant balance was RMB11,684,978.73.

	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	6,995,644.48	Cash
Other receivable 2	Collection in the current period	Through assessment, provision on an individual basis	4,689,334.25	Cash
			11,684,978.73	

- (e) For the year ended 31 December 2022, RMB2,630,987.86 other receivables were written off by the Group, and the relevant provision for bad debts amounted to RMB2,630,987.86 among which important accounts receivables analysis was as follows:

	Nature	Amount of written-off	Reasons for written-off	Process for written-off	Arise from related transaction
Other receivable 1	Current accounts	1,884,840.00	Unable to collect	Management approval and special audit	No
Other receivable 2	Current accounts	746,147.86	Unable to collect	Management approval and special audit	No
		2,630,987.86			

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(8) Other receivables (continued)

- (f) As at 31 December 2022, the top five receivables based on the balance of the debtors are summarised and analysed as follows:

	Nature	Balance	Aging	% of total balance	Provision for bad debts
Other receivable 1	Receivables from enterprises	127,968,965.00	Within 1 year	3.79%	(255,937.93)
Other receivable 2	Others	120,000,000.00	Above 5 years	3.55%	(120,000,000.00)
Other receivable 3	Receivables from enterprises	78,611,798.62	Within 1 year	2.33%	(141,501.24)
Other receivable 4	Compensation receivable from suppliers	55,566,464.93	Within 2 years	1.64%	(371,848.08)
Other receivable 5	Dividends receivable	47,973,159.00	Within 1 year	1.42%	(129,527.53)
		430,120,387.55		12.73%	(120,898,814.78)

(9) Inventories

- (a) The inventory is classified as follows:

	31 December 2022			31 December 2021		
	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	2,242,988,721.48	(120,150,132.64)	2,122,838,588.84	1,918,558,214.30	(99,586,015.27)	1,818,972,199.03
Turnover materials	58,529,181.11	-	58,529,181.11	51,442,390.82	-	51,442,390.82
Consigned processing materials	5,284,864.56	-	5,284,864.56	8,375,028.88	-	8,375,028.88
Work in progress	1,048,801,510.29	(21,024,219.48)	1,027,777,290.81	1,181,481,223.86	(21,024,219.48)	1,160,457,004.38
Finished goods	32,201,741,889.39	(977,101,002.43)	31,224,640,886.96	25,086,015,502.78	(1,028,325,896.90)	24,057,689,605.88
Consumable biological assets	21,145,952.74	-	21,145,952.74	9,772,061.13	(2,673,000.00)	7,099,061.13
	35,578,492,119.57	(1,118,275,354.55)	34,460,216,765.02	28,255,644,421.77	(1,151,609,131.65)	27,104,035,290.12

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(9) Inventories (continued)

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

	31 December 2021	Provision/(Reversal) in the current year	Decrease in the current year	31 December 2022
Raw materials	99,586,015.27	27,113,924.86	(6,549,807.49)	120,150,132.64
Work in progress	21,024,219.48	–	–	21,024,219.48
Finished goods	1,028,325,896.90	(18,436,046.18)	(32,788,848.29)	977,101,002.43
Consumable biological assets	2,673,000.00	–	(2,673,000.00)	–
	1,151,609,131.65	8,677,878.68	(42,011,655.78)	1,118,275,354.55

(10) Other current assets

	31 December 2022	31 December 2021
Taxes prepaid and to be deducted	940,146,082.64	779,894,867.62
Input VAT to be certified	277,895,837.13	207,796,576.19
	1,218,041,919.77	987,691,443.81

(11) Other equity instrument investments

	31 December 2022	31 December 2021
Non-tradable equity instrument investments(i)	101,487,525.55	73,392,413.17

	31 December 2022	31 December 2021
Non-tradable equity instrument investments		
Listed shares		
– Tianda Pharmaceuticals Limited (“Tianda Pharma”)	101,487,525.55	73,392,413.17

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(11) Other equity instrument investments

	31 December 2022	31 December 2021
Tianda Pharma		
– Cost	87,851,852.85	87,851,852.85
– Accumulated changes in fair value	13,635,672.70	(14,459,439.68)
	101,487,525.55	73,392,413.17

- (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.

(12) Other non-current financial assets

	31 December 2022	31 December 2021
Equity instrument investments		
– Listed common shares(a)	259,956,657.68	290,092,858.15
– Unlisted common shares(b)	1,883,083,458.72	1,098,807,808.46
	2,143,040,116.40	1,388,900,666.61

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

	31 December 2022	31 December 2021
(a) Listed common shares		
– Cost	356,895,977.16	356,895,977.16
– Accumulated changes in fair value	(84,306,662.18)	(39,869,254.14)
– Accumulated differences on translation of foreign currency financial statements	(12,632,657.30)	(26,933,864.87)
	259,956,657.68	290,092,858.15
(b) Unlisted common shares		
– Cost	1,704,351,014.16	934,451,014.16
– Accumulated changes in fair value	178,732,444.56	164,356,794.30
	1,883,083,458.72	1,098,807,808.46

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(13) Long-term receivables

	31 December 2022	31 December 2021
Cost –		
Deposits receivable (Note)-total amount	257,134,608.10	335,565,086.31
Medical equipment receivable -total amount	152,096,738.34	54,366,516.16
Receivables from enterprises -total amount	54,086,200.00	–
Less: Provision for bad debts	(4,936,711.55)	(2,381,046.12)
Unrealised finance income	(60,461,089.58)	(63,302,647.78)
Current portion of long-term receivables	(185,619,908.99)	(126,505,618.81)
	212,299,836.32	197,742,289.76

Note: the amounts are deposits with over one year of collection period that the Group pays. As at 31 December 2022 and 31 December 2021, long-term receivables of the Group were all in the first stage.

(14) Long-term equity investments

	31 December 2022	31 December 2021
Joint ventures(a)	2,240,931,226.42	2,113,561,239.73
Associates(b)	7,006,273,726.71	7,037,089,217.27
Less: Provision for impairment of long-term equity investments	(14,561,350.94)	(77,375,103.08)
	9,232,643,602.19	9,073,275,353.92

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(14) Long-term equity investments (continued)

(a) Joint ventures

	31 December 2021	Changes during the current year							31 December 2022	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		
SPH(BIOCAD)(HK) Limited	1,252,891,345.80	-	-	(57,309,365.67)	-	-	-	113,708,723.73	1,309,290,703.86	-
Shanghai Hutchison Pharmaceutical Co., Ltd.	455,179,417.53	-	-	325,721,126.76	-	-	(300,000,000.00)	11,333,389.39	492,233,933.68	-
Jiangxi Nanhua Medicines Co., Ltd	334,334,494.44	-	-	44,482,228.93	-	-	(1,000,000.00)	(5,955,290.94)	371,861,432.43	-
Zhejiang Shangyao Jiuzhou biopharmaceutical Co., Ltd	42,819,088.39	-	-	(4,562,109.32)	-	-	-	-	38,256,979.07	-
Others	28,336,893.57	-	-	1,884,101.04	-	-	(932,817.23)	-	29,288,177.38	(1,747,365.36)
	2,113,561,239.73	-	-	310,215,981.74	-	-	(301,932,817.23)	119,086,822.18	2,240,931,226.42	(1,747,365.36)

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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(14) Long-term equity investments (continued)

(b) Associates

	31 December 2021	Changes during the current year										31 December 2022	Impairment balance
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjustment	Other equity changes (i)	Cash dividends declared	Provision for impairment	Others				
Shanghai Roche Pharmaceuticals Ltd.	1,406,965,137.30	-	-	105,060,121.94	-	-	(108,035,241.23)	-	-	17,214,750.11	1,422,104,768.12	-	
Shanghai Pharma Health Commerce Co., Ltd.	1,439,261,819.64	-	-	(26,584,182.31)	-	-	-	-	(2,206,997.65)	1,410,470,639.68	-		
Shanghai Shangyao kangxunuo biopharmaceutical Co., Ltd.	539,128,927.91	-	-	(40,400,647.67)	-	-	-	-	-	498,728,280.24	-		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (iii)	441,879,702.31	-	-	28,179,007.41	(234,871.05)	5,786,413.24	(14,709,979.20)	-	-	460,900,272.71	-		
Shanghai Industrial Group Finance Co., Ltd.	403,735,674.67	-	-	15,852,120.00	-	-	(6,152,780.95)	-	-	413,435,013.72	-		
Shanghai Lianyi Investment Center (limited Partnership)	349,704,903.44	-	-	12,201,617.78	-	-	(15,204,787.91)	-	-	346,701,733.31	-		
Beijing Lianxin Pharmaceutical Co., Ltd.	246,359,959.57	-	-	59,980,986.45	-	-	(42,000,000.00)	-	-	264,340,946.02	-		
Shanghai Tsumura Pharmaceuticals Co., Ltd.	221,770,526.36	-	-	9,648,342.84	-	-	(3,478,200.00)	-	-	227,940,669.20	-		
SINO-AMERICAN Shanghai Squibb Pharmaceutical Ltd.	231,974,505.67	-	-	86,284,495.13	-	-	(95,973,159.00)	-	4,672,058.60	226,957,900.40	-		
Shangshi Commercial Factoring Co., Ltd.	157,763,069.34	-	-	1,959,715.56	-	-	-	-	-	159,722,784.90	-		
Hangzhou Huiping Yitang Pharmaceutical Co., Ltd.	146,438,396.45	-	-	12,198,554.19	-	-	(5,834,240.00)	-	-	152,802,710.64	-		
Shanghai Bracco Sine Pharmaceutical Co., Ltd.	139,147,968.79	-	-	54,541,889.69	-	-	(51,000,000.00)	-	3,188,223.64	145,878,082.12	-		
Chengdu Wesker Biomedical Co., Ltd.	140,068,679.04	-	-	(36,290,060.57)	-	30,737,885.41	-	-	-	134,516,503.88	-		
Shanghai Ajinomoto Amino Acid Co., Ltd.	114,750,205.43	-	-	14,203,949.06	-	-	(8,442,113.09)	-	-	120,812,041.40	-		
Shanghai Good Health Capital LLP	190,323,857.57	-	-	(24,579,183.04)	-	-	(46,952,600.00)	-	-	118,792,074.53	-		
Shanghai Huiyong Medicine Research Co., Ltd.	127,515,687.61	-	-	(20,696,143.76)	-	-	-	-	-	106,819,543.85	-		
Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP	44,527,109.65	45,000,000.00	-	8,633,075.99	-	-	-	-	-	98,160,185.64	-		
West China Precision Medicine Industrial Innovation Center	19,299,650.47	80,000,000.00	-	(1,369,592.27)	-	-	-	-	-	97,930,058.20	-		

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(14) Long-term equity investments (continued)

(b) Associates (continued)

	31 December 2021	Increase in investment	Decrease in investment	Changes during the current year					31 December 2022	Impairment balance	
				Share of net profit or loss using the equity method	OCI adjustment	Other equity changes (i)	Cash dividends declared	Provision for impairment			Others
Shanghai Leiyunshang Northern Area Medicine General Co., Ltd.	64,999,235.39	-	-	2,354,731.29	-	-	(3,893,120.00)	-	-	63,460,846.68	-
Shanghai Xunyao Biotechnology Co., Ltd.	39,937,281.37	35,911,000.00	-	(13,800,145.64)	-	-	-	-	-	62,048,135.73	-
A.M.Pappas Life Science Venture V.I.P	94,436,619.99	6,751,180.00	-	(32,382,189.29)	-	-	(8,309,242.63)	-	-	60,496,368.07	-
Oncernal Therapeutics, Inc.(iv)	70,652,948.21	-	-	(18,558,670.77)	-	-	-	-	4,926,169.97	57,020,447.41	-
Chongqing Pharmaceuticals Shanghai Medicine Sales Co., Ltd.	55,725,961.91	-	-	3,944,788.88	-	-	(2,793,000.00)	-	-	56,877,750.79	-
Shanghai Huashi Pharmaceutical Storage & Transportation Co., Ltd.	56,245,598.29	-	-	71,020.76	-	-	-	-	-	56,316,619.05	-
Sichuan Greentech Biotechnology Co., Ltd.	48,802,282.26	-	-	2,548,125.14	-	-	-	-	-	51,350,407.40	-
Shanghai Chest Medical Instruments Co., Ltd.	43,264,784.08	-	-	4,062,711.66	-	-	-	-	-	47,327,495.74	-
Shanghai Sire Promod Pharmaceutical Co., Ltd.	25,112,166.44	-	-	(2,306,116.65)	-	-	(1,030,148.23)	-	-	21,775,901.56	-
Other investments	177,296,558.11	6,340,000.00	(67,203,091.26)	10,868,969.79	-	-	(4,716,890.92)	-	-	122,585,545.72	(12,813,985.58)
	7,037,089,217.27	174,002,180.00	(67,203,091.26)	216,527,291.59	(234,871.05)	36,524,298.65	(418,225,503.16)	-	27,794,204.67	7,006,273,726.71	(12,813,985.58)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(14) Long-term equity investments (continued)

(b) Associates (continued)

- (i) Related information of equity in the associates of the Group is set forth in Note 6(2).
- (ii) Other equity changes mainly resulted from the passive dilution of Chengdu Wesker Biomedical Co., Ltd. during the current year, which led to change in capital surplus.
- (iii) Shanghai Fudan-Zhangjiang Bio-pharmaceuticals Co., Ltd is a domestic and Hong Kong listed company. As at 31 December 2022, the market value of the equity investments amounted to RMB1,384,211,805.56.
- (iv) ONCTERNAL THERAPEUTICS, INC. is listed on NASDAQ. As at 31 December 2022, the market value of the equity investments amounted to RMB28,339,577.25.

(15) Investment properties

	Buildings	Land use rights	Total
Cost			
31 December 2021	430,172,629.63	23,143,293.08	453,315,922.71
Transfer to fixed assets	(4,552,720.62)	–	(4,552,720.62)
Business combination not under common control	45,424,305.03	2,691,777.97	48,116,083.00
Translation difference	315,576.19	–	315,576.19
31 December 2022	471,359,790.23	25,835,071.05	497,194,861.28
Accumulated depreciation			
31 December 2021	(233,980,169.29)	(6,012,491.30)	(239,992,660.59)
Depreciation	(11,462,251.41)	(506,033.92)	(11,968,285.33)
Transfer to fixed assets	1,333,871.33	–	1,333,871.33
Translation difference	(152,326.37)	–	(152,326.37)
31 December 2022	(244,260,875.74)	(6,518,525.22)	(250,779,400.96)
Closing net book amount			
31 December 2022	227,098,914.49	19,316,545.83	246,415,460.32
31 December 2021	196,192,460.34	17,130,801.78	213,323,262.12

For the year ended 31 December 2022, the depreciation and amortisation of investment properties amounted to RMB11,968,285.33 (for the year ended 31 December 2021: RMB13,152,305.50).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(16) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
Cost						
31 December 2021	9,776,656,770.02	5,869,640,485.29	424,803,598.54	1,121,269,340.19	834,616,781.97	18,026,986,976.01
Increase in the current year						
Addition	4,557,774.95	311,719,519.57	28,122,127.82	97,336,491.80	90,019,360.80	531,755,274.94
Transfers from construction in progress	1,084,435,029.28	635,127,359.92	2,034,584.90	59,353,857.90	15,169,037.82	1,796,119,869.82
Business combinations involving enterprises not under common control	109,534,286.37	28,325,362.18	6,767,206.57	1,917,504.23	2,499,151.35	149,043,510.70
Transfers from investment properties	4,552,720.62	-	-	-	-	4,552,720.62
Translation difference	(818,970.53)	2,097,126.15	(395,355.43)	345,327.65	1,061,543.17	2,289,671.01
Decrease in the current year						
Disposals	(424,605,141.60)	(266,191,077.54)	(28,097,235.43)	(61,592,168.27)	(11,207,698.61)	(791,693,321.45)
Transfer to construction in progress	(1,487,717.49)	(604,517.70)	-	(1,609,819.46)	-	(3,702,054.65)
Disposal of subsidiaries	(40,688,577.56)	(18,413,600.85)	(9,178,254.19)	(6,629,092.21)	(3,073,054.57)	(77,982,579.38)
31 December 2022	10,512,136,174.06	6,561,700,657.02	424,056,672.78	1,210,391,441.83	929,085,121.93	19,637,370,067.62
Accumulated depreciation						
31 December 2021	(2,898,959,715.00)	(2,975,517,470.58)	(304,538,673.10)	(704,439,521.64)	(533,577,664.09)	(7,417,033,044.41)
Increase in the current year						
Depreciation charge	(330,061,738.32)	(492,254,234.79)	(37,359,652.75)	(167,704,808.18)	(88,222,273.95)	(1,115,602,707.99)
Transfers from investment properties	(1,333,871.33)	-	-	-	-	(1,333,871.33)
Translation difference	(79,801.79)	(472,244.58)	117,009.33	(180,623.29)	(114,786.41)	(730,446.74)
Decrease in the current year						
Disposals	220,880,129.46	223,307,175.12	33,668,049.59	59,369,588.64	11,446,816.43	548,671,759.24
Transfer to construction in progress	1,049,834.75	-	-	-	-	1,049,834.75
31 December 2022	(3,008,505,162.23)	(3,244,936,774.83)	(308,113,266.93)	(812,955,364.47)	(610,467,908.02)	(7,984,978,476.48)
Accumulated impairment						
31 December 2021	(78,930,720.63)	(43,126,314.79)	(168,583.70)	(1,374,659.29)	(2,235,448.85)	(125,835,727.26)
Increase in the current year						
Impairment charge	(1,137,785.65)	(3,634,645.28)	(798,356.86)	(21,359,627.71)	-	(26,930,415.50)
Decrease in the current year						
Disposal	37,961,314.87	1,350,755.02	10,240.73	302,070.67	39,607.33	39,663,988.62
31 December 2022	(42,107,191.41)	(45,410,205.05)	(956,699.83)	(22,432,216.33)	(2,195,841.52)	(113,102,154.14)
Carrying amount						
31 December 2022	7,461,523,820.42	3,271,353,677.14	114,986,706.02	375,003,861.03	316,421,372.39	11,539,289,437.00
31 December 2021	6,798,766,334.39	2,850,996,699.92	120,096,341.74	415,455,159.26	298,803,669.03	10,484,118,204.34

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(16) Fixed assets (continued)

As at 31 December 2022, buildings, machinery and equipment with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37) and 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) (Note 4(20)) were pledged as collateral for short-term borrowings of RMB348,100,000.00 (Note 4(26)(a)), and long-term borrowings of RMB297,939,788.82 (Note 4(36)(a)).

As at 31 December 2021, buildings, machinery and equipment with a carrying amount of RMB368,744,072.19 (a cost of RMB591,084,525.44) and 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB377,745,429.97) (Note 4(20)) were pledged as collateral for short-term borrowings of RMB368,430,000.00 (Note 4(26)(a)), long-term borrowings of RMB75,109,483.49 (Note 4(36)(a)) and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(36)).

For the year ended 31 December 2022, depreciation charged to fixed assets amounted to RMB1,115,602,707.99 (for the year ended 31 December 2021: RMB1,059,391,824.83), of which RMB468,475,719.83, RMB199,789,322.61, RMB333,137,251.82 and RMB114,200,413.73 (for the year ended 31 December 2021: RMB446,893,480.57, RMB202,125,501.76, RMB318,909,654.00 and RMB91,463,188.50) were charged to cost of sales, selling expenses, general and administrative expenses and research and development expenses respectively.

