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

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

**2021 ANNUAL RESULTS ANNOUNCEMENT**

The board of directors (the “**Board**”) of Shanghai Pharmaceuticals Holding Co., Ltd. (the “**Company**”) is pleased to announce the annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2021. The annual results are prepared in accordance with the China Accounting Standards and audited by PricewaterhouseCoopers Zhong Tian LLP. The Audit Committee of the Board has reviewed the annual results.

The full content of the Company’s annual report of 2021 is attached to this announcement. The formal annual report will be dispatched to the shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.sphchina.com](http://www.sphchina.com)) at an appropriate time.

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

Shanghai, the PRC, 30 March 2022

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

\* *For identification purpose only*

## OUR VISION

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

## OUR MISSION

Perseverance, committed to enhancing people's healthy living quality

## OUR CORE VALUES

Innovation, integrity, cooperation, tolerance, responsibility





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# Definitions

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

## Definitions of Common Terms

“the Group”, “Group”, “the Company”, “Company”, “Shanghai Pharmaceuticals”, “Shanghai Pharma” or “SPH”	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 2021 to 31 December 2021
“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)
“SFO”	the Securities and Futures Ordinance, Chapter 571, Laws of Hong Kong, as amended from time to time
“Controlling Shareholders”	unless otherwise stated, has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group)
“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)
"NHSA"	National Healthcare Security Administration of the People's Republic of China (中華人民共和國國家醫療保障局)
"CDE"	Center For Drug Evaluation of NMPA (中華人民共和國國家藥品監督管理局藥品審評中心)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
"Shanghai Shangshi"	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
"Shanghai Pharmaceutical (Group)"	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
"Guosheng Group"	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) and Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司)
"Guosheng Assets"	Shanghai Guosheng Group Assets Co., Ltd. (上海國盛集團資產有限公司)
"ANDA"	the Abbreviated New Drug Application
"IQVIA"	Qwest Communications International Inc. (formerly known as IMS Health Incorporated), established in the U.S., a world-leading provider of professional medical and health information and strategic consultation
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice
"BD"	expanded introduction of drugs

“license-in”	introduction of drug license
“license-out”	export of drug license
“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)
“CanSino”	CanSino Biologics Inc. (康希諾生物股份公司)
“Yunnan Baiyao”	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司)
“Lumosa Therapeutics”	Lumosa Therapeutics Co., Ltd. (順天醫藥生技股份有限公司)
“SPH Ruier”	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)
“Guizhou Sinorda”	Guizhou Sinorda Bio-technology Co., Ltd. (貴州生諾生物科技有限公司)
“Kaichuan Pharma”	Foshan Kaichuan Pharma Co., Ltd. (佛山市凱川醫藥科技有限公司)
“Kexin Bicheng”	Beijing Kexin Bicheng Medicine Science & Technology Developing Co., Ltd. (北京科信必成醫藥科技發展有限公司)
“Ruijin Hospital”	Ruijin Hospital of Shanghai Jiao Tong University School of Medicine (上海交通大學醫學院附屬瑞金醫院)
“HUYABIO”	HUYABIO INTERNATIONAL LLC (滬亞生物國際)
“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)
“SPH Medical Instruments”	Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)
“SPH Innovative”	Shanghai SPH Innovative Pharmaceutical Technology Co., Ltd. (上海上藥創新醫藥技術有限公司)

“Overseas Pharmaceuticals”	Overseas Pharmaceuticals (Guangzhou) Ltd. (越洋醫藥開發(廣州)有限公司)
“Jiuzhou Pharmaceutical”	Zhejiang Jiuzhou Pharmaceutical Co., Ltd, (浙江九洲藥業股份有限公司)
“Hangzhou Arissa”	Hangzhou Arissa Bio-Pharmaceutical Technology Co., Ltd. (杭州艾瑞莎生物醫藥科技有限公司)
“Jiangyin Usunbio”	Jiangyin Usunbio Pharmaceutical Co., Ltd. (江陰貝瑞森制藥有限公司)
“Zhenhe Pharmaceutical”	Zhenhe Pharmaceutical (Hangzhou) Co., Ltd. (臻赫醫藥(杭州)有限公司)
“Huiyong Company”	Shanghai Huiyong Pharmaceutical Research Co., Ltd. (上海惠永藥物研究有限公司)
“Guoxin Investment”	Shanghai Guoxin Investment and Development Co., Ltd. (上海國鑫投資發展有限公司)
“Shanghai Biomedical Industrial Equity Investment 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 Partnership (Limited Partnership) (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))
“Shanghai Fimet”	Shanghai Fimet Medical Instrument Co., Ltd (上海菲曼特醫療器械有限公司)
“SciClone Pharmaceuticals”	SciClone Pharmaceuticals (Holdings) Limited (賽生藥業控股有限公司)
“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)
“first in class”	first new drug target or mechanism of action discovered

# Corporate Information

## DIRECTOR

### Executive Directors

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

### Non-executive Directors

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

### Independent non-executive Directors

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

## SUPERVISORS

Mr. XU Youli  
Mr. HUAN Jianchun  
Mr. XIN Keng

## JOINT COMPANY SECRETARIES

Ms. CHEN Jinzhu  
Ms. LEUNG Shui Bing

## AUTHORISED REPRESENTATIVES

Mr. CHO Man  
Ms. CHEN Jinzhu

## STRATEGY COMMITTEE

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

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION AND ASSESSMENT COMMITTEE

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

## COMPANY NAME

Shanghai Pharmaceuticals Holding Co., Ltd.

## REGISTERED ADDRESS

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

## HEADQUARTERS IN CHINA

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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 EXCHANGE ON WHICH SHARES ARE LISTED

A Shares: Shanghai Stock Exchange  
Stock Code: 601607  
H Shares: The Stock Exchange of Hong Kong Limited  
Stock Code: 02607

## A SHARE REGISTRAR

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

## H SHARE REGISTRAR

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

## COMPANY WEBSITE

<http://www.sphchina.com>

## CONTACT METHODS

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company secretary)*  
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# Financial Highlights

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

Unit: RMB'000

Operating Results	For the year ended 31 December				
	2017	2018	2019	2020	