For the year ended 31 December 2022, the costs of fixed assets transferred from construction in progress amounted to RMB1,796,119,869.82 (for the year ended 31 December 2021: RMB684,531,361.58).

According to the construction and development plan of Xixi Valley in Hangzhou and the needs of the development of science and technology industry, the government of West Lake District in Hangzhou collected and stored the plot 551, Xixi Road, the subsidiary of the Group, Chiatai Qingchunbao Pharmaceutical Co., Ltd. (hereinafter referred to as "Chiatai Qingchunbao"). As of December 31, 2022, Chiatai Qingchunbao has completed the delivery of land and houses, and has disposed of houses and buildings with a book value of RMB111,446,240.68 (a cost of RMB244,697,193.82), machinery and equipment with a book value of RMB27,901,547.31 (a cost of RMB146,777,817.82), other fixed assets with a book value of RMB4,226,993.84 (a cost of RMB27,218,305.09), land use rights of 112,008.00 square metres (a cost of RMB6,429,601.00, book value of RMB3,292,534.41) (Note 4(20)) and other intangible assets with a book value of RMB849,580.00 (a cost of RMB568,118.25) (Note 4(20)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(16) Fixed assets (continued)

(a) *Temporarily idle fixed assets*

As at 31 December 2022, the Group had no material temporarily idle fixed assets (31 December 2021: Nil).

(b) *Fixed assets with pending certificates of ownership:*

	Carrying amount	Reasons for not obtaining certificates of ownership yet
Buildings	165,813,931.05	Still in the process

(17) Construction in progress

	31 December 2022			31 December 2021		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Construction in progress	2,780,460,842.89	(3,097,748.84)	2,777,363,094.05	2,917,227,756.58	(3,097,748.84)	2,914,130,007.74

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(17) Construction in progress (continued)

(a) Changes in major construction projects

Names	Budget '0000	31 Dec 2021	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2022	% of Budget	Project progress	Accumulative amount of capitalised borrowing costs	Capitalised borrowing costs in the current year	Capitalisation rate in the current year	Sources of funds
Shanghai Pharma Biopharmaceutical Industry Base Construction Project	278,848.09	65,667,684.92	425,033,308.89	-	-	490,700,993.81	17.60%	17.60%	-	-	-	Self-owned funds
Building Installation of Northern Pharmaceuticals Phase II Project	51,661.00	306,344,647.75	132,992,098.17	(185,613,255.12)	-	253,723,490.80	95.37%	95.37%	-	-	-	Self-owned funds
Chinese herbal medicine deep processing project	19,985.00	94,328,815.09	74,608,562.13	-	-	168,937,377.22	94.54%	94.54%	-	-	-	Self-owned funds
Shanghai Pharmaceutical Group Changzhou Pharmaceutical Business Center	60,575.00	69,914,196.67	67,650,123.60	-	-	137,564,320.27	22.71%	22.71%	-	-	-	Self-owned funds
Shandong Xinyi API, Tablet and Supporting Facilities Construction Project	36,421.00	30,241,155.52	105,358,174.04	-	-	135,599,329.56	37.23%	37.23%	-	-	-	Self-owned funds
Suide Road Phase II Project of Shanghai Pharmaceutical Logistics Center	84,921.25	53,136,521.33	80,818,250.65	-	-	133,954,771.98	15.77%	15.77%	-	-	-	Self-owned funds

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(17) Construction in progress (continued)

(a) Changes in major construction projects

Names	Budget '0000	31 Dec 2021	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2022	% of Budget	Project progress	Accumulative amount of capitalised borrowing costs	Capitalised borrowing costs in the current year	Capitalisation rate in the current year	Sources of funds
Relocation Project of Liaoning Meijia Pharmaceutical Co., Ltd.	68,972.55	62,944,080.73	65,390,087.69	-	-	128,334,168.42	18.61%	18.61%	-	-	-	Self-owned funds
Shanghai Pharmaceutical Xinyi Jiangshang West Road New Construction Project	76,799.00	18,030,552.70	104,972,369.99	-	-	123,002,922.69	16.02%	16.02%	-	-	-	Self-owned funds
SPH No.1 Biochemical and Pharmaceutical Jinchuan Green Pharmaceutical Quality Base	42,120.00	104,259,899.50	73,546,126.53	-	(70,424,998.99)	107,381,027.04	25.49%	25.49%	-	-	-	Self-owned funds
Shanghai Medical Instruments Co., Ltd. Baoshan Production Base Renovation Project	13,572.09	93,981,363.95	28,865,926.77	-	(30,972,312.06)	91,874,978.66	67.69%	67.69%	-	-	-	Self-owned funds
SPH No.1 Biochemical and Pharmaceutical elevated Warehouse Project	19,039.20	51,839,980.68	37,118,107.39	-	-	88,958,088.07	46.72%	46.72%	-	-	-	Self-owned funds
Technical Project of TCM Granule	8,635.61	56,331,744.15	19,964,196.66	-	-	76,295,940.81	88.35%	88.35%	-	-	-	Self-owned funds
SPH Lingang Phase I Project	56,988.00	172,970,945.61	37,098,060.37	-	(172,970,945.61)	37,098,060.37	6.51%	6.51%	-	-	-	Self-owned funds

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(17) Construction in progress (continued)

(a) Changes in major construction projects

Names	Budget '0000	31 Dec 2021	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2022	% of Budget	Project progress	Accumulative amount of capitalised borrowing costs	Capitalised borrowing costs in the current year	Capitalisation rate in the current year	Sources of funds
Huaxi Logistics Center Phase I Project	27,426.00	108,000.00	33,251,649.03	-	-	33,359,649.03	12.16%	12.16%	-	-	-	Self-owned funds
Industrial Innovation and Upgrade of GBE50 and Artificial Musk	57,972.00	461,452,301.68	1,210,462.40	(462,026,303.04)	(636,461.04)	-	79.81%	100.00%	-	-	-	Self-owned funds
Qingchunbaoc-Deqing subsidiary Phase II Project	88,282.00	554,876,235.39	228,672,473.83	(782,443,991.36)	(1,104,717.86)	-	88.76%	100.00%	-	-	-	Self-owned funds
Others	-	720,799,630.91	600,996,754.73	(366,036,320.30)	(182,084,341.18)	773,673,724.16	-	-	-	-	-	-
		2,917,227,756.58	2,117,546,732.87	(1,796,119,865.82)	(458,193,776.74)	2,780,460,842.89						

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(17) Construction in progress (continued)

(b) Provision for impairment of construction in progress

	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Others	(3,097,748.84)	–	–	(3,097,748.84)

(c) As at 31 December 2022, the progress of the construction in progress in the Group was estimated by the proportion of expenditures incurred to budgeted amount.

(18) Bearer biological assets

	Mature biological assets	Immature biological assets	Total
Cost			
31 December 2021	355,224,059.03	83,214,133.71	438,438,192.74
Increase in the current year	–	2,265,043.20	2,265,043.20
Transfer from immature biological assets	80,828,343.06	–	80,828,343.06
Transfer to mature biological assets	–	(80,828,343.06)	(80,828,343.06)
31 December 2022	436,052,402.09	4,650,833.85	440,703,235.94
Accumulated depreciation			
31 December 2021	(35,869,127.41)	–	(35,869,127.41)
Depreciation charge	(9,349,391.02)	–	(9,349,391.02)
31 December 2022	(45,218,518.43)	–	(45,218,518.43)
Accumulated impairment			
31 December 2021	–	–	–
Impairment charge	(258,292,956.76)	–	(258,292,956.76)
31 December 2022	(258,292,956.76)	–	(258,292,956.76)
Carrying amount			
31 December 2022	132,540,926.90	4,650,833.85	137,191,760.75
31 December 2021	319,354,931.62	83,214,133.71	402,569,065.33

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(18) Bearer biological assets (continued)

The Group performed impairment tests on the group of asset group in which the bearer biological assets with indications of impairment were located, determined the recoverable amount of the relevant group of asset group using the present value of the future cash flows expected to be derived from the group of asset group to determine the recoverable amount, and made a provision for impairment of RMB274,943,795.53 for the group of asset group, of which the provision for impairment apportioned to bearer biological assets was RMB258,292,956.76 and the provision for impairment apportioned to intangible assets was RMB16,650,838.77(Note4(20)).

The Group determines growth rates and gross margins based on historical experience and forecasts of market developments, and uses pre-tax rate that reflects the specific risks of the relevant group of asset group as discount rate.

(19) Right-of-use assets

	Buildings	Machinery and equipment	Total
Cost			
31 December 2021	4,132,194,097.91	38,299,019.79	4,170,493,117.70
Increase in the current year			
New lease contracts	604,234,238.40	18,183,926.80	622,418,165.20
Translation difference	13,487,654.28	–	13,487,654.28
Decrease in the current year			
Changes in leases	(535,879,741.24)	(33,928,828.62)	(569,808,569.86)
31 December 2022	4,214,036,249.35	22,554,117.97	4,236,590,367.32
Accumulated depreciation			
31 December 2021	(2,151,125,070.24)	(18,148,138.03)	(2,169,273,208.27)
Increase in the current year			
Depreciation charge	(690,433,780.69)	(6,175,281.89)	(696,609,062.58)
Translation difference	(7,405,483.17)	–	(7,405,483.17)
Decrease in the current year			
Changes in leases	506,019,248.61	19,260,090.68	525,279,339.29
31 December 2022	(2,342,945,085.49)	(5,063,329.24)	(2,348,008,414.73)
Accumulated impairment			
31 December 2021	(8,786,206.58)	–	(8,786,206.58)
Increase in the current year			
Impairment charge	(19,685,524.20)	–	(19,685,524.20)
Decrease in the current year			
Disposals	8,549,700.84	–	8,549,700.84
31 December 2022	(19,922,029.94)	–	(19,922,029.94)
Carrying amount			
31 December 2022	1,851,169,133.92	17,490,788.73	1,868,659,922.65
31 December 2021	1,972,282,821.09	20,150,881.76	1,992,433,702.85

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(20) Intangible assets

	Land use rights	Business network	Trademarks and brands	Proprietary technology and patents	Software and Others	Total
Cost						
31 December 2021	4,201,796,464.82	2,332,473,634.16	624,109,648.29	991,791,952.33	698,272,168.02	8,848,443,867.62
Increase in the current year						
Purchase	107,139,204.72	-	-	1,401,299.99	38,811,254.79	147,351,759.50
Transfer from R&D expenditures	-	-	-	46,014,015.02	-	46,014,015.02
Business combinations involving enterprises not under common control	132,313,400.00	19,827,427.87	-	-	2,261,436.10	154,402,263.97
Transfer from construction in progress	269,934,324.21	-	-	-	34,006,839.70	303,941,163.91
Translation difference	-	820,686.75	10,212,941.50	6,047,392.87	186,970.29	17,267,991.41
Decrease in the current year						
Disposals	(6,429,601.00)	-	-	-	(3,996,537.56)	(10,426,138.56)
Disposals of subsidiaries	(10,464,063.97)	-	-	-	(1,906,024.11)	(12,370,088.08)
31 December 2022	4,694,289,728.78	2,353,121,748.78	634,322,589.79	1,045,254,660.21	767,636,107.23	9,494,624,834.79
Accumulated amortisation						
31 December 2021	(480,715,980.36)	(1,255,016,237.19)	(36,785,838.64)	(396,985,491.84)	(442,611,568.86)	(2,612,115,116.89)
Increase in the current year						
Amortization charge	(103,507,146.38)	(168,511,052.49)	(6,740,513.63)	(53,115,963.62)	(112,770,927.44)	(444,645,603.56)
Translation difference	-	(324,684.55)	(78,860.38)	(120,785.74)	(121,886.70)	(646,217.37)
Decrease in the current year						
Disposals	3,137,065.91	-	-	-	3,253,149.65	6,390,215.56
Disposals of subsidiaries	2,779,760.93	-	-	-	711,872.17	3,491,633.10
31 December 2022	(578,306,299.90)	(1,423,851,974.23)	(43,605,212.65)	(450,222,241.20)	(551,539,361.18)	(3,047,525,089.16)
Accumulated impairment						
31 December 2021	(7,684,303.04)	(2,854,166.67)	(28,933,720.00)	(145,688,488.04)	(1,736,859.89)	(186,897,537.64)
Increase in the current year						
Impairment charge	(16,650,838.77)	-	-	-	(828,864.23)	(17,479,703.00)
Translation difference	-	-	(574,668.00)	(5,894,889.00)	-	(6,469,557.00)
Decrease in the current year						
Disposals of subsidiaries	7,684,303.04	-	-	-	202,703.41	7,887,006.45
31 December 2022	(16,650,838.77)	(2,854,166.67)	(29,508,388.00)	(151,583,377.04)	(2,363,020.71)	(202,959,791.19)
Carrying amount						
31 December 2022	4,099,332,590.11	926,415,607.88	561,208,989.14	443,449,041.97	213,733,725.34	6,244,139,954.44
31 December 2021	3,713,396,181.42	1,074,603,230.30	558,390,089.65	449,117,972.45	253,923,739.27	6,049,431,213.09

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(20) Intangible assets (continued)

For the year ended 31 December 2022, the amortization of intangible assets amounted to RMB444,645,603.56 (for year ended 31 December 2021: RMB457,107,587.05).

As at 31 December 2022, certificates of ownership for land use rights with a carrying amount of RMB836,789.40 (a cost of RMB3,340,802.00) (31 December 2021: a carrying amount of RMB40,201,262.25 (a cost of RMB44,383,212.08)) were still in progress.

As at 31 December 2022, 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) and buildings, machinery and equipment with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37) (Note 4(16)) were pledged as collateral for short-term borrowings of RMB348,100,000.00 (Note 4(26)(a)), and long-term borrowings of RMB297,939,788.82 (Note 4(36)(a)).

As at 31 December 2021, 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB377,745,429.97) and buildings, machinery and equipment with a carrying amount of RMB368,744,072.19 (a cost of RMB591,084,525.44) (Note 4(16)) were pledged as collateral for short-term borrowings of RMB368,430,000.00 (Note 4(26)(a)), long-term borrowings of RMB75,109,483.49 (Note 4(36)(a)) and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(34)).

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

	31 December 2021	Increase in the current year	Decrease in the current year		31 December 2022
			Amount recognised in profit or loss	Amount recognised as intangible assets	
R&D project	259,227,946.08	2,241,588,902.96	(2,112,197,580.39)	(46,014,015.02)	342,605,253.63

For the year ended 31 December 2022, the R&D expenditures of the Group were RMB2,241,588,902.96 (for the year ended 31 December 2021: RMB2,053,185,116.52) in total, of which, RMB2,112,197,580.39 (for the year ended 31 December 2021: RMB1,987,277,619.33) was recognised in profit or loss, RMB1,114,613.19 (for the year ended 31 December 2021: RMB11,405,322.60) was recognised as intangible assets, and RMB128,276,709.38 (for the year ended 31 December 2021: RMB54,502,174.59) was included in the ending balance of the development costs.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Goodwill

	31 December 2021	Increase in the current year	Decrease in the current year	Others	31 December 2022
Goodwill –					
Shanghai Pharmaceutical Co., Ltd.'s subsidiaries (i)	3,671,962,048.29	95,243,071.32	(136,595,896.08)	–	3,630,609,223.53
China Health System Ltd. and its subsidiaries	2,869,596,124.06	–	–	–	2,869,596,124.06
Shanghai Pharmaceuticals (HK) Investment Limited's subsidiaries	2,543,895,939.53	–	–	–	2,543,895,939.53
TECHPOOL Bio-Pharma Co., Ltd. and its subsidiaries	1,399,888,707.64	–	–	–	1,399,888,707.64
Zeus Investment Limited and its subsidiaries	964,744,529.41	–	–	19,161,304.16	983,905,833.57
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	230,431,952.94	–	–	–	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
Shanghai Medical Instruments Co., Ltd.'s subsidiaries	138,131,837.94	–	–	–	138,131,837.94
SPH Kony (Changzhou) Co., Ltd.	107,285,726.91	–	–	–	107,285,726.91
Others	157,094,963.30	–	–	–	157,094,963.30
	13,197,805,843.08	95,243,071.32	(136,595,896.08)	19,161,304.16	13,175,614,322.48

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Goodwill

	31 December 2021	Increase in the current year	Decrease in the current year	Others	31 December 2022
Less: Provision for impairment (a) –					
Zeus Investment Limited and its subsidiaries	(878,588,363.56)	–	–	(17,450,110.76)	(896,038,474.32)
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)
Shanghai Pharmaceutical Co., Ltd.'s subsidiaries	(142,240,678.55)	–	136,595,896.08	–	(5,644,782.47)
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.'s subsidiaries	(122,808,233.97)	–	–	–	(122,808,233.97)
Shanghai Traditional Chinese Medicine Co., Ltd.'s subsidiaries	(72,109,261.31)	–	–	–	(72,109,261.31)
Others	(109,919,763.76)	–	–	–	(109,919,763.76)
	(1,958,833,482.32)	–	136,595,896.08	(17,450,110.76)	(1,839,687,697.00)
	11,238,972,360.76	95,243,071.32	–	1,711,193.40	11,335,926,625.48

- (i) Goodwill recognised in the current year arose from the purchase of SPH Luoxin (Shandong) Pharmaceutical Co., Ltd. (Note 5(1)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Goodwill (continued)

(a) Impairment

The Group's goodwill was allocated to the asset groups and groups of asset groups at acquisition date. For the year ended 31 December 2022, the goodwill allocated to the asset groups or groups of asset groups is summarised by operating segments (Note 7) as follows:

	31 December 2022		31 December 2021	
	Carrying amount	Provision for impairment	Carrying amount	Provision for impairment
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	983,905,833.57	(896,038,474.32)	964,744,529.41	(878,588,363.56)
Big Global Limited and its subsidiary	445,109,447.21	(445,109,447.21)	445,109,447.21	(445,109,447.21)
Star Fountain Global Ltd. and its subsidiaries	188,057,733.96	(188,057,733.96)	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	–
Shanghai Medical Instruments Co., Ltd.'s subsidiaries	138,131,837.94	–	138,131,837.94	–
Others	480,983,128.32	(222,851,133.60)	480,983,128.32	(222,851,133.60)
	3,800,620,078.52	(1,752,056,789.09)	3,781,458,774.36	(1,734,606,678.33)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Goodwill (continued)

(a) Impairment (continued)

	31 December 2022		31 December 2021	
	Carrying amount	Provision for impairment	Carrying amount	Provision for impairment
Distribution –				
Distribution business of Shanghai Pharmaceutical Co., Ltd and Cardinal Health (L) Co., Ltd.	5,962,629,411.03	–	5,867,386,339.71	–
Distribution business of China Health System Ltd. and Liaoning International Pharmaceutical Trading Co., Ltd.	3,100,028,077.00	–	3,100,028,077.00	–
Others	75,432,707.05	(75,432,707.05)	212,028,603.13	(212,028,603.13)
	9,138,090,195.08	(75,432,707.05)	9,179,443,019.84	(212,028,603.13)
Retail and others	236,904,048.88	(12,198,200.86)	236,904,048.88	(12,198,200.86)
	13,175,614,322.48	(1,839,687,697.00)	13,197,805,843.08	(1,958,833,482.32)

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.

The Group determines the growth rates 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 authoritative 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 as discount rates.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(21) Goodwill (continued)

(a) Impairment (continued)

For the year ended 31 December 2022, the main assumptions applied in calculating discounted future cash flows are as follows:

	Production	Distribution
Growth rates within budget period	-11%~25%	7%~11%
Growth rates beyond budget period	0%~2%	2%
Gross margin rates	8%~76%	7%~8%
Discount rates before tax	12%~19%	13%~14%

For the year ended 31 December 2021, the main assumptions applied in calculating discounted future cash flows are as follows:

	Production	Distribution
Growth rates within budget period	-11%~22%	7%~12%
Growth rates beyond budget period	0%~2%	2%
Gross margin rates	9%~78%	6%~8%
Discount rates before tax	11%~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 are in accordance with the estimated data in industry reports and do not exceed long-term average growth of each product.

(22) Long-term prepaid expenses

	31 December 2021	Increase in the current year	Amortisation in the current year	Others	31 December 2022
Improvement and maintenance expenditures of right-of-use assets	332,225,792.58	96,806,211.72	(62,984,652.22)	(15,277,632.85)	350,769,719.23
Others	96,891,681.28	172,359,039.70	(132,201,811.98)	(25,380,075.32)	111,668,833.68
	429,117,473.86	269,165,251.42	(195,186,464.20)	(40,657,708.17)	462,438,552.91

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(23) Deferred tax assets and deferred tax liabilities

(a) *Deferred tax assets before offset*

	31 December 2022		31 December 2021	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment	3,095,355,206.81	730,148,184.87	2,903,493,071.23	679,184,106.05
Accrued expenses	1,777,787,197.53	429,890,062.83	1,345,179,683.81	313,275,444.19
Lease Liabilities	1,854,516,727.17	455,677,081.49	1,979,319,007.98	493,387,218.68
Elimination of intra-group unrealised profit	809,113,376.04	186,983,887.53	767,235,816.58	144,431,890.03
Changes in fair value of other non-current financial assets	101,938,493.06	25,484,623.27	106,059,887.52	26,514,971.88
Deferred income	1,900,377,723.23	330,824,300.47	573,105,619.86	121,106,914.36
Others	330,321,215.76	67,067,651.65	366,888,680.16	75,906,398.32
	9,869,409,939.60	2,226,075,792.11	8,041,281,767.14	1,853,806,943.51
Including:				
Expected to be recovered within one year (inclusive)		1,342,427,669.34		1,165,867,148.79
Expected to be recovered after one year		883,648,122.77		687,939,794.72
		2,226,075,792.11		1,853,806,943.51

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(23) Deferred tax assets and deferred tax liabilities (continued)

(b) *Deferred tax liabilities before offset*

	31 December 2022		31 December 2021	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
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	2,524,776,446.86	635,491,232.71	2,646,697,848.87	679,332,320.81
Right-of-use assets	1,868,659,922.65	459,584,559.02	1,868,172,802.17	465,036,380.80
Investment income arising from disposal of subsidiaries	987,961,013.01	246,990,253.24	1,014,545,195.32	253,636,298.82
Relocation allowances	1,376,551,362.27	206,482,704.34	–	–
Fixed assets depreciation	896,331,917.08	135,009,305.76	221,880,286.19	34,736,318.90
Changes in fair value of other non-current financial assets	157,901,285.02	39,475,321.26	150,512,434.63	37,628,108.66
Others	70,568,020.61	17,550,874.85	46,342,027.31	14,661,400.88
	7,882,749,967.50	1,740,584,251.18	5,948,150,594.49	1,485,030,828.87
Including:				
Expected to be recovered within one year (inclusive)		232,354,525.15		200,729,218.69
Expected to be recovered after one year		1,508,229,726.03		1,284,301,610.18
		1,740,584,251.18		1,485,030,828.87

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

	31 December 2022	31 December 2021
Deductible losses	6,488,570,580.04	5,354,243,182.35

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(23) Deferred tax assets and deferred tax liabilities (continued)

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

	31 December 2022	31 December 2021
2022	Not applicable	615,926,129.80
2023	686,821,545.75	688,068,406.76
2024	923,443,934.39	924,286,263.03
2025	1,177,784,457.88	1,196,378,740.88
2026	1,820,990,427.80	1,840,020,940.38
2027	1,490,609,019.74	10,389,615.76
2028 and after	388,921,194.48	79,173,085.74
	6,488,570,580.04	5,354,243,182.35

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

	31 December 2022		31 December 2021	
	Offsetting amount	Amount a fter offset	Offsetting amount	Amount after offset
Deferred tax assets	(691,346,798.43)	1,534,728,993.68	(486,262,008.09)	1,367,544,935.42
Deferred tax liabilities	691,346,798.43	1,049,237,452.75	486,262,008.09	998,768,820.78

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(24) Asset impairment

	31 December 2021	Increase in the current year	Reverse in the current year	Others	31 December 2022
Provision for bad debts of notes receivables	6,998,935.17	10,162,606.41	(6,998,935.17)	302,521.76	10,465,128.17
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	6,998,935.17	10,162,606.41	(6,998,935.17)	302,521.76	10,465,128.17
Provision for bad debts of accounts receivables	1,894,174,256.45	295,483,718.36	(21,710,136.11)	(153,217,408.25)	2,014,730,430.45
Including: Provision for bad debts on individual basis	594,638,233.29	40,390,512.71	(21,710,136.11)	(177,225,104.24)	436,093,505.65
Provision for bad debts on grouping basis	1,299,536,023.16	255,093,205.65	-	24,007,695.99	1,578,636,924.80
Provisions for bad debts of receivables financing	4,824,701.57	7,633,278.59	(4,824,701.57)	-	7,633,278.59
Provision for bad debts of other receivables	779,355,712.09	41,843,971.66	(11,684,978.73)	(4,496,141.81)	805,018,563.21
Provision for bad debts of long-term receivables	2,381,046.12	2,555,665.43	-	-	4,936,711.55
Subtotal	2,687,734,651.40	357,679,240.45	(45,218,751.58)	(157,411,028.30)	2,842,784,111.97

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(24) Asset impairment

	31 December 2021	Increase in the current year	Reverse in the current year	Others	31 December 2022
Provision for decline in the value of inventories	1,151,609,131.65	8,677,878.68	-	(42,011,655.78)	1,118,275,354.55
Provision for impairment of long-term equity investment	77,375,103.08	-	-	(62,813,752.14)	14,561,350.94
Provision for impairment of fixed assets	125,835,727.26	26,930,415.50	-	(39,663,988.62)	113,102,154.14
Provision for impairment of construction in progress	3,097,748.84	-	-	-	3,097,748.84
Provision for impairment of intangible assets	186,897,537.64	17,479,703.00	-	(1,417,449.45)	202,959,791.19
Provision for impairment of goodwill	1,958,833,482.32	-	-	(119,145,785.32)	1,839,687,697.00
Provision for impairment of right-of-use assets	8,786,206.58	19,685,524.20	-	(8,549,700.84)	19,922,029.94
Provision for impairment of long-term prepaid expenses	4,427,663.58	404,817.56	-	(2,653,405.67)	2,179,075.47
Provision for impairment of bearer biological assets	-	258,292,956.76	-	-	258,292,956.76
Subtotal	3,516,862,600.95	331,471,295.70	-	(276,255,737.82)	3,572,078,158.83
	6,204,597,252.35	689,150,536.15	(45,218,751.58)	(433,666,766.12)	6,414,862,270.80

(25) Other non-current assets

	31 December 2022	31 December 2021
Prepayment for construction costs	219,934,953.80	335,075,242.69
Fixed deposit	-	300,000,000.00
Others	223,865,789.99	221,822,690.93
	443,800,743.79	856,897,933.62

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(26) Short-term borrowings

	31 December 2022	31 December 2021
Mortgaged (a)	348,100,000.00	368,430,000.00
Pledged (b)	1,155,280,052.88	940,780,920.43
Guaranteed (c)	227,784,134.97	313,897,125.20
Credit	25,961,398,906.77	20,824,242,255.84
Interest accrued	58,025,462.25	67,223,725.88
	27,750,588,556.87	22,514,574,027.35

- (a) As at 31 December 2022, short-term borrowings of RMB348,100,000.00 and long-term borrowings of RMB297,939,788.82 (Note 4(36)(a)) were secured by buildings, and machinery and equipment (Note 4(16)) with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37), and 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) (Note 4(20));

As at 31 December 2021, short-term borrowings of RMB368,430,000.00 and long-term borrowings of RMB75,109,483.49 (Note 4(36)(a)) and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(34)) were secured by buildings, and machinery and equipment (Note 4(16)) with a carrying amount of RMB368,744,072.19 (a cost of RMB591,084,525.44), and 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB377,745,429.97) (Note 4(20));

- (b) As at 31 December 2022, pledged bank borrowings of RMB1,155,280,052.88 were secured by accounts receivables with a carrying amount of RMB701,553,525.04 and bank acceptance notes with a carrying amount of RMB300,807,806.24 (Note 4(4)) and trade acceptance notes with a carrying amount of RMB170,505,127.40 (Note 4(4));

As at 31 December 2021, pledged bank borrowings of RMB940,780,920.43 were secured by accounts receivables with a carrying amount of RMB899,753,040.40 and bank acceptance notes with a carrying amount of RMB163,392,033.42 (Note 4(4)) and trade acceptance notes with a carrying amount of RMB112,397,862.34 (Note 4(4));

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(26) Short-term borrowings (continued)

- (c) As at 31 December 2022, guaranteed borrowings of RMB227,784,134.97 (31 December 2021: RMB313,897,125.20) were mainly secured by the minority shareholders of subsidiaries of the Group.
- (d) As at 31 December 2022, the range of interest rate of short-term borrowings was 1.50% to 4.70% (31 December 2021: 1.00% to 5.50%).

(27) Notes payables

	31 December 2022	31 December 2021
Trade acceptance	599,332,497.28	981,727,895.37
Bank acceptance	5,362,391,166.21	3,783,020,106.30
	5,961,723,663.49	4,764,748,001.67

(28) Accounts payables

	31 December 2022	31 December 2021
Purchase payable	45,603,805,328.17	37,230,666,373.90

- (i) As at 31 December 2022, accounts payables aged over one year were RMB2,436,589,508.92 (31 December 2021: RMB3,116,581,413.66).

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

	31 December 2022	31 December 2021
Within 1 year	43,167,215,819.25	34,114,084,960.24
1-2 years	1,336,005,508.45	1,659,616,581.51
Above 2 years	1,100,584,000.47	1,456,964,832.15
	45,603,805,328.17	37,230,666,373.90

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(29) Contract liabilities

	31 December 2022	31 December 2021
Advance received from customers	2,242,823,457.63	1,310,920,870.47

For the year ended 31 December 2022, contract liabilities included in the period beginning with carrying amount of RMB1,251,723,320.04 (31 December 2021: RMB1,228,431,762.15) were transferred to revenue, all of which were income from sales of goods.

(30) Employee benefits payable

	31 December 2022	31 December 2021
Short-term employee benefits payable (a)	1,542,964,975.04	1,402,813,681.33
Defined contribution plans payable (b)	33,154,651.29	23,410,191.95
Termination benefits payable (c)	4,368,526.66	6,804,254.50
	1,580,488,152.99	1,433,028,127.78

(a) Short-term employee benefits payable

	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Wages and salaries, bonus, allowances and subsidies	1,231,572,382.78	7,169,504,363.66	(7,060,007,920.42)	1,341,068,826.02
Staff welfare	-	334,877,173.80	(334,877,173.80)	-
Social security contributions	11,560,448.60	411,272,700.88	(404,406,493.94)	18,426,655.54
Including: Medical insurance	10,763,928.77	382,866,860.70	(376,373,893.49)	17,256,895.98
Work injury insurance	289,644.46	18,972,395.62	(18,859,430.53)	402,609.55
Maternity insurance	506,875.37	9,433,444.56	(9,173,169.92)	767,150.01
Housing funds	3,205,595.24	409,665,445.52	(407,340,973.30)	5,530,067.46
Labor union funds and employee education funds	44,526,490.50	130,097,567.55	(121,907,091.01)	52,716,967.04
Others	111,948,764.21	93,358,264.33	(80,084,569.56)	125,222,458.98
	1,402,813,681.33	8,548,775,515.74	(8,408,624,222.03)	1,542,964,975.04

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(30) Employee benefits payable

(b) Defined contribution plans payable

	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Basic pensions	22,571,366.60	745,893,844.35	(736,391,865.02)	32,073,345.93
Unemployment insurance	838,825.35	22,032,752.14	(21,790,272.13)	1,081,305.36
	23,410,191.95	767,926,596.49	(758,182,137.15)	33,154,651.29

Monthly payments of premiums on the pensions and unemployment insurance are calculated according to prescribed bases and percentage by the relevant local authorities, which cannot be used to offset any future payments which the Group is required to make for employees.

(c) Termination benefits payable

	31 December 2022	31 December 2021
Termination benefits payable (current portion)	4,368,526.66	6,804,254.50

(31) Taxes payable

	31 December 2022	31 December 2021
Enterprise income tax payable	781,362,182.64	721,161,742.64
Unpaid VAT	485,284,539.78	781,897,403.65
City maintenance and construction tax payable	38,281,010.65	50,576,616.04
Withholding of personal income tax for employees	34,692,313.76	26,364,731.25
Educational surcharge payable	29,405,854.38	37,371,537.53
Property tax payable	16,833,270.25	17,156,565.39
Others	54,964,246.73	58,131,484.53
	1,440,823,418.19	1,692,660,081.03

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(32) Other payables

	31 December 2022	31 December 2021
Accrued expenses	7,368,374,863.87	5,606,644,384.21
Accounts received from other companies	3,267,586,187.96	2,404,657,604.79
Deposits and guarantees payable	2,718,233,818.31	2,904,880,319.59
Payables for equity acquisition	661,779,365.34	272,803,407.52
Engineering equipment expenses payable	540,307,567.99	246,824,826.92
Dividends payable to minority shareholders	373,125,954.77	341,551,604.87
Others	1,545,448,136.89	1,285,165,665.07
	16,474,855,895.13	13,062,527,812.97

(a) As at 31 December 2022, other payables aged over one year were RMB3,660,548,464.41 (31 December 2021: RMB4,102,657,998.18).

(33) Provisions

	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Pending litigations	17,500,700.93	1,387,000.00	(652,000.00)	18,235,700.93
Others	5,743,197.09	–	–	5,743,197.09
	23,243,898.02	1,387,000.00	(652,000.00)	23,978,898.02

(34) Current portion of non-current liabilities

	31 December 2022	31 December 2021
Current portion of long-term borrowings (Note 4(36))	2,648,734,849.49	33,443,394.84
Current portion of lease liabilities (Note 4(37))	580,679,136.35	545,044,859.04
Current portion of long-term payables (Note 4(38))	20,019,116.37	3,554,312.67
	3,249,433,102.21	582,042,566.55

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(35) Other current liabilities

	31 December 2022	31 December 2021
Super & Short-term Commercial Paper ("SCP") (a)	6,060,361,643.84	9,077,033,424.66
Output tax to be recognized	324,572,904.16	155,348,176.96
	6,384,934,548.00	9,232,381,601.62

(a) Details of the SCP are as follows:

	31 December 2021	Issue for the year	Interest accrued	Amortisation of discount	Repayment for the year	31 December 2022
2021 SCP stage 5	3,036,756,164.38	-	2,564,383.57	-	(3,039,320,547.95)	-
2021 SCP stage 6	3,027,475,068.49	-	10,829,589.04	-	(3,038,304,657.53)	-
2021 SCP stage 7	3,012,802,191.79	-	25,387,397.25	-	(3,038,189,589.04)	-
2022 SCP stage 1	-	2,998,458,333.34	38,013,698.63	1,541,666.66	(3,038,013,698.63)	-
2022 SCP stage 2	-	2,999,216,666.67	16,456,438.36	783,333.33	(3,016,456,438.36)	-
2022 SCP stage 3	-	2,997,766,666.68	36,328,767.13	2,233,333.32	-	3,036,328,767.13
2022 SCP stage 4	-	2,998,650,000.00	22,635,616.44	1,350,000.00	(3,022,635,616.44)	-
2022 SCP stage 5	-	2,998,416,666.67	24,032,876.71	1,583,333.33	-	3,024,032,876.71
	9,077,033,424.66	14,992,508,333.36	176,248,767.13	7,491,666.64	(18,192,920,547.95)	6,060,361,643.84

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(35) Other current liabilities (continued)

(a) Details of the SCP are as follows: (continued)

	Face value	Issuing date	Debenture maturity	Issuing amount	Coupon rate
2022 SCP stage 1	3,000,000,000.00	10 January 2022	185 days	2,998,458,333.34	2.50%
2022 SCP stage 2	3,000,000,000.00	21 February 2022	94 days	2,999,216,666.67	2.13%
2022 SCP stage 3	3,000,000,000.00	24 May 2022	268 days	2,997,766,666.68	2.00%
2022 SCP stage 4	3,000,000,000.00	6 July 2022	162 days	2,998,650,000.00	1.70%
2022 SCP stage 5	3,000,000,000.00	12 July 2022	190 days	2,998,466,666.67	1.70%

(36) Long-term borrowings

	31 December 2022	31 December 2021
Mortgaged (a)	297,939,788.82	101,483,268.49
Credit	8,375,034,720.06	6,878,967,857.69
Pledged (b)	225,871,295.77	207,112,457.80
Interest accrued	9,688,415.16	3,631,514.34
	8,908,534,219.81	7,191,195,098.32
Less: Current portion of long-term borrowings		
Mortgaged (a)	–	(26,373,785.00)
Credit	(2,601,000,000.00)	–
Pledged (b)	(38,220,597.24)	(3,438,095.50)
Interest accrued	(9,514,252.25)	(3,631,514.34)
	(2,648,734,849.49)	(33,443,394.84)
	6,259,799,370.32	7,157,751,703.48

(a) As at 31 December 2022, short-term borrowings of RMB348,100,000.00 (Note 4(26)(a)) and long-term borrowings of RMB297,939,788.82 were secured by buildings, and machinery and equipment with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37) (Note 4(16)), and 295,477.63 square meters of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) (Note 4(20)).

As at 31 December 2021, short-term borrowings of RMB368,430,000.00 (Note 4(26)(a)), long-term borrowings of RMB75,109,483.49 and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(34)) were secured by buildings, and machinery and equipment with a carrying amount of RMB368,744,072.19 (a cost of RMB591,084,525.44) (Note 4(16)), and 295,477.63 square meters of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB377,745,429.97) (Note 4(20)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(36) Long-term borrowings (continued)

- (b) As at 31 December 2022, pledged bank borrowings of RMB113,997,532.00 and current portion of long-term borrowings RMB27,993,620.94 (Note 4(34)) were secured by account receivables with a carrying amount of RMB141,991,152.94. Pledged bank borrowings of RMB73,653,166.53 and current portion of long-term borrowings of RMB10,226,976.30 (Note 4(34)) were secured by shares of subsidiaries of the Group.

As at 31 December 2021, pledged bank borrowings of RMB116,016,984.00 and current portion of long-term borrowings RMB1,622,376.47 (Note 4(34)) were secured by account receivables with a carrying amount of RMB190,916,984.00. Pledged bank borrowings of RMB87,657,378.30 and current portion of long-term borrowings of RMB1,815,719.03 (Note 4(34)) were secured by shares of subsidiaries of the Group.

- (c) As at 31 December 2022, the range of interest rate of long-term borrowings was 2.35% to 5.62% (31 December 2021: 1.12% to 5.70%).

(37) Lease liabilities

	31 December 2022	31 December 2021
Lease liabilities	1,882,290,216.25	1,979,319,007.98
Less: Current portion of non-current liabilities (Note 4(34))	(580,679,136.35)	(545,044,859.04)
	1,301,611,079.90	1,434,274,148.94

- (a) As at 31 December 2022 and 31 December 2021, future cash outflows to which the Group was potentially exposed that were not included in the lease liabilities comprise the following:
- (i) As at 31 December 2022, there are no payments for leases not yet commenced to which the Group was committed (31 December 2021: RMB5,486,628.20).
- (ii) As at 31 December 2022, the minimum rental payable in the future for contracts of short-term leases and low-value asset leases which adopt the practical expedient according to the new leasing standard amounted to RMB174,992,055.97 and RMB819,252.69 respectively (31 December 2021: RMB107,557,690.66 and RMB6,189,399.04), which would be due within one year.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(38) Long-term payables

	31 December 2022	31 December 2021
Long-term payables for acquisition of subsidiaries	19,523,166.13	278,165,684.01
Payables for forest use rights	8,491,874.12	40,550,123.37
	28,015,040.25	318,715,807.38
Less: Current portion of long-term payables(Note4(34))	(20,019,116.37)	(3,554,312.67)
	7,995,923.88	315,161,494.71

(39) Deferred income

	31 December 2021	Increase in the current period	Decrease in the current period	31 December 2022	Reasons
Compensation for demolition and construction	1,910,810,303.83	–	(1,842,973,244.31)	67,837,059.52	Relocation and demolition
Scientific research funds and specific funds (a)	438,269,844.71	121,422,995.79	(92,948,849.54)	466,743,990.96	Others
Total	2,349,080,148.54	121,422,995.79	(1,935,922,093.85)	534,581,050.48	

(a) Government grants

	31 December 2021	Increase in the current year	Amount included in other income	31 December 2022	Asset related/ Income related
Scientific research funds and other allowance	438,269,844.71	121,422,995.79	(92,948,849.54)	466,743,990.96	Asset related/ Income related

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(39) Deferred income (continued)

(a) Government grants (continued)

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

<u>Government grants</u>	<u>Amount recognised in profit or loss for the year</u>	<u>Items reported in profit or loss for the year</u>
Scientific research funds	92,948,849.54	Other income

(40) Long-term employee benefits payable

	<u>31 December 2022</u>	31 December 2021
Termination benefits payable	43,280,484.76	45,811,438.86
Less: To be paid within one year (Note 4(30)(c))	(4,368,526.66)	(6,804,254.50)
	38,911,958.10	39,007,184.36

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

(41) Other non-current liabilities

	<u>31 December 2022</u>	31 December 2021
Medical reserve funds	131,787,555.63	104,152,918.64
Share repurchase payable	69,251,366.25	85,752,514.64
Others	24,249,756.41	37,782,631.38
	225,288,678.29	227,688,064.66

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(42) Share capital

	31 December 2021	Issue new shares(a)	Change in the current year			31 December 2022
			Unlock non- tradable shares	Others	Subtotal	
Shares subject to trading restriction –						
Ordinary shares denominated in RMB	81,600.00	852,626,796.00	–	–	852,626,796.00	852,708,396.00
Shares not subject to trading restriction –						
Ordinary shares denominated in RMB	1,922,935,018.00	2,830,054.00	–	–	2,830,054.00	1,925,765,072.00
Foreign shares listed overseas	919,072,704.00	–	–	–	–	919,072,704.00
	2,842,007,722.00	2,830,054.00	–	–	2,830,054.00	2,844,837,776.00
	2,842,089,322.00	855,456,850.00	–	–	855,456,850.00	3,697,546,172.00

- (a) Pursuant to the document “Approval for the Non-public Issuance of Shares by Shanghai Pharmaceutical Group Co., Ltd.” (Zheng Jian Xu Ke [2022] No. 584) issued by CSRC on March 22, 2022, the Company was approved to issue 852,626,796 A shares to Yunnan Baiyao Group Co., Ltd. and Shanghai Tandong Enterprise Consulting Service Co., Ltd. at RMB16.39 per share. As of 25 March 2022, Yunnan Baiyao and Shanghai Tandong has completed the non-public issuance payment. PricewaterhouseCoopers Zhong Tian LLP has issued an report, PwC ZT Yan Zi (2022) No. 0271, for capital verification. The total funds raised amounted to RMB13,974,553,186.44, and the Company’s share capital increased by RMB852,626,796.00. After deducting the issuance cost of RMB42,380,810.90, the remaining RMB13,079,545,579.54 was included in the capital surplus (share capital premium).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(42) Share capital (continued)

	31 December		Change in the current year			31 December
	2020	Issue new shares	Unlock non-tradable shares	Others	Subtotal	2021
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

(43) Capital surplus

	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Share premium(a)	16,353,739,672.84	13,137,901,293.19	(159,952,531.85)	29,331,688,434.18
Other capital surplus –				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method(b)	280,100,858.28	36,524,298.65	–	316,625,156.93
Share-based payment(c)	67,306,552.32	21,992,131.73	(9,084,473.34)	80,214,210.71
Others	(630,424,030.95)	–	–	(630,424,030.95)
	16,070,723,052.49	13,196,417,723.57	(169,037,005.19)	29,098,103,770.87

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(43) Capital surplus (continued)

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Share premium(a)	16,306,155,633.82	47,584,039.02	–	16,353,739,672.84
Other capital surplus –				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method(b)	185,882,441.61	94,218,416.67	–	280,100,858.28
Share-based payment(c)	35,973,830.70	31,332,721.62	–	67,306,552.32
Others	(630,424,030.95)	–	–	(630,424,030.95)
	15,897,587,875.18	173,135,177.31	–	16,070,723,052.49

- (a) For the year ended 31 December 2022, the increase of the capital surplus was mainly the difference between the funds raised less issuance cost of non-public issuance of A shares and the total par value of shares issued.

For the year ended 31 December 2022 and 2021, the decrease and increase 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.

- (b) For the year ended 31 December 2022 and 2021, 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.

- (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 28,420,000.00 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 2,730,000.00 stock options to incentive recipients (“Granting in 2020”).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(43) Capital surplus (continued)

(i) *Summary (continued)*

Pursuant to the Announcement on Adjusting the List of Incentive Objects and the Quantity of Options in the 2019 A-Share Stock Option Incentive Plan and Cancelling of Part of Options approved by resolutions of the 28th meeting of the 7th Board of Directors held on 5 January 2022, the Company adjusted a total of 23,258,120.00 stock options Grants in 2019.

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*

	2022	2021
Number of outstanding stock options issued at the beginning of the year	28,330,000.00	28,330,000.00
Number of stock options granted in the current year	–	–
Number of stock options exercised in the current year	(2,830,054.00)	–
Number of stock options expired in the current year	(2,341,880.00)	–
Number of outstanding stock options issued at the end of the year	23,158,066.00	28,330,000.00
Share-based payment expenses in the current year	21,992,131.73	31,332,721.62
Accumulated share-based payment expenses	89,298,684.05	67,306,552.32

(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	RMB20.16	RMB18.41
Current price of the underlying stocks	RMB19.00	RMB18.08
Estimated volatility of the share price	28.65% to 32.18%	29.14% ~ 34.76%
Estimated dividend yields	2.03%	1.72%
Risk-free interest rate	2.92% to 3.06%	2.75% ~ 2.95%
Validity period of options	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.	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(44) Other comprehensive income

	Other comprehensive income in the balance sheet		Other comprehensive income for the year ended 31 December 2022 income statement					
	31 December 2021	Converted from OCI into retained earnings	31 December 2022	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	(14,459,439.68)	-	13,635,672.70	28,095,112.38	-	-	28,095,112.38	-
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	(336,899.65)	-	(571,770.70)	(234,871.05)	-	-	(234,871.05)	-
Effective part of profit and loss of cash flow hedging	11,147,712.98	-	11,837,636.72	689,923.74	-	-	689,923.74	-
Provision for impairment of receivables financing	2,373,068.10	-	5,372,868.99	2,808,577.02	-	(76,856.43)	2,999,800.89	(268,080.30)
Differences arising from translation of foreign currency financial statements	(143,118,647.94)	-	(401,598,071.63)	(257,762,197.87)	-	-	(258,479,423.69)	717,225.82
	(144,394,206.19)	-	(371,323,663.92)	(226,403,455.78)	-	(76,856.43)	(226,929,457.73)	449,145.52

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(44) Other comprehensive income (continued)

	Other comprehensive income in the balance sheet		Other comprehensive income for the year ended 31 December 2021 income statement					
	31 December 2020	Converted from OCI into retained earnings	31 December 2021	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	(54,800,132.53)	-	(14,459,439.68)	40,340,692.85	-	-	40,340,692.85	-
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	324,040.09	-	(336,899.65)	(660,939.74)	-	-	(660,939.74)	-
Effective part of profit and loss of cash flow hedging	-	-	11,147,712.98	11,147,712.98	-	-	11,147,712.98	-
Provision for impairment of receivables financing	4,362,149.27	-	2,373,068.10	(1,274,344.75)	-	(687,637.83)	(1,989,081.17)	27,098.59
Differences arising from translation of foreign currency financial statements	(215,296,816.41)	-	(143,118,647.94)	38,573,412.36	-	-	72,178,168.47	(33,604,756.11)
	(265,410,759.58)	-	(144,394,206.19)	88,126,533.70	-	(687,637.83)	121,016,553.39	(33,577,657.52)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(45) Surplus reserve

	31 December 2021	Increase in the current year (a)	Decrease in the current year	31 December 2022
Statutory surplus reserve	1,874,700,580.83	166,343,562.77	–	2,041,044,143.60
Discretionary surplus reserve	117,763,127.56	–	–	117,763,127.56
	1,992,463,708.39	166,343,562.77	–	2,158,807,271.16

	31 December 2020	Increase in the current year (a)	Decrease in the current year	31 December 2021
Statutory surplus reserve	1,708,295,145.32	166,405,435.51	–	1,874,700,580.83
Discretionary surplus reserve	117,763,127.56	–	–	117,763,127.56
	1,826,058,272.88	166,405,435.51	–	1,992,463,708.39

- (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 RMB166,343,562.77 at 10% of net profit of 2022 (for the year ended 31 December 2021: 10% of net profit, RMB166,405,435.51).

(46) Undistributed profits

	For the year ended 31 December 2022	For the year ended 31 December 2021
Undistributed profits at the beginning of the year	28,598,598,034.67	25,054,352,978.09
Add: net profit attributable to shareholders of the Company	5,617,152,003.01	5,093,467,260.97
Less: appropriation to statutory surplus reserve	(166,343,562.77)	(166,405,435.51)
Dividends declared(a)	(1,552,494,013.56)	(1,364,202,874.56)
Others	(17,040,122.23)	(18,613,894.32)
Undistributed profits at the end of the year	32,479,872,339.12	28,598,598,034.67

- (a) On 30 June 2022, through consideration and approval at the Company's annual general meeting of year 2021, with total of 3,696,414,318 shares as base, cash dividends of RMB4.2 were distributed to all shareholders at RMB1,552,494,013.56 (including tax) per 10 shares.

In accordance with the resolution of the Board of Directors dated on 30 March 2023, the Company proposed a cash dividend to the shareholders at RMB6.10 per 10 shares (including tax). The above resolution is pending for approval of the shareholders' meeting (Note 11).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(47) Revenue and cost of sales

	For the year ended 31 December 2022	For the year ended 31 December 2021
Main operations revenue	231,240,057,495.84	215,041,596,781.87
Other operations revenue	741,242,268.67	782,662,253.44
	231,981,299,764.51	215,824,259,035.31
	For the year ended 31 December 2022	For the year ended 31 December 2021
Main operations cost	201,022,670,054.58	186,846,086,971.31
Other operations cost	472,253,032.89	435,062,313.40
	201,494,923,087.47	187,281,149,284.71

(a) Main operations revenue and main operations cost

	For the year ended 31 December 2022		For the year ended 31 December 2021	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Domestic sales	228,382,072,809.44	199,060,538,681.76	212,661,571,357.24	185,325,256,416.78
Foreign sales	2,857,984,686.40	1,962,131,372.82	2,380,025,424.63	1,520,830,554.53
	231,240,057,495.84	201,022,670,054.58	215,041,596,781.87	186,846,086,971.31

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(47) Revenue and cost of sales (continued)

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

	For the year ended 31 December 2022		For the year ended 31 December 2021	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Production	26,757,644,586.87	11,091,527,989.93	25,098,476,790.99	10,354,008,295.83
Distribution	205,732,892,503.17	192,190,257,130.75	190,616,665,788.73	178,186,243,062.20
Retail	8,263,524,277.58	7,220,101,457.49	7,767,597,326.70	6,745,120,844.14
Others	144,093,222.59	120,987,569.86	241,990,210.72	145,630,179.19
Elimination	(9,658,097,094.37)	(9,600,204,093.45)	(8,683,133,335.27)	(8,584,915,410.05)
	231,240,057,495.84	201,022,670,054.58	215,041,596,781.87	186,846,086,971.31

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 2022	For the year ended 31 December 2021	Tax base
City maintenance and construction tax	281,617,211.84	264,469,645.51	Please refer to Note 3(1)
Education surcharges	221,591,846.58	209,502,375.37	
Stamp duty	115,212,838.60	97,575,367.63	
Real estate tax	67,425,987.61	61,961,705.34	
Land use tax	21,093,984.25	21,028,957.98	
Others	9,331,784.30	11,689,574.58	
	716,273,653.18	666,227,626.41	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(49) Selling expenses

	For the year ended 31 December 2022	For the year ended 31 December 2021
Promotion and advertising costs	6,922,049,413.84	6,204,158,124.23
Employee benefits expenses	4,116,737,158.05	3,757,694,099.73
Travelling and meeting expenses	1,120,504,035.29	1,194,000,182.64
Amortisation of right-of-use assets	328,880,764.47	311,413,203.97
Office expenses	207,980,235.90	222,005,437.92
Depreciation of fixed assets	199,789,322.61	202,125,501.76
Amortisation of intangible assets	197,832,083.25	209,468,198.04
Rental fees	186,992,756.02	177,922,471.51
Storage costs	176,731,068.89	189,539,026.13
Others	821,478,069.22	849,707,206.50
	14,278,974,907.54	13,318,033,452.43

(50) General and administrative expenses

	For the year ended 31 December 2022	For the year ended 31 December 2021
Employee benefits expenses	2,963,801,735.38	2,905,438,651.68
Depreciation of fixed assets	333,137,251.82	318,909,654.00
Amortisation of right-of-use assets	197,782,748.74	188,050,951.85
Travelling and meeting expenses	182,494,934.02	207,637,607.25
Office expenses	159,577,659.35	104,203,045.68
Amortisation of intangible assets	127,846,915.76	145,085,040.30
Maintenance expenses	97,797,603.97	85,048,500.19
Rental fees	74,653,069.44	91,428,272.07
Others	854,597,255.49	1,097,616,007.82
	4,991,689,173.97	5,143,417,730.84

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(51) Research and development expenses

	For the year ended 31 December 2022	For the year ended 31 December 2021
Employee benefits expenses	751,507,894.36	658,978,308.87
Technical development expenses	539,019,443.33	503,863,173.74
Materials consumption fee	353,115,913.44	255,301,227.44
Depreciation and amortisation	141,252,439.26	122,452,471.13
Test fees	75,399,239.55	113,017,005.13
Amortisation of right-of-use assets	30,908,939.56	37,317,669.70
Others	220,993,710.89	296,347,763.32
	2,112,197,580.39	1,987,277,619.33

(52) Finance expenses-net

	For the year ended 31 December 2022	For the year ended 31 December 2021
Loan interest expenses(i)	1,411,675,940.38	1,137,606,555.88
Debenture interest expenses	183,367,320.56	264,131,576.51
Lease liabilities interest expenses	94,235,661.70	116,490,330.14
	1,689,278,922.64	1,518,228,462.53
Less: Interest income	(438,297,667.03)	(338,179,842.70)
Exchange gains or losses	(21,511,140.31)	(10,095,953.13)
Others	83,722,352.76	75,416,348.13
	1,313,192,468.06	1,245,369,014.83

- (i) The Group recognised the cash obtained from the discount of notes receivables that did not satisfy the derecognition criteria as short-term borrowings (Note 4(26)), calculated the interest expense according to the effective interest rate method and included it in the loan interest expenses.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(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 2022	For the year ended 31 December 2021
Raw materials, merchandise and consumables used	204,013,607,504.16	186,134,980,233.15
Changes in inventories of finished goods and work in progress	(6,806,602,514.65)	(2,949,250,249.27)
Employee benefits expenses	9,315,728,603.67	8,688,472,384.73
Promotion and advertising costs	6,922,049,413.84	6,204,158,124.22
Travelling and meeting expenses	1,324,162,246.75	1,438,156,512.78
Transportation costs	1,243,350,648.16	1,240,625,220.17
Depreciation of fixed assets	1,115,602,707.99	1,059,391,824.83
Amortisation of right-of-use assets	696,609,062.58	633,044,680.84
Energy and utilities	499,098,139.24	483,367,266.20
Regular maintenance expenses of fixed assets (i)	408,458,417.17	370,785,753.12
Amortisation of intangible assets	388,911,416.21	425,927,091.89
Office expenses	381,263,418.09	338,027,261.67
Rental fees (ii)	319,629,391.96	300,066,463.10
Auditor's remuneration – Audit services	27,383,171.08	24,349,000.00
Auditor's remuneration – Non-audit services	659,698.34	812,177.00
Others	3,027,873,424.78	3,336,964,342.88
	222,877,784,749.37	207,729,878,087.31

- (i) For the daily maintenance and repair expenses of fixed assets that do not meet the criteria of capitalization, the Group includes the costs related to the production and processing of inventories in the costs of inventories and recognised as cost of sales accordingly, and includes the costs related to the research and development department, the administrative department and the sales department in research and development expenses, general and administrative expenses and selling and distribution expenses, respectively.
- (ii) 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 2022, the amount was RMB319,629,391.96 (for the year ended 31 December 2021: RMB300,066,463.10).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(54) Asset impairment losses

	For the year ended 31 December 2022	For the year ended 31 December 2021
Impairment loss for bearer biological assets	258,292,956.76	–
Impairment loss for fixed assets	26,930,415.50	5,173,510.08
Impairment loss for right-of-use assets	19,685,524.20	–
Impairment loss for intangible assets	17,479,703.00	64,597,533.00
Impairment loss for inventory	8,677,878.68	51,458,914.30
Impairment loss for long-term prepaid expenses	404,817.56	–
Impairment loss for goodwill	–	19,211,162.99
	331,471,295.70	140,441,120.37

(55) Credit impairment losses/(reversals)

	For the year ended 31 December 2022	For the year ended 31 December 2021
Impairment loss of notes receivables	3,163,671.24	2,559,546.44
Impairment loss/(reversal) of accounts receivables	273,773,582.25	(55,261,623.30)
Impairment loss/(reversal) of receivables financing	2,808,577.02	(1,274,344.75)
Impairment loss of other receivables	30,158,992.93	52,323,066.07
Impairment loss of long-term receivables	2,555,665.43	975,463.98
	312,460,488.87	(677,891.56)

(56) Other income

	For the year ended 31 December 2022	For the year ended 31 December 2021	Asset related/ Income related
Government grants and tax refunds	277,369,704.84	351,351,611.90	Asset/Income related
R&D project subsidies	80,668,543.47	90,059,490.90	Asset/Income related
Support funds and others	35,721,943.38	57,374,685.16	Asset/Income related
	393,760,191.69	498,785,787.96	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(57) Investment income

	For the year ended 31 December 2022	For the year ended 31 December 2021
Long-term equity investment income calculated by equity method	526,743,273.33	789,596,389.32
Gain on disposal of joint venture and associate investments	–	41,924,656.25
Dividend income gained when other non-current financial assets are held	6,917,500.33	6,444,036.56
Gain on disposal of subsidiaries and other business units	138,644,227.41	1,149,472,419.77
Gain on disposal of other non-current financial assets	–	(14,393.28)
Dividend income gained when other equity instrument investments are held	1,910,813.80	605,867.80
Loss on discount of financing receivables	(60,638,821.30)	(107,706,032.88)
Loss on factoring of accounts receivables (i)	(80,508,182.24)	(78,213,297.37)
Others	48,277.75	9,284,252.53
	533,117,089.08	1,811,393,898.70

- (i) For the year ended 31 December 2022, the Group factored and derecognised a few accounts receivable. The loss included in investment income was RMB80,508,182.24 (for the year ended 31 December 2021: RMB78,213,297.37).

(58) Gains/(losses) arising from changes in fair value

	For the year ended 31 December 2022	For the year ended 31 December 2021
Structural deposits	232,299,060.33	–
Other non-current financial assets	(30,062,348.23)	(204,414,696.63)
Other non-current liabilities	16,501,148.39	(1,589,069.66)
	218,737,860.49	(206,003,766.29)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(59) Gains on disposals of assets

	For the year ended 31 December 2022	For the year ended 31 December 2021	Amount classified to non-recurring profit or loss for the year ended 31 December 2022
Gain on disposal of fixed assets and intangible assets(a)	1,432,476,042.88	55,753,160.07	1,432,476,042.88
Others	6,442,095.80	2,536,146.76	6,442,095.80
	1,438,918,138.68	58,289,306.83	1,438,918,138.68

(a) In 2022, the gains from the disposal of fixed assets and intangible assets are mainly the gains from the disposal of the plot No. 551, Xixi Road of CT Qingchunbao (Note 4(16)).

(60) Non-operating income

	For the year ended 31 December 2022	For the year ended 31 December 2021	Amount classified to non-recurring profit or loss for the year ended 31 December 2022
Penalty and compensation from suppliers	7,690,026.89	25,832,910.99	7,690,026.89
Income from demolition compensation	–	14,692,577.21	–
Others	25,088,043.81	41,431,474.66	25,088,043.81
	32,778,070.70	81,956,962.86	32,778,070.70

(61) Non-operating expenses

	For the year ended 31 December 2022	For the year ended 31 December 2021	Amount classified to non-recurring profit or loss for the year ended 31 December 2022
Donation	64,901,111.38	94,664,349.56	64,901,111.38
Penalty expenses	38,740,190.46	12,283,906.54	38,740,190.46
Litigation compensation	37,384,927.83	8,101,520.99	37,384,927.83
Relocating loss and others	98,048,949.17	28,578,598.56	98,048,949.17
	239,075,178.84	143,628,375.65	239,075,178.84

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(62) Income tax expenses

	For the year ended 31 December 2022	For the year ended 31 December 2021
Current income tax calculated according to tax law and related regulations	1,948,354,024.43	1,704,955,173.49
Deferred income tax	(132,015,511.85)	164,290,274.75
	1,816,338,512.58	1,869,245,448.24

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 2022	For the year ended 31 December 2021
Total profit	8,808,353,281.13	8,143,814,892.36
Income tax expenses calculated at applicable tax rate	2,202,088,320.26	2,035,953,723.08
Effect of favourable tax rates	(435,306,923.25)	(329,505,471.09)
Income not subject to tax	(168,654,694.89)	(235,652,176.36)
Costs, expenses and losses not deductible for tax purposes	149,159,945.40	187,843,915.51
Additional deduction	(321,143,234.08)	(209,622,347.26)
Utilisation of previously tax losses not recognised as deferred tax assets	(20,258,012.61)	(45,731,105.14)
Tax losses for which no deferred income tax asset was recognised	410,453,111.75	465,958,909.50
Income tax expenses	1,816,338,512.58	1,869,245,448.24

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(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 2022	For the year ended 31 December 2021
Consolidated net profit attributable to ordinary shareholders of the Company	5,617,152,003.01	5,093,467,260.97
Weighted average numbers of ordinary shares outstanding	3,482,739,827.00	2,842,089,322.00
Basic earnings per share	1.61	1.79

(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. For the year ended 31 December 2022, the potentially diluted common stock of the Company is the stock option granted in 2019 (for the year ended 31 December 2021: the potentially diluted common stock of the Company is the stock option granted in 2019).

(64) Notes to the consolidated cash flow statement

(a) Cash received relating to other operating activities

	For the year ended 31 December 2022	For the year ended 31 December 2021
Deposits, guarantees, current accounts and advances	1,252,204,563.62	995,205,883.52
Specific funds and government grants	459,767,193.97	571,009,623.34
Interest income	22,497,843.10	54,160,563.70
Other non-operating income	44,210,816.88	38,193,440.48
	2,185,485,346.00	1,981,936,627.02

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(64) Notes to the consolidated cash flow statement (continued)

(b) Cash paid relating to other operating activities

	For the year ended 31 December 2022	For the year ended 31 December 2021
Daily expenses	10,607,959,941.78	10,536,231,450.48
Payments for current accounts and advances	949,460,554.45	861,497,373.60
Non-operating expenses	123,134,799.97	132,023,314.74
Bank charge	78,683,138.01	68,237,132.31
Others	57,092,057.05	76,859,468.58
	11,816,330,491.26	11,674,848,739.71

(c) Cash received relating to other investing activities

	For the year ended 31 December 2022	For the year ended 31 December 2021
Withdrawal of time deposits due over three months	992,800,316.66	876,502,659.58
Notes pledge recovery	171,882,882.27	209,115,807.27
Related party loan recovery	–	241,195,770.32
Advance receipts of demolition compensation	–	119,422,799.00
Others	–	28,742,000.00
	1,164,683,198.93	1,474,979,036.17

(d) Cash paid relating to other investing activities

	For the year ended 31 December 2022	For the year ended 31 December 2021
Increase of time deposits due over three months	1,009,341,000.00	330,000,000.00
Demolition expenses	362,740,707.28	–
Capital increase in associates	172,622,180.00	21,209,900.00
Notes pledge	169,545,376.99	430,464,065.35
Loans to related parties	–	238,975,770.32
Net cash outflow from disposal of subsidiaries	–	1,568,015,663.66
Others	4,793,089.21	75,052,506.40
	1,719,042,353.48	2,663,717,905.73

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(64) Notes to the consolidated cash flow statement (continued)

(e) Cash received relating to other financing activities

	For the year ended 31 December 2022	For the year ended 31 December 2021
Subsidiaries borrowed from their minority shareholders	363,036,955.50	29,263,841.23
Related party transactions	150,000,000.00	286,790,000.00
Capital injection received by subsidiaries	–	1,166,118,435.83
Non-public issuance pledge	–	130,000,000.00
Others	325,748.06	7,061,138.86
	513,362,703.56	1,619,233,415.92

(f) Cash paid relating to other financing activities

	For the year ended 31 December 2022	For the year ended 31 December 2021
Repayment of related party transactions	1,085,838,455.24	–
Repayment for lease liabilities	748,584,498.24	788,804,481.69
Refund from subsidiaries to their minority shareholders	394,846,268.44	329,577,541.61
Acquisition of minority shares in a subsidiary	205,746,089.00	101,853,934.97
Return of non-public issuance pledge	130,000,000.00	–
Others	–	11,738,000.00
	2,565,015,310.92	1,231,973,958.27

For the year ended 31 December 2022, total cash outflows for leases paid by the Group amounted to RMB1,068,213,890.20 (31 December 2021: RMB1,088,870,944.79), 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(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 2022	For the year ended 31 December 2021
Net profit	6,992,014,768.55	6,274,569,444.12
Add: Provisions for asset impairment	331,471,295.70	140,441,120.37
Credit impairment provision/(reversal)	312,460,488.87	(677,891.56)
Amortisation of right-of-use assets	696,609,062.58	633,044,680.84
Depreciation of fixed assets and investment properties	1,127,570,993.32	1,072,544,130.33
Amortisation of intangible assets	388,911,416.21	425,927,091.89
Amortisation of long-term prepaid expenses	195,186,464.20	186,893,020.66
Depreciation of bearer biological assets	9,349,391.02	8,288,463.32
Gain on disposal of fixed assets, intangible assets and other long-term assets	(1,438,918,138.68)	(58,289,306.83)
(Profit)/loss arising from changes in fair value	(218,737,860.49)	206,003,766.29
Finance expenses	1,701,718,950.88	1,568,551,907.08
Investment income	(674,264,092.62)	(1,997,313,228.95)
(Increase)/Decrease in deferred tax assets	(157,928,578.59)	5,346,425.57
Increase in deferred tax liabilities	25,989,923.17	159,631,487.01
Increase in inventories	(7,111,704,594.73)	(3,200,960,803.76)
Increase in operating receivables	(10,081,417,120.75)	(6,155,510,038.27)
Increase in operating payables	12,645,048,813.23	5,792,836,008.24
Net cash flows from operating activities	4,743,361,181.87	5,061,326,276.35
Net increase in cash and cash equivalents		
	For the year ended 31 December 2022	For the year ended 31 December 2021
Cash and cash equivalents at the end of the year	24,533,891,305.82	20,137,500,219.76
Less: Cash and cash equivalents at the beginning of the year	(20,137,500,219.76)	(19,576,444,789.85)
Net increase in cash and cash equivalents	4,396,391,086.06	561,055,429.91

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(65) Notes to the consolidated cash flow statement (continued)

(b) *Acquisition or disposal of subsidiaries*

(i) *Acquisition of subsidiaries*

	For the year ended 31 December 2022
Cash and cash equivalents paid for company combination this year	217,480,000.00
Including: SPH Luoxin (Shandong) Pharmaceutical Co., Ltd.	207,480,000.00
SPH Keyuan Xinhai Gansu Pharmaceutical Co., Ltd.	10,000,000.00
Less: Cash and cash equivalents held by the subsidiaries on the date of purchase	(220,739,226.03)
Including: SPH Luoxin (Shandong) Pharmaceutical Co., Ltd.	(211,180,014.55)
SPH Keyuan Xinhai Gansu Pharmaceutical Co., Ltd.	(9,559,211.48)
Add: Cash and cash equivalents paid for company combination in the earlier stage	86,211,750.00
Including: SPH Keyuan Xinhai Tongliao Pharmaceutical Co., Ltd.	46,704,000.00
Jiangsu Runtian Biochemical Medicine Co., Ltd.	36,000,000.00
Net cash outflow for acquiring the subsidiaries	82,952,523.97
Price of acquiring the subsidiaries for the year ended 31 December 2022	
SPH Luoxin (Shandong) Pharmaceutical Co., Ltd.	414,960,000.00
SPH Keyuan Xinhai Gansu Pharmaceutical Co., Ltd.	15,672,979.87
	430,632,979.87
Price of acquiring the subsidiaries in the earlier stage	
Jiangsu Runtian Biochemical Medicine Co., Ltd.	360,000,000.00
SPH Keyuan Xinhai Tongliao Pharmaceutical Co., Ltd.	58,380,000.00
Other subsidiaries	51,164,600.00
	469,544,600.00

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(65) Notes to the consolidated cash flow statement (continued)

(b) *Acquisition or disposal of subsidiaries (continued)*

(i) *Acquisition of subsidiaries (continued)*

Net assets of subsidiaries at acquisition date in 2022

	For the year ended 31 December 2022	For the year ended 31 December 2021
Current assets	2,301,201,515.77	318,932,654.61
Non – current assets	388,880,747.70	83,474,113.60
Current liabilities	(1,916,171,638.44)	(239,484,088.30)
Non – current liabilities	(30,591,756.91)	(14,388,477.22)
	743,318,868.12	148,534,202.69

(ii) *Disposal of subsidiaries*

	For the year ended 31 December 2022
Cash and cash equivalents generated from disposal of subsidiaries this year	117,302,961.39
Less: Cash and cash equivalents held by the subsidiaries on the date of disposal	(16,774,256.27)
Net cash inflow for disposal of the subsidiaries	100,528,705.12
Price for disposal of the subsidiaries for the year ended 31 December 2022	
Taizhou Pharmaceutical Co., Ltd.	111,261,961.39
SPH (Faku) Pharmaceutical Co., Ltd.	5,400,000.00
SPH Yisheng Medical Investment Management (Shanghai) Ltd.,	641,000.00
	117,302,961.39

Net assets of subsidiaries at disposal date in 2022

	For the year ended 31 December 2022
Current assets	108,721,744.48
Non – current assets	49,273,360.83
Current liabilities	(202,678,005.78)
Non – current liabilities	–
	(44,682,900.47)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(65) Notes to the consolidated cash flow statement (continued)

(c) Cash and cash equivalents

	31 December 2022	31 December 2021
Cash	24,533,891,305.82	20,137,500,219.76
Including: Cash on hand	5,257,740.96	5,022,850.35
Cash at bank that can be readily drawn on demand	24,528,633,564.86	20,132,477,369.41
Cash and cash equivalents at the end of the year	24,533,891,305.82	20,137,500,219.76

(66) Foreign currency items

	31 December 2022		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand –			
USD	34,061,627.34	6.9646	237,225,609.77
HKD	3,353,602.05	0.8933	2,995,772.71
AUD	5,070,746.57	4.7138	23,902,485.18
EUR	524,253.38	7.4229	3,891,480.41
Others	824,395,269.78	–	21,609,961.64
			289,625,309.71
Accounts receivables –			
USD	9,033,884.10	6.9646	62,917,389.20
AUD	6,401,812.23	4.7138	30,176,862.49
NZD	10,746,480.76	4.4162	47,458,608.33
EUR	3,039,753.89	7.4229	22,563,789.15
Others	889,029,810.32	–	11,436,869.34
			174,553,518.51

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(66) Foreign currency items (continued)

	31 December 2022		
	Foreign currency balance	Exchange rate	RMB balance
Other receivables –			
USD	1,604,963.46	6.9646	11,177,928.51
HKD	4,489,982.06	0.8933	4,010,900.97
EUR	248,943.16	7.4229	1,847,880.18
Others	116,292,763.55	–	27,162,605.94
			44,199,315.60
Short-term borrowings –			
USD	850,000.00	6.9646	5,919,910.00
NZD	4,184,528.88	4.4162	18,479,716.44
EUR	1,712.42	7.4229	12,711.12
			24,412,337.56
Accounts payables –			
USD	17,344,173.52	6.9646	120,795,230.90
HKD	16,713,121.95	0.8933	14,929,831.84
AUD	4,363,013.88	4.7138	20,566,374.83
NZD	10,749,664.75	4.4162	47,472,669.47
EUR	6,735,692.54	7.4229	49,998,372.16
Others	122,630.15	–	1,778.79
			253,764,257.99
Other payables –			
USD	157,388,204.71	6.9646	1,096,145,890.52
HKD	47,921,100.10	0.8933	42,807,918.72
AUD	61,824,665.40	4.7138	291,429,107.76
NZD	10,135,066.06	4.4162	44,758,478.73
EUR	76,795.60	7.4229	570,046.06
Others	1,287,408,136.55	–	15,835,120.08
			1,491,546,561.87

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(66) Foreign currency items (continued)

	31 December 2022		
	Foreign currency balance	Exchange rate	RMB balance
Current portion of long-term borrowings –			
EUR	300,014.32	7.4229	2,226,976.30
Current portion of lease liabilities –			
USD	533,283.63	6.9646	3,714,107.17
HKD	4,790,548.56	0.8933	4,279,397.03
AUD	429,512.24	4.7138	2,024,634.80
NZD	3,893,697.83	4.4162	17,195,348.36
Others	1,178,662.62	–	237,382.65
			27,450,870.01
Long-term borrowings –			
USD	469,206,500.00	6.9646	3,267,835,589.90
NZD	51,896,118.01	4.4162	229,183,636.36
EUR	222,711.68	7.4229	1,653,166.53
			3,498,672,392.79
Lease liabilities –			
USD	948,027.31	6.9646	6,602,631.00
HKD	4,711,104.20	0.8933	4,208,429.38
AUD	1,052,806.64	4.7138	4,962,719.94
NZD	32,716,796.95	4.4162	144,483,918.69
Others	2,511,750.54	–	505,866.56
			160,763,565.57

Foreign currencies in which the above monetary items are denominated refer to all currencies other than RMB (the scope of which is different from those in Note 14(1)(a)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

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 acquiree from the acquisition/combination date to the end of the period
SPH Luoxin (Shandong) Pharmaceutical Co., Ltd.	31 October 2022	414,960,000.00	70.00%	Acquisition of equity of the target company by capital injection	31 October 2022	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	409,387,748.50	(49,772,390.10)	(73,958,184.39)	(109,332,872.60)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

5 CHANGES IN SCOPE OF BUSINESS COMBINATIONS (continued)

(1) Main business combination involving enterprise not under common control (continued)

(b) *Costs of combination and goodwill are as follows:*

SPH Luoxin (Shandong) Pharmaceutical Co., Ltd.

Costs of combination –	
Cash paid	414,960,000.00
Less: The fair value of net assets obtained	(325,594,484.93)
Goodwill	89,365,515.07

(c) *The assets and liabilities of SPH Luoxin (Shandong) Pharmaceutical Co., Ltd. at the acquisition date and 31 December 2021 are as follows:*

SPH Luoxin (Shandong) Pharmaceutical Co., Ltd.

	Acquisition date Fair value	Acquisition date Carrying amount	31 December 2021 Carrying amount
Cash at bank and on hand	249,065,962.39	249,065,962.39	408,388,499.82
Notes receivables	68,507,783.33	68,507,783.33	26,078,854.51
Accounts receivables	1,612,972,026.71	1,612,972,026.71	1,318,454,339.75
Receivables financing	5,375,234.75	5,375,234.75	14,668,169.28
Advances to suppliers	64,504,474.39	64,504,474.39	44,009,150.89
Other receivables	27,480,658.02	27,480,658.02	80,241,420.09
Inventories	217,085,690.54	217,085,690.54	231,036,674.80
Other current assets	12,613,190.27	12,613,190.27	3,854,191.87
Investment properties	48,116,083.00	30,176,454.25	31,084,793.05
Fixed assets	149,034,977.17	124,448,518.39	128,518,370.66
Construction in progress	3,700,127.19	3,700,127.19	1,138,444.12
Right-of-use assets	2,476,795.35	2,476,795.35	3,480,288.47
Intangible assets	154,355,587.34	97,378,868.14	98,649,912.95
Long-term prepaid expenses	871,285.50	871,285.50	956,015.78
Deferred tax assets	20,091,669.35	20,091,669.35	11,649,096.67
Other non-current assets	9,843,940.00	9,843,940.00	–
Less: Short-term borrowings	(53,897,640.80)	(53,897,640.80)	(40,023,527.78)
Notes payables	(35,633,375.10)	(35,633,375.10)	(37,557,908.55)
Accounts payables	(433,027,432.00)	(433,027,432.00)	(579,224,005.66)
Contract liabilities	(55,945,998.21)	(55,945,998.21)	(40,163,737.75)
Employee benefits payable	(8,229,236.08)	(8,229,236.08)	(7,448,028.90)
Taxes payable	(11,640,599.58)	(11,640,599.58)	(32,964,890.03)
Other payables	(1,238,193,932.59)	(1,238,193,932.59)	(991,596,394.15)
Current portion of non-current liabilities	(1,033,890.12)	(1,033,890.12)	(1,249,763.84)
Other current liabilities	(59,487,589.60)	(59,487,589.60)	(1,146,501.19)
Lease liabilities	(1,235,703.78)	(1,235,703.78)	(2,027,699.43)
Deferred income	(4,754,433.06)	(4,754,433.06)	(5,102,921.36)
Deferred tax liabilities	(24,601,536.46)	(17,183.05)	(48,414.25)
Net assets	718,414,117.92	643,495,664.60	663,654,429.82
Less: Minority interests	(253,279,139.45)	(234,457,647.45)	(206,498,722.16)
Net assets obtained	465,134,978.47	409,038,017.15	457,155,707.66

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

5 CHANGES IN SCOPE OF BUSINESS COMBINATIONS (continued)

(1) Main business combination involving enterprise not under common control (continued)

(c) *The assets and liabilities of SPH Luoxin (Shandong) Pharmaceutical Co., Ltd. at the acquisition date and 31 December 2021 are as follows: (continued)*

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 of main assets applied are as follows:

- Evaluation methods of investment properties, 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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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 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
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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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	102,000,000	55.00%	–	Subsidiaries obtained through business combinations involving enterprises under common control

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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 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	327,000,000	99.21%	0.79%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Kony (Changzhou) Co., Ltd. (上藥康麗(常州)藥業有限公司)	Changzhou	Changzhou	Pharmaceutical products manufacture and trading	14,946,380	100.00%	-	Subsidiaries obtained through business combinations involving enterprises not under common control

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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 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
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
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	50,000,000	–	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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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 New Asiatic Medicine Industry Minhang Co., Ltd. (上海新亞藥業閩行有限公司)	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
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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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 Xing Ling Sci.&Tech. Pharmaceutical Co., Ltd. (上海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. (浙江上藥九旭藥業有限公司)	Jinhua	Jinhua	Pharmaceutical products manufacture and trading	25,000,000	–	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
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	Research and development, manufacture and distribution of medicine	380,000,000	100.00%	–	Subsidiaries established through establishment or investment

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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	
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 Pharmaceutical 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

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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	
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. (上藥康德樂(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
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. (上藥華西(四川)醫藥有限公司)	Chengdu	Chengdu	Distribution of pharmaceutical products	36,734,700	–	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Huashi P 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 Pharmaceutical Holding Yunnan Co., Ltd. (上藥控股雲南有限公司)	Kunming	Kunming	Distribution of pharmaceutical products	53,333,333	–	70.00%	Subsidiaries obtained through business combinations involving enterprises not under common control

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(a) The structure of the Group (continued)

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 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. (上藥科園信海河南醫藥有限公司)	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

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. and Shanghai Pharmaceutical Shanhe Wuxi Co., Ltd., whose corporate category is incorporated company by shares, all of the above mentioned subsidiaries are limited liability companies.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(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 2022	Dividends distributed to minority interests for the year ended 31 December 2022(i)	Capital increase by minority shareholders for the year ended 31 December 2022	Minority interests for the year ended 31 December 2022
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	24.11%	105,761,327.75	45,371,652.00	–	1,052,771,517.66
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	49.00%	48,822,147.00	51,643,437.40	9,800,000.00	1,100,027,032.84

(i) All dividends declared to minority shareholders in fiscal 2022 were paid in the year.

Financial information of the above subsidiaries with significant minority interest is as follows,

	31 December 2022					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	3,522,057,581.62	1,410,327,050.23	4,932,384,631.85	(2,131,211,667.03)	(36,670,431.67)	(2,167,882,098.70)
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	2,458,588,770.27	484,146,465.26	2,942,735,235.53	(628,693,632.57)	(83,981,545.16)	(712,675,177.73)

	31 December 2021					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	3,247,612,614.48	1,261,021,916.50	4,508,634,530.98	(1,859,418,780.39)	(28,791,861.15)	(1,888,210,641.54)
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	2,329,557,591.33	461,736,506.27	2,791,294,097.60	(485,167,743.48)	(76,114,008.27)	(561,281,751.75)

Note 1: As for the year 2022, the equity and net comprehensive income of SPH Changzhou Pharmaceutical Co., Ltd. to minority interests presented in the consolidated financial statement were approximately RMB508,960,280.56 and RMB62,076,910.34.

Note 2: As for the year 2022, the equity and net comprehensive income of SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. to minority interests presented in the consolidated financial statement were approximately RMB14,309,028.46 and RMB3,837,903.43.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(1) Equity in significant subsidiaries (continued)

(b) Subsidiaries with significant minority interests

	For the year ended 31 December 2022			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	6,099,656,982.44	243,264,871.41	243,264,871.41	374,844,280.09
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	3,651,101,929.62	95,642,482.15	95,642,482.15	123,952,408.79
	For the year ended 31 December 2021			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,854,805,769.90	315,846,310.06	315,846,310.06	250,510,068.51
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	3,292,001,458.19	99,207,364.06	99,207,364.06	76,874,584.19

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint ventures and associates

(a) Summarised basic 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%

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint ventures and associates

(b) Summarised financial information of significant joint ventures

	31 December 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Shanghai Hutchison Pharmaceutical Co., Ltd.	Shanghai Hutchison Pharmaceutical Co., Ltd.
Current assets	1,481,305	1,215,816
Including: Cash and cash equivalents	234,886	319,913
Non-current assets	565,854	583,267
Total assets	2,047,159	1,799,083
Current liabilities	1,030,381	824,716
Non-current liabilities	32,311	42,890
Total liabilities	1,062,692	867,606
Minority interests		
Equity attributable to shareholders of the company	984,467	931,476
Share of net assets in proportion of shareholdings (i)	492,234	465,738
Adjustments		
– Unrealised profits arising from internal transactions	–	(10,559)
Carrying amount of investments in joint ventures	492,234	455,179
Fair value of the investment in joint ventures with quoted price	Not applicable	Not applicable

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint ventures and associates (continued)

(b) Summarised financial information of significant joint ventures (continued)

	For the year ended 31 December 2022	For the year ended 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	Shanghai Hutchison Pharmaceutical Co., Ltd.	Shanghai Hutchison Pharmaceutical Co., Ltd.
Revenue	2,461,963	2,158,329
Finance expenses	5,102	7,211
Income tax expenses	(109,652)	(103,160)
Net profit	652,991	580,532
Other comprehensive income	–	–
Total comprehensive income	652,991	580,532
Dividends declared by the joint ventures to the Group	300,000	325,000

- (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. None of the assets involved in transactions between the Group and its joint ventures constitute business.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint ventures and associates (continued)

(c) Summarised financial information of significant associates

	31 December 2022		31 December 2021	
	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	7,877,338	1,081,057	9,006,030	1,200,185
Non-current assets	2,501,362	533,746	2,605,938	678,653
Total assets	10,378,700	1,614,803	11,611,968	1,878,838
Current liabilities	5,068,548	857,104	6,246,174	1,079,844
Non-current liabilities	569,803	1,173	601,044	16,228
Total liabilities	5,638,351	858,277	6,847,218	1,096,072
Minority interests	–	–	–	–
Equity attributable to shareholders of the company	4,740,349	756,526	4,764,750	782,766
Share of net assets in proportion of shareholdings (i)	1,422,105	226,958	1,429,425	234,830
Adjustments				
– Goodwill	–	–	–	–
– Unrealised profits arising from internal transactions	–	–	(22,460)	(2,855)
Carrying amount of investments in associate	1,422,105	226,958	1,406,965	231,975
Fair value of the investment in associates with quoted price	Not applicable	Not applicable	Not applicable	Not applicable

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint ventures and associates (continued)

(c) Summarised financial information of significant associates (continued)

	For the year ended 31 December 2022 RMB'000		For the year ended 31 December 2021 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	12,655,752	2,008,411	14,354,380	4,301,480
Net profit	335,716	293,671	720,235	319,911
Other comprehensive income	–	–	–	–
Total comprehensive income	335,716	293,671	720,235	319,911
Dividends declared by the associates to the Group	108,035	95,973	125,789	114,386

- (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. None of the assets involved in transactions between the Group and its joint ventures constitute business.

(d) Summarised financial information of non-significant joint ventures and associates

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Joint ventures –		
Carrying amount of investments in total	1,746,950	1,656,634
Aggregate of the following items in proportion		
Net profit (i)	(15,505)	15,346
Other comprehensive income (i)	–	–
Total comprehensive income	(15,505)	15,346

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

6 EQUITY IN OTHER SUBJECTS (continued)

(2) Equity in joint ventures and associates (continued)

(d) Summarised financial information of non-significant joint ventures and associates (continued)

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Associates –		
Carrying amount of investments in total	5,418,296	5,322,522
Aggregate of the following items in proportion		
Net profit (i)	24,283	175,289
Other comprehensive income (i)	(235)	(661)
Total comprehensive income	24,048	174,628

- (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.

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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

7 SEGMENT INFORMATION (continued)

(1) Segment information as at 31 December 2022 and for the year ended 31 December 2022 is as follows:

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	26,757,644,586.87	205,732,892,503.17	8,263,524,277.58	1,349,100,581.71	(10,121,862,184.82)	231,981,299,764.51
Including: External revenue	22,313,073,226.15	200,754,729,935.87	8,234,580,747.01	678,915,855.48	-	231,981,299,764.51
Inter-segment revenue	4,444,571,360.72	4,978,162,567.30	28,943,530.57	670,184,726.23	(10,121,862,184.82)	-
Less: Cost of sales	(11,091,527,989.93)	(192,190,257,130.75)	(7,220,101,457.49)	(855,712,202.84)	9,862,675,693.54	(201,494,923,087.47)
Taxes and surcharges	(271,983,726.38)	(410,138,162.18)	(18,194,224.17)	(15,957,540.45)	-	(716,273,653.18)
Selling expenses	(9,160,461,098.82)	(4,409,009,303.74)	(699,556,869.09)	(108,944,741.52)	98,997,105.63	(14,278,974,907.54)
General and administrative expenses	(2,109,347,624.74)	(2,321,997,210.85)	(256,605,137.92)	(442,557,974.17)	138,818,773.71	(4,991,689,173.97)
Research and development expenses	(2,112,197,580.39)	-	-	-	-	(2,112,197,580.39)
Segment profit	2,012,126,566.61	6,401,490,695.65	69,066,588.91	(74,071,877.27)	(21,370,611.94)	8,387,241,361.96
Unallocated:						
Finance expenses-net						(1,313,192,468.06)
Asset impairment losses						(331,471,295.70)
Credit impairment losses						(312,460,488.87)
Add: Profit arising from changes in fair value						218,737,860.49
Investment income						533,117,089.08
Other income						393,760,191.69
Gains on disposals of assets						1,438,918,138.68
Operating profit						9,014,650,389.27
Depreciation and amortisation	1,052,243,907.44	1,094,832,786.05	149,178,894.73	177,105,926.46	-	2,473,361,514.68
Capital expenditures	2,249,023,550.99	561,639,721.07	23,529,111.10	144,134,769.56	-	2,978,327,152.72
Investment in associates-net	3,987,055,471.33	1,781,735,036.32	1,714,525.50	1,222,954,707.96	-	6,993,459,741.11
Investment in joint ventures -net	1,861,915,122.38	377,268,738.70	-	-	-	2,239,183,861.08
Other assets	43,835,430,654.86	135,011,503,072.97	2,904,345,605.52	56,934,545,695.29	(51,318,296,125.56)	187,367,528,903.08
Unallocated:						
Deferred tax assets						1,534,728,993.68
Total assets						198,134,901,498.95
Liabilities	19,397,187,447.11	97,881,548,359.37	2,330,511,132.75	18,002,568,470.72	(19,309,964,603.82)	118,301,850,806.13
Unallocated:						
Deferred tax liabilities						1,049,237,452.75
Income tax payable						781,362,182.64
Total liabilities						120,132,450,441.52

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

7 SEGMENT INFORMATION (continued)

(1) Segment information as at 31 December 2021 and for the year ended 31 December 2021 is as follows:

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	25,098,476,790.99	190,616,665,788.73	7,767,597,326.70	1,310,161,797.44	(8,968,642,668.55)	215,824,259,035.31
Including: External revenue	21,152,661,265.59	186,125,957,915.35	7,724,974,152.90	820,665,701.47	-	215,824,259,035.31
Inter-segment revenue	3,945,815,525.40	4,490,707,873.38	42,623,173.80	489,496,095.97	(8,968,642,668.55)	-
Less: Cost of sales	(10,354,008,295.83)	(178,186,243,062.20)	(6,745,120,844.14)	(711,998,344.97)	8,716,221,262.43	(187,281,149,284.71)
Taxes and surcharges	(237,314,236.70)	(393,396,567.98)	(19,852,873.06)	(15,663,948.67)	-	(666,227,626.41)
Selling expenses	(8,559,248,628.29)	(4,070,545,801.87)	(700,793,003.37)	(108,905,033.27)	121,459,014.37	(13,318,033,452.43)
General and administrative expenses	(2,139,354,057.04)	(2,375,172,034.77)	(284,344,510.43)	(453,747,512.53)	109,200,383.93	(5,143,417,730.84)
Research and development expenses	(1,987,277,619.33)	-	-	-	-	(1,987,277,619.33)
Segment profit	1,821,273,953.80	5,591,308,321.91	17,486,095.70	19,846,958.00	(21,762,007.82)	7,428,153,321.59
Unallocated:						
Finance expenses-net						(1,245,369,014.83)
Asset impairment losses						(140,441,120.37)
Credit impairment losses						677,891.56
Add: Profit arising from changes in fair value						(206,003,766.29)
Investment income						1,811,393,898.70
Other income						498,785,787.96
Gains on disposals of assets						58,289,306.83
Operating profit						8,205,486,305.15
Depreciation and amortisation	986,106,488.84	1,064,468,346.23	177,119,572.56	130,183,474.57	-	2,357,877,882.20
Capital expenditures	3,265,794,344.88	497,447,493.21	30,276,022.73	304,103,774.68	-	4,097,621,635.50
Investment in associates-net	3,900,415,377.76	1,803,440,243.73	739,522.77	1,256,866,335.28	-	6,961,461,479.54
Investment in joint ventures -net	1,771,672,931.27	340,140,943.11	-	-	-	2,111,813,874.38
Other assets	38,550,859,261.51	114,474,437,310.53	2,552,452,978.80	38,759,149,116.40	(41,342,209,794.87)	152,994,688,872.37
Unallocated:						
Deferred tax assets						1,367,544,935.42
Total assets						163,435,509,161.71
Liabilities	18,343,256,283.16	86,049,942,268.30	2,018,303,126.78	7,403,371,286.56	(11,165,504,503.61)	102,649,368,461.19
Unallocated:						
Deferred tax liabilities						998,768,820.78
Income tax payable						721,161,742.64
Total liabilities						104,369,299,024.61

Notes to the Financial Statements for The Year Ended 31 December 2022

(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 2021	Increase in the current year	Decrease in the current year	31 December 2022
Shanghai Pharma Group	3,158,720,000.00	–	–	3,158,720,000.00

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2022		31 December 2021	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Shanghai Pharma Group	19.38%	19.38%	25.21%	25.21%

(2) Significant subsidiaries

For basic and related information of significant subsidiaries, please refer to Note 6(1).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(3) Associates

Except for the important joint ventures and associates disclosed in Note 4(14), the other joint ventures and associates that have related party transactions with the Group are as follows:

	Relationship with the Group
Shanghai Huaren Pharmaceutical Co., Ltd. (上海華仁醫藥有限公司)	Associate
Shanghai Huayu Saffron Planting Professional Cooperative (上海華宇西紅花種植專業合作社)	Associate

(4) Other related parties

	Relationship with the Group
Yunnan Baiyao Group Co., Ltd. and its subsidiaries (雲南白藥集團股份有限公司及其子公司)	Shareholder with more than 5% of the Company's shares
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
Wing Fat Printing Limited. and its subsidiaries (永發印務有限公司及其子公司)	Controlled by Shanghai Pharma Group
Shanghai Tandong Enterprise Consulting Service Co., Ltd. (上海潭東企業諮詢服務有限公司)	Controlled by Shanghai Pharma Group
Shanghai Shiyu Urban Construction Management Co., Ltd (上海實譽城市建設管理有限公司)	Controlled by Shanghai Pharma Group
Shanghai Biomedical Industry Equity Investment Fund Partnership(Limited Partnership) 上海生物醫藥產業股權投資基金合夥企業(有限合夥)	Significant influence by Shanghai Pharma Group

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(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 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Shanghai Roche Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	1,771,904.78	2,182,920.24
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Purchase of goods	By negotiation	359,109.99	244,172.78
Shanghai Hutchison Pharmaceutical Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	325,215.74	293,374.53
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	242,627.65	–
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Purchase of goods	By negotiation	183,816.18	155,553.60
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	171,001.57	262,539.25
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	117,931.71	87,797.03
Jiangxi Nanhua Medicines Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	89,591.84	20,601.56
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	88,734.86	89,739.34
Wing Fat Printing Limited and its subsidiaries	Purchase of goods	By negotiation	46,376.44	42,431.02
Shanghai Sine Promod Pharmaceutical Corp., Ltd and its subsidiaries.	Purchase of goods	By negotiation	38,465.98	35,537.64
Others	Purchase of goods and services	By negotiation	89,124.78	85,778.02
			3,523,901.52	3,500,445.01

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(a) Purchase and sales of goods, vender and purchase of services (continued)

Sales of goods and services:

Related party	Related transaction	Pricing policies	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	3,827,181.38	3,248,162.65
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	1,002,081.47	184,437.03
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	447,658.19	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	84,387.50	59,351.39
Shanghai Hutchison Pharmaceutical Co., Ltd	Sales of goods	By negotiation	78,376.45	72,915.75
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	Sales of goods	By negotiation	61,500.44	56,438.21
Others	Sales of goods and vender of services	By negotiation	187,105.97	58,891.72
			5,688,291.40	3,680,196.75

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(b) Lease

The rental income recognised by the Group as the lessor:

Lessee	Leased asset	Rental income recognised for the year ended 31 December 2022 RMB'000	Rental income recognised for the year ended 31 December 2021 RMB'000
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Building	10,476.42	10,666.57
Shanghai Yingdalai Property Co., Ltd.	Building	4,806.90	4,806.90
Shanghai Hutchison Pharmaceutical Co., Ltd.	Building	–	1,723.78
		15,283.32	17,197.25

The Group is the lessee:

Lessor	Leased asset	Lease payable for the year ended 31 December 2022 RMB'000	Lease payable for the year ended 31 December 2021 RMB'000
Shanghai Pharma Group	Building	21,251.27	31,686.74
Shanghai Indu-Land Property Co., Ltd	Building	19,040.21	11,941.18
Shanghai Yingdalai Property Co., Ltd.	Building	4,066.74	–
		44,358.22	43,627.92

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(b) Lease (continued)

The Group's addition of right-of-use assets as the lessee:

		For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Lessor	Leased asset		
Shanghai Pharma Group	Building	42,509.02	8,189.21

Finance cost of lease liabilities assumed by the Group as the lessee:

		For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Lessor	Leased asset		
Shanghai Pharma Group	Building	1,439.74	1,766.42

(c) R&D expenditures

		For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
	Pricing policies		
Shanghai Huiyong Medicine Research Co., Ltd.	By negotiation	17,830.19	12,830.19

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(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.	426.45	2022.9.19	2022.12.19	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	614.21	2022.9.19	2023.3.19	No
Chongqing Medicines Pharma Sales Co., Ltd.	2,559.95	2022.9.26	2023.3.26	No
Chongqing Medicines Pharma Sales Co., Ltd.	6,616.11	2022.10.24	2023.1.24	No
Chongqing Medicines Pharma Sales Co., Ltd.	289.07	2022.10.24	2023.4.24	No
Chongqing Medicines Pharma Sales Co., Ltd.	5,224.88	2022.12.20	2023.3.20	No
Chongqing Medicines Pharma Sales Co., Ltd.	2,669.90	2022.12.20	2023.6.20	No
Chongqing Medicines Pharma Sales Co., Ltd.	400.30	2022.10.24	2023.4.24	No
Chongqing Medicines Pharma Sales Co., Ltd.	33.88	2022.12.6	2023.3.6	No
	18,834.75			

(e) Assets acquisition

Related party	Related transaction	Pricing policies	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Assets acquisition	By negotiation	–	1,060,668.85

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(f) Key management compensation

	For the year ended 31 December 2022 <i>RMB'000</i>	For the year ended 31 December 2021 <i>RMB'000</i>
Salary, bonus and other compensation	46,100.82	41,335.18
Stock options	2,480.87	3,483.99
	48,581.69	44,819.17

(g) Interest

Interest income

	For the year ended 31 December 2022 <i>RMB'000</i>	For the year ended 31 December 2021 <i>RMB'000</i>
Shanghai Industrial Group Finance Co., Ltd.	13,528.41	11,203.62

Interest expense

	For the year ended 31 December 2022 <i>RMB'000</i>	For the year ended 31 December 2021 <i>RMB'000</i>
Shanghai Industrial Group Finance Co., Ltd.	94,632.22	83,634.51

(h) Loss from derecognition of accounts receivables and receivables financing

	For the year ended 31 December 2022 <i>RMB'000</i>	For the year ended 31 December 2021 <i>RMB'000</i>
Shanghai Industrial Group Finance Co., Ltd.	703.03	4,760.40

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(i) Deposits and borrowings

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Net increase/(decrease) of the deposit balance		
Shanghai Industrial Group Finance Co., Ltd.	1,021,097.79	(39,771.97)
Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	2,590,697.52	2,555,477.37
Loan repayment to related parties		
Shanghai Industrial Group Finance Co., Ltd.	2,386,470.00	1,958,018.08
SPH-BIOCAD(HK)Limited	84,723.21	–
	2,471,193.21	1,958,018.08
Loan lent to related parties		
Shanghai Shangyao CanSino Biopharmaceutical Co., Ltd.	–	120,000.00
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	–	118,975.77
	–	238,975.77
Repayment received from related parties		
Shanghai Shangyao CanSino Biopharmaceutical Co., Ltd.	–	120,000.00
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	–	118,975.77
Shanghai Huaren Pharmaceutical Co., Ltd.	–	1,566.97
	–	240,542.74

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(5) Related party transactions (continued)

(j) Discount of bank acceptance notes

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Discount amount		
Shanghai Industrial Group Finance Co., Ltd.	62,030.83	308,577.39

(k) Bank acceptance notes issued

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Issued amount		
Shanghai Industrial Group Finance Co., Ltd.	53,822.95	157,628.15

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Balance of receivables and payables of related parties

Amounts due from related parties

	31 December 2022		31 December 2021	
	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.	628,336.86	1,557.57	727,411.83	948.60
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	115,797.01	362.77	65,280.68	189.73
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	75,013.51	511.03	–	–
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	23,556.05	685.44	30,353.55	707.15
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	10,529.87	2,259.74	15,456.87	2,250.07
Others	15,492.29	670.65	17,030.81	934.41
	868,725.59	6,047.20	855,533.74	5,029.96
Receivables financing:				
Yunnan Baiyao Group Co., Ltd.	2,690.48		–	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Balance of receivables and payables of related parties (continued)

Amounts due from related parties (continued)

	31 December 2022		31 December 2021	
	Accounts balance RMB'000	Provision for bad debts RMB'000	Accounts balance RMB'000	Provision for bad debts RMB'000
Other receivables due from:				
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	47,973.16	129.53	57,386.33	40.17
Shanghai Roche Pharmaceutical Co., Ltd.	15,942.37	396.43	14,565.01	384.94
Shanghai Overseas United Investment Co., Ltd.	–	–	13,297.64	392.39
Others	29,964.79	5,157.44	22,014.40	12,157.55
	93,880.32	5,683.40	107,263.38	12,975.05
Prepayments due from:				
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	50,540.96		–	
Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	10,231.67		3,168.92	
Shanghai Huayu Saffron Planting Professional Cooperative	–		2,250.00	
Others	1,561.63		1,188.16	
	62,334.26		6,607.08	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Balance of receivables and payables of related parties (continued)

Amounts due to related parties

	31 December 2022 RMB'000	31 December 2021 RMB'000
Accounts payables due to:		
Shanghai Roche Pharmaceutical Co., Ltd.	181,737.94	265,825.63
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	58,171.07	54,513.63
Shanghai Hutchison Pharmaceutical Co., Ltd and its subsidiaries.	34,136.66	12,542.21
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	21,814.93	–
Wing Fat Printing Limited and its subsidiaries	20,308.79	18,380.04
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries	20,104.70	21,497.82
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	19,634.99	15,124.62
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	18,515.77	33,161.74
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	4,848.91	21,325.63
Shanghai Shiyu Urban Construction Management Co., Ltd	1,815.00	1,815.00
Others	42,089.73	36,239.87
	423,178.49	480,426.19
Notes payables:		
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	13,772.51	–
Other payables due to:		
SPH-BIOCAD(HK) Limited	1,190,667.64	1,166,750.46
Shanghai Shangshi (Group) Co., Ltd.	58,790.00	908,790.00
Shanghai Pharma Group	8,224.65	12,129.57
Shanghai Tandong Enterprise Consulting Service Co., Ltd.	–	30,000.00
Others	15,282.26	13,979.59
	1,272,964.55	2,131,649.62

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(6) Balance of receivables and payables of related parties (continued)

Amounts due to related parties (continued)

	31 December 2022 RMB'000	31 December 2021 RMB'000
Other non-current liabilities:		
Shanghai Biomedical Industry Equity Investment Fund Partnership (L.P.)	49,199.91	60,917.91
Contract liabilities:		
Zhejiang Shangyao Jiuzhou Biopharmaceutical Co., Ltd.	13,283.02	–
Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	115.67	38,143.76
Others	2,068.72	8,910.53
	15,467.41	47,054.29
Lease liabilities		
Shanghai Pharma Group	4,766.79	44,498.48
Borrowings:		
Shanghai Industrial Group Finance Co., Ltd.	2,349,191.15	2,144,963.63
Cash at bank:		
Shanghai Industrial Group Finance Co., Ltd.	3,919,684.60	2,898,586.81

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(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 2022 were as follows:

Emoluments in respect of a person's services as a director or supervisor								
Name	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	Remuneration for other services provided for the management of the Company or subsidiaries	Total RMB'000
							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)	-	1,504	-	4,560	-	385	-	6,449
Mr. Li Yongzhong	-	1,250	79	5,096	96	313	-	6,834
Mr. Shen Bo	-	1,249	164	4,296	90	313	-	6,112
Supervisor								
Mr. Xu Youli	-	-	-	-	-	-	-	-
Mr. Huan Jianchun	-	-	-	-	-	-	-	-
Mr. Xin Keng	-	-	-	-	-	-	-	-
	1,200	4,003	243	13,952	186	1,011	-	20,595

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors (continued)

(a) *Remuneration of directors, supervisors and CEO (continued)*

Remuneration of directors, supervisors and CEO for the year ended 31 December 2021 were as follows:

Name	Emoluments in respect of a person's services as a director or supervisor							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	Remuneration for other services provided for the management of the Company or subsidiaries 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	-	4,362	4	575	-	6,441
Mr.Li Yongzhong	-	1,245	73	4,344	82	467	-	6,211
Mr.Shen Bo	-	1,245	160	3,944	85	467	-	5,901
Supervisor								
Mr.Xu Youli	-	-	-	-	-	-	-	-
Mr.Huan Jianchun	-	-	-	-	-	-	-	-
Mr.Xin Keng	-	-	-	-	-	-	-	-
	1,200	3,990	233	12,650	171	1,509	-	19,753

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(7) Benefits and interests of directors (continued)

(a) *Remuneration of directors, supervisors and CEO (continued)*

In 2022 and 2021, 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 2022, no director waived any remuneration (2021: Nil).

No director was resigned or appointed in 2022 or 2021.

(b) *Director's retirement benefits*

In 2022, there are no retirement benefits due to directors' services or other services apart from the pension plan mentioned above (2021: Nil).

(c) *Director's termination benefits*

There are no directors' termination benefits for the directors in 2022(2021: 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 (2021: 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 (2021: 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 (2021: Nil).

(f) *Substantial interests of directors in transaction, arrangement or contract*

In 2022, 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 (2021: Nil).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (continued)

(8) The five individuals whose remunerations were the highest

The five individuals whose remunerations were the highest in the Group for 2022 included three directors (2021: three directors) whose remunerations were reflected in Note 8(7). The remunerations of the remaining two (2021: two) highest individuals during the year were as follows:

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2021 RMB'000
Basic salary, housing subsidy and other subsidies	2,479	2,435
Bonus	8,764	7,830
Share-based payment	329	395
	11,572	10,660
	Number of individuals	
	2022	2021
Remuneration bands:		
HKD6,000,001 – 6,500,000	–	2
HKD6,500,001 – 7,000,000	2	–

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

The Group has no significant contingent liabilities arising from debt guarantees provided for other units.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

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 2022	31 December 2021
Buildings, machinery and equipment	1,502,491,154.10	355,215,814.07

11 EVENTS AFTER THE BALANCE SHEET DATE

(1) Statement of dividend distribution

In accordance with the resolution of the Board of Directors dated on 30 March 2023, the Company proposed a cash dividend to the shareholders at RMB6.10 per 10 shares (including tax). The resolution is pending for approval of the shareholders' meeting (Note 4(46)).

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 summarised as follows:

	31 December 2022	31 December 2021
Within 1 year	31,703,246.95	25,792,246.83
1-2 years	27,151,386.49	23,652,999.50
2-5 years	33,460,180.56	61,221,365.83
Above 5 years	17,327,422.73	4,711,353.00
	109,642,236.73	115,377,965.16

13 BUSINESS COMBINATION

Please refer to Note 5(1).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

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.

(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 2022 and 31 December 2021 as follows:

	31 December 2022		
	USD and HKD	Others	Total
Financial assets denominated in foreign currency –			
Cash at bank and on hand	138,291,627.36	3,546,958.19	141,838,585.55
Accounts receivables	27,665,881.57	5,669,983.61	33,335,865.18
	165,957,508.93	9,216,941.80	175,174,450.73
Financial liabilities denominated in foreign currency –			
Accounts payables	109,252,007.33	6,524,049.87	115,776,057.20
Current portion of long-term borrowings	–	1,653,166.53	1,653,166.53
	109,252,007.33	8,177,216.40	117,429,223.73

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(1) Market risk (continued)

(a) Foreign exchange risk (continued)

	31 December 2021		Total
	USD and HKD	Others	
Financial assets denominated in foreign currency –			
Cash at bank and on hand	260,125,139.26	17,086,932.14	277,212,071.40
Accounts receivables	21,435,599.89	5,457,535.62	26,893,135.51
	281,560,739.15	22,544,467.76	304,105,206.91
Financial liabilities denominated in foreign currency –			
Accounts payables	103,676,436.71	3,470,061.04	107,146,497.75
Current portion of long-term borrowings	–	3,657,378.30	3,657,378.30
	103,676,436.71	7,127,439.34	110,803,876.05

As at 31 December 2022, 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 RMB2,835,275.08 (31 December 2021: higher/lower by approximately RMB8,894,215.12).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(1) Market risk (continued)

(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 2022, the Group's short-term, long-term within one year and long-term interest-bearing borrowings were mainly with floating rates, amounting to RMB4,323,075,441.13 (31 December 2021: RMB4,148,541,479.80).

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 2022 and 31 December 2021, the Group did not enter into any interest rate swap agreements.

As at 31 December 2022, 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 RMB2,125,803.93 (31 December 2021: approximately RMB4,016,005.36).

(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 2022, 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 RMB214,304,011.64 (31 December 2021: approximately RMB138,890,066.66), increase/decrease other comprehensive income approximately RMB10,148,752.56 (31 December 2021: approximately RMB7,339,241.32).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(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 and on hand since they are deposited at state-owned banks and other medium or large size listed banks with good reputation and high credit rating. 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 2022, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2021: 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:

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(3) Liquidity risk (continued)

	31 December 2022				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Short-term borrowings	27,750,588,556.87	-	-	-	27,750,588,556.87
Derivative financial liabilities	1,569,907.10	-	-	-	1,569,907.10
Notes payables	5,961,723,663.49	-	-	-	5,961,723,663.49
Accounts payables	45,603,805,328.17	-	-	-	45,603,805,328.17
Other payables	16,474,855,895.13	-	-	-	16,474,855,895.13
Current portion of long-term payables	20,019,116.37	-	-	-	20,019,116.37
Current portion of long-term borrowings	2,648,734,849.49	-	-	-	2,648,734,849.49
Current portion of lease liabilities	673,682,585.58	-	-	-	673,682,585.58
Other current liabilities	6,060,361,643.84	-	-	-	6,060,361,643.84
Other non-current liabilities	-	-	69,251,366.25	-	69,251,366.25
Long-term borrowings	-	5,660,844,087.68	72,000,000.00	526,955,282.64	6,259,799,370.32
Lease liabilities	-	506,342,222.78	647,209,754.87	522,665,962.85	1,676,217,940.50
Long-term payables	-	589,955.83	1,782,081.06	48,288,705.31	50,660,742.20
Loan interest	756,069,825.90	147,202,484.96	52,826,884.22	125,427,924.99	1,081,527,120.07
	105,951,411,371.94	6,314,978,751.25	843,070,086.40	1,223,337,875.79	114,332,798,085.38

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(3) Liquidity risk (continued)

	31 December 2021				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Short-term borrowings	22,514,574,027.35	-	-	-	22,514,574,027.35
Derivative financial liabilities	774,097.78	-	-	-	774,097.78
Notes payables	4,764,748,001.67	-	-	-	4,764,748,001.67
Accounts payables	37,230,666,373.90	-	-	-	37,230,666,373.90
Other payables	13,062,527,812.97	-	-	-	13,062,527,812.97
Current portion of long-term payables	3,564,312.67	-	-	-	3,564,312.67
Current portion of long-term borrowings	33,443,394.84	-	-	-	33,443,394.84
Current portion of lease liabilities	599,253,757.66	-	-	-	599,253,757.66
Other current liabilities	9,077,033,424.66	-	-	-	9,077,033,424.66
Other non-current liabilities	-	-	85,752,514.64	-	85,752,514.64
Long-term borrowings	-	6,901,569,347.87	87,657,378.30	168,524,977.31	7,157,751,703.48
Lease liabilities	-	547,735,064.56	651,015,968.15	554,664,692.69	1,753,415,725.40
Long-term payables	-	22,319,445.14	502,270,628.31	254,640,900.00	779,230,973.45
Loan interest	461,742,000.24	84,556,549.78	62,093,444.25	35,749,249.77	644,141,244.04
	87,748,327,203.74	7,556,180,407.35	1,388,789,933.65	1,013,579,819.77	97,706,877,364.51

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(3) Liquidity risk (continued)

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 2022				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Guarantees	18,408,290.36	-	-	-	18,408,290.36

	31 December 2021				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Guarantees	-	-	-	-	-

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 2022				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cash flows derived from leases not yet commenced	-	-	-	-	-

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

14 FINANCIAL INSTRUMENTS AND RISKS (continued)

(3) Liquidity risk (continued)

	31 December 2021				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cash flows derived from leases not yet commenced	2,433,559.83	1,232,250.53	1,820,817.84	–	5,486,628.20

Bank and other borrowings are analysed by repayment terms as follows:

	31 December 2022		31 December 2021	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	30,399,323,406.36	6,060,361,643.84	22,548,017,422.19	9,077,033,424.66
1 to 2 years	5,660,844,087.68	–	6,901,569,347.87	–
2 to 5 years	72,000,000.00	–	87,657,378.30	–
Above 5 years	526,955,282.64	–	168,524,977.31	–
	36,659,122,776.68	6,060,361,643.84	29,705,769,125.67	9,077,033,424.66

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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

15 FAIR VALUE ESTIMATES

(1) Financial assets and liabilities measured at fair value on a recurring basis

As at 31 December 2022, 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	–	4,820,057.40	–	4,820,057.40
Financial assets held for trading	–	–	9,613,554,659.84	9,613,554,659.84
Receivables financing –				
Notes receivables	–	–	1,627,386,138.71	1,627,386,138.71
Other non-current financial assets	259,956,657.68	–	1,883,083,458.72	2,143,040,116.40
Other equity instrument investments	101,487,525.55	–	–	101,487,525.55
Total financial assets	361,444,183.23	4,820,057.40	13,124,024,257.27	13,490,288,497.90

As at 31 December 2022, 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	–	1,569,907.10	–	1,569,907.10
Other non-current liabilities	–	–	69,251,366.25	69,251,366.25
Total	–	1,569,907.10	69,251,366.25	70,821,273.35

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

15 FAIR VALUE ESTIMATES (continued)

(1) Financial assets and liabilities measured at fair value on a recurring basis (continued)

As at 31 December 2021, 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	–	3,284,464.66	–	3,284,464.66
Receivables financing –				
Notes receivables	–	–	1,619,009,831.53	1,619,009,831.53
Other non-current financial assets	290,092,858.15	–	1,098,807,808.46	1,388,900,666.61
Other equity instrument investments	73,392,413.17	–	–	73,392,413.17
Total financial assets	363,485,271.32	3,284,464.66	2,717,817,639.99	3,084,587,375.97

As at 31 December 2021, 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	–	774,097.78	–	774,097.78
Other non-current liabilities	–	–	85,752,514.64	85,752,514.64
Total	–	774,097.78	85,752,514.64	86,526,612.42

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.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

15 FAIR VALUE ESTIMATES (continued)

(1) Financial assets and liabilities measured at fair value on a recurring basis (continued)

The changes in Level 3 assets and liabilities are as follows:

	31 December 2021	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 2022	Changes in unrealised gains or losses included in profit or loss for the current year with respect to assets still held as at 31 December 2022 – gains or losses on changes in fair value
Financial assets held for trading	-	38,913,750,000.00	(29,532,494,400.49)	-	-	232,299,060.33	-	9,613,554,659.84	86,904,659.84
Receivables financing	1,619,009,831.53	10,417,046,481.80	(10,408,670,174.62)	-	-	(60,638,821.30)	60,638,821.30	1,627,386,138.71	-
Other non-current financial assets	1,098,807,808.46	769,900,000.00	-	-	-	14,375,650.26	-	1,883,083,458.72	14,375,650.26
Other non-current liabilities	85,752,514.64	-	-	-	-	(16,501,148.39)	-	69,251,366.25	(16,501,148.39)
Total	2,803,570,154.63	50,100,696,481.80	(39,941,164,575.11)	-	-	169,534,740.90	60,638,821.30	13,193,275,623.52	84,779,161.71

Information about the Level 3 fair value measurement is as follows:

	Fair value as at 31 December 2022	Valuation technique	Inputs			
			Name	Scope	Relationship with fair value	Observable/ Unobservable
financial assets held for sell	9,613,554,659.84	DCF	expected return	2.85%-3.45%	Positive	Unobservable
Receivables financing	1,627,386,138.71	DCF	estimated discount rate	2.6190%-2.7570%	Negative	Unobservable
Other non-current financial assets	1,883,083,458.72	Market method	EV/EBIT, EV/S, etc.	0.32-18.13	Positive	Unobservable
Other non-current liabilities	69,251,366.25	Equity value distribution method	Stock volatility	32.3001-48.1242	Positive	Unobservable

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

15 FAIR VALUE ESTIMATES (continued)

(1) Financial assets and liabilities measured at fair value on a recurring basis (continued)

Information about the Level 2 fair value measurement is as follows:

	Fair value as at 31 December 2022	Valuation technique	Observable inputs	
			Name	Scope/weighted average
Assets				
Derivative financial assets –				
Forward foreign exchange contract	4,820,057.40	Market approach	Exchange rate	AUDNZD: 0.8768-0.9303

Liabilities				
Derivative financial assets –				
Forward foreign exchange contract	1,569,907.10	Market approach	Exchange rate	AUDUSD: 0.64614-0.68076

	Fair value as at 31 December 2021	Valuation technique	Observable inputs	
			Name	Scope/weighted average
Assets				
Derivative financial assets –				
Forward foreign exchange contract	3,284,464.66	Market approach	Exchange rate	AUDUSD: 0.7317-0.7752

Liabilities				
Derivative financial assets –	774,097.78	Market approach	Exchange rate	AUDNZD: 0.93908-0.95266

(2) Assets measured at fair value on a non-recurring basis

The Group's assets measured at fair value on a non-recurring basis are the assets of acquiree at the acquisition date under business combinations involving enterprises not under common control (Note 5(1)(c)).

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

15 FAIR VALUE ESTIMATES (continued)

(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, other receivables, long-term receivables, short-term borrowings, accounts payables, other payables, other current liabilities, long-term payables, long-term borrowings, current portion of long-term borrowings, current portion of debentures payable and lease liabilities etc.

As at 31 December 2022 and 31 December 2021, 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 2022 and 31 December 2021, the Group's gearing ratios are as follows:

	31 December 2022	31 December 2021
Gearing ratio	20.70%	26.18%

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Accounts receivables

	31 December 2022	31 December 2021
Accounts receivables	119,851,808.14	119,851,808.14
Less: Provision for bad debts	(119,851,808.14)	(119,851,808.14)
	-	-

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(1) Accounts receivables (continued)

(a) The aging analysis of accounts receivables based on the date of entry is as follows:

	31 December 2022	31 December 2021
Above three years	119,851,808.14	119,851,808.14

(b) As at 31 December 2022, the top five accounts receivables based on the balance of the debtors are summarised and analysed as follows:

	Account balance	Amount of bad debt provision	% of total balance
Total top five accounts receivables	119,851,808.14	(119,851,808.14)	100%

(c) As at 31 December 2022, 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	84,110,290.79	100%	(84,110,290.79)	Through assessment, provision on an individual basis
	119,851,808.14		(119,851,808.14)	

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(2) Other receivables

	31 December 2022	31 December 2021
Amount due from subsidiaries	13,756,523,454.09	18,688,077,341.63
Guarantees (including deposits)	5,510,666.16	17,447,445.98
Dividends receivable	845,782,588.47	764,040,878.85
Interests receivable	79,349,916.90	33,485,996.75
Receivables from enterprises	179,287.00	186,105.00
Others	257,141,035.97	257,141,035.97
	14,944,486,948.59	19,760,378,804.18
Less: provision for bad debts	(296,897,145.36)	(271,186,918.17)
	14,647,589,803.23	19,489,191,886.01

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

	31 December 2022	31 December 2021
Within 1 year	10,578,231,399.16	11,996,953,024.45
1-2 years	2,235,129,033.70	3,865,141,323.22
2-3 years	995,907,642.19	3,067,427,569.76
Above 3 years	1,135,218,873.54	830,856,886.75
	14,944,486,948.59	19,760,378,804.18

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(2) Other receivables (continued)

(b) As at 31 December 2022, 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
	257,141,035.97		(257,141,035.97)	

(c) As at 31 December 2022, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

	31 December 2022			31 December 2021		
	Accounts balance	Provision for bad debts	% of total balance	Accounts balance	Provision for bad debts	% of total balance
	Amount	Amount		Amount	Amount	
The first stage – Expected credit loss rate within the next 12 months on grouping basis						
Amount due from subsidiaries	13,756,523,454.09	(37,142,613.34)	0.27%	18,688,077,341.63	(13,014,189.51)	0.07%
Guarantees (including deposits)	5,510,666.16	(109,848.33)	1.99%	17,447,445.98	(467,637.75)	2.68%
Receivables from enterprises	179,287.00	(5,789.97)	3.23%	186,105.00	(5,786.13)	3.11%
Dividends receivable	845,782,588.47	(2,283,612.99)	0.27%	764,040,878.85	(534,828.62)	0.07%
Interests receivable	79,349,916.90	(214,244.76)	0.27%	33,485,996.75	(23,440.19)	0.07%
	14,687,345,912.62	(39,756,109.39)		19,503,237,768.21	(14,045,882.20)	

As at 31 December 2022 and 31 December 2021, the Company has no other receivables in the second and third stage.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Long-term equity investments

	31 December 2022	31 December 2021
Subsidiaries (a)	25,282,535,986.65	24,650,543,477.80
Associates (b)	2,331,620,349.69	2,314,194,152.07
Joint venture (c)	38,256,979.07	42,819,088.39
	27,652,413,315.41	27,007,556,718.26
Less: Provision for impairment of long-term equity investments	(5,667,665.87)	(68,481,418.01)
	27,646,745,649.54	26,939,075,300.25

The Company has no significant restriction on the realization of long-term investments.

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Long-term equity investments (continued)

(a) Subsidiaries

	Changes during the year						Cash dividends declared in the current year
	31 December 2021	Increase in investment	Decrease in investment	Provision for impairment	Others	31 December 2022	
SIIC Medical Science and Technology (Group) Limited and its subsidiaries	7,161,578,745.45	-	-	-	5,569,602.96	7,167,148,348.41	6,000,000.00
Shanghai Pharmaceutical Co., Ltd. and its subsidiaries	4,782,253,400.87	-	-	-	2,502,522.00	4,784,755,922.87	579,980,000.00
Shanghai Pharmaceuticals (HK) Investment Limited	2,077,320,167.06	84,800,000.00	-	-	-	2,162,120,167.06	-
Shanghai Traditional Chinese Medicine Co., Ltd.	1,894,107,851.21	-	-	-	2,007,046.68	1,896,114,897.89	184,050,000.00
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	1,417,004,769.61	-	-	-	1,480,150.12	1,418,484,919.73	263,350,000.00
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	1,225,334,777.24	-	-	-	653,997.39	1,225,988,774.63	7,441,920.00
Shanghai Shangyao Biomedical Co., Ltd.	750,808,416.07	341,535,099.00	-	-	-	1,092,343,515.07	-

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Long-term equity investments (continued)

(a) Subsidiaries (continued)

	31 December 2021	Changes during the year				Impairment balance	Cash dividends declared in the current year
		Increase in investment	Decrease in investment	Provision for impairment	Others		
					31 December 2022		
SPH Qingdao Growful Pharmaceutical Co., Ltd.	259,111,315.09	-	-	-	442,751.25	259,554,066.34	21,975,579.50
SPH Changzhou Pharmaceutical Co., Ltd.	206,662,645.83	-	-	-	740,027.18	207,402,673.01	40,673,999.70
Shanghai Industrial United Group Pharmaceutical Co., Ltd.	250,000,000.00	-	(82,500,000.00)	-	-	167,500,000.00	-
Shanghai Zhonghua Pharmaceutical Co., Ltd.	100,927,265.50	-	-	-	56,399.98	100,983,665.48	-
Shanghai Shangyao Ruier Pharmaceutical Co., Ltd.	100,155,641.97	-	-	-	302,563.58	100,458,205.55	-
Liaoning SPH Good Nurse Pharmaceutical(Group) Co., Ltd.	-	82,500,000.00	-	-	-	82,500,000.00	-
Shanghai Shangyao Innovative Pharmaceutical Technology Co., Ltd.	33,015,504.26	47,801,500.00	-	-	418,934.19	81,235,938.45	-
SPH Traditional Chinese Medicine Research Institute Co., Ltd.	-	26,400,000.00	-	-	-	26,400,000.00	-
Shanghai Saiqian Medical management Co., Ltd.	42,600,000.00	-	(42,600,000.00)	-	-	-	-
Others	1,194,664,630.78	-	-	-	162,024.84	1,194,826,655.62	287,732,005.34
	24,650,543,477.80	740,455,899.00	(125,100,000.00)	-	16,636,609.85	25,282,535,986.65	1,763,836,979.87

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Long-term equity investments (continued)

(b) Associates

	31 December 2021	Changes during the year							31 December 2022		
		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	Impairment balance
Shanghai Industrial Group Finance Co., Ltd.	403,735,674.67	-	-	15,852,120.00	-	-	(6,152,780.95)	-	-	-	413,435,013.72
Shanghai Lianyi Investment Center (limited Partnership)	349,704,903.44	-	-	12,201,617.78	-	-	(15,204,787.91)	-	-	-	346,701,733.31
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	293,463,416.85	-	-	18,712,406.49	(155,967.26)	(89,578.99)	(9,770,499.20)	-	-	-	302,159,777.89
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	234,829,729.67	-	-	88,101,329.75	-	-	(95,973,159.00)	-	-	-	226,957,900.42
Shanghai Good Health Capital LLP	190,323,857.57	-	-	(24,579,183.04)	-	-	(46,952,600.00)	-	-	-	118,792,074.53
Shangshi Commercial Factoring Co., Ltd.	157,763,069.32	-	-	1,959,715.56	-	-	-	-	-	-	159,722,784.88

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

7 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Long-term equity investments (continued)

(b) Associates (continued)

	Changes during the year										
	31 December 2021	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	31 December 2022	Impairment balance
Shanghai Ajinomoto Amino Acid Co., Ltd.	114,750,205.43	-	-	14,203,949.06	-	-	(8,142,113.09)	-	-	120,812,041.40	-
Hangzhou Huqing Yutang Pharmaceutical Co., Ltd.	104,586,611.40	-	-	4,169,668.15	-	-	(1,994,240.00)	-	-	106,762,039.55	-
Chengdu Wesker Biomedical Co., Ltd.	140,068,679.04	-	-	(36,290,060.57)	-	30,737,885.41	-	-	-	134,516,503.88	-
Shanghai Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP	44,527,109.65	45,000,000.00	-	8,633,075.99	-	-	-	-	-	99,160,185.64	-
Chengdu Huaxi Precision Medicine Industry Innovation Center Co., Ltd.	19,299,650.47	80,000,000.00	-	(1,369,592.27)	-	-	-	-	-	97,930,058.20	-
Sichuan Greentech Bio-technology Co., Ltd.	48,802,282.26	-	-	2,548,125.14	-	-	-	-	-	51,350,407.40	-

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

7 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(3) Long-term equity investments (continued)

(b) Associates (continued)

	Changes during the year							31 December 2022	Impairment balance		
	31 December 2021	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 Pharma Health Commerce Co., Ltd.	51,390,975.27	-	-	(1,843,537.64)	-	-	-	-	-	49,547,437.63	-
Shanghai Chest Medical Instruments Co., Ltd.	43,264,784.08	-	-	4,062,711.66	-	-	-	-	-	47,327,495.74	-
Shanghai Biomedical Industry Equity Investment Fund Management Co., Ltd.	8,319,996.82	4,960,000.00	-	4,158,153.13	-	-	-	-	-	17,438,149.95	-
Others	109,363,206.13	-	(62,813,752.14)	(5,695,291.46)	-	-	(847,416.98)	-	-	40,006,745.55	(5,667,665.87)
	2,314,194,152.07	129,960,000.00	(62,813,752.14)	104,825,207.73	(155,967.26)	30,648,306.42	(185,037,597.13)	-	-	2,331,620,349.69	(5,667,665.87)

(c) Joint venture

	Changes during the year							31 December 2022	Impairment balance		
	31 December 2021	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
Zhejiang Shangyao Jizhou Biopharmaceutical Co., Ltd.	42,819,088.39	-	-	(4,562,109.32)	-	-	-	-	-	38,256,979.07	-

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(4) Capital surplus

	31 December 2021	Increase for the year	Decrease for the year	31 December 2022
Share premium	19,132,076,187.53	13,137,901,293.19	–	32,269,977,480.72
Other capital surplus –				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	184,485,288.43	30,648,306.42	–	215,133,594.85
Share-based payment	67,306,552.32	21,992,131.73	(9,084,473.34)	80,214,210.71
Others	(289,656,947.52)	–	–	(289,656,947.52)
	19,094,211,080.76	13,190,541,731.34	(9,084,473.34)	32,275,668,338.76
	31 December 2020	Increase for the year	Decrease for the year	31 December 2021
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	91,123,158.78	93,362,129.65	–	184,485,288.43
Share-based payment	35,973,830.70	31,332,721.62	–	67,306,552.32
Others	(289,656,947.52)	–	–	(289,656,947.52)
	18,969,516,229.49	124,694,851.27	–	19,094,211,080.76

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(5) Other Comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2022 income statement			
	31 December 2021	Converted from OCI into retained earnings	31 December 2022	Amount before income tax	Less: other	Less: income tax expense	Amount after tax
					comprehensive income transferred out this year		
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	(146,268.20)	-	(302,235.46)	(155,967.26)	-	-	(155,967.26)

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2021 income statement			
	31 December 2020	Converted from OCI into retained earnings	31 December 2021	Amount before income tax	Less: other	Less: income tax expense	Amount after tax
					comprehensive income transferred out this year		
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	292,608.91	-	(146,268.20)	(438,877.11)	-	-	(438,877.11)

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(6) Undistributed profits

	For the year ended 31 December 2022	For the year ended 31 December 2021
Undistributed profits at the beginning of the year	3,055,823,875.26	2,964,512,023.95
Add: net profit attributable to shareholders of the Company	1,663,435,627.69	1,664,054,355.06
Less: appropriation to statutory surplus reserve	(166,343,562.77)	(166,405,435.51)
Dividends declared	(1,552,494,013.56)	(1,364,202,874.56)
Others	–	(42,134,193.68)
Undistributed profits at the end of year	3,000,421,926.62	3,055,823,875.26

(7) Revenue and cost of sales

	For the year ended 31 December 2022	For the year ended 31 December 2021
Main operations revenue	–	–
Other operations revenue (a)	272,524,965.04	137,484,511.05
	272,524,965.04	137,484,511.05
	For the year ended 31 December 2022	For the year ended 31 December 2021
Main operations cost	–	–
Other operations cost (a)	91,813,141.57	998,811.10
	91,813,141.57	998,811.10

Notes to the Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

17 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (continued)

(7) Revenue and cost of sales (continued)

(a) Other operations revenue and cost of sales

	For the year ended 31 December 2022		For the year ended 31 December 2021	
	Other operations revenue	Other operations cost	Other operations revenue	Other operations cost
Management service	159,945,328.39	–	133,967,078.81	–
Technology transfer, research and development service	112,579,636.65	91,813,141.57	3,517,432.24	998,811.10
	272,524,965.04	91,813,141.57	137,484,511.05	998,811.10

(8) Investment income

	For the year ended 31 December 2022	For the year ended 31 December 2021
Long-term equity investment income calculated by cost method	1,763,836,979.87	1,881,072,029.83
Long-term equity investment income calculated by equity method	100,263,098.41	236,429,165.15
Interest income from entrusted loans	255,055,954.12	338,487,693.99
Loss on disposal of long-term equity investment	(42,187,240.95)	(19,248,059.52)
Others	1,468,125.00	9,958,639.53
	2,078,436,916.45	2,446,699,468.98

The Company does not have any significant restrictions on repatriation of investment income.

Supplementary Information of Financial Statements for The Year Ended 31 December 2022

(All amounts in RMB Yuan unless otherwise stated)

1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

	For the year ended 31 December 2022	For the year ended 31 December 2021
Net profit on disposal of non-current assets	1,577,562,366.09	1,249,686,382.85
Government grants recognised in profits (Except closely related with the enterprise's businesses and the normed or quantitative government grants at national uniform standard)	332,209,644.16	465,740,372.82
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 liabilities, and investment income from disposal of transactional financial assets and other non-current financial assets	218,737,860.49	(197,618,301.60)
Reversal of provision for bad debts for receivables on individual basis	33,395,114.84	8,341,978.95
Non-operating income and expenses other than the above	(206,297,108.14)	(61,671,412.79)
	1,955,607,877.44	1,464,479,020.23
Impact of income tax expense	(342,272,194.73)	(303,704,084.16)
Impact on the minority interests, net of tax	(293,237,382.98)	(68,237,862.88)
	1,320,098,299.73	1,092,537,073.19

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.

Supplementary Information of Financial Statements for The Year Ended 31 December 2022

(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 2022	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2021	For the year ended 31 December 2022	For the year ended 31 December 2021
Net profit attributable to ordinary shareholders of the Company	9.11	10.76	1.61	1.79	1.61	1.79
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	6.97	8.45	1.23	1.41	1.23	1.41



Shanghai Pharmaceuticals Holding Co., Ltd.*

www.sphchina.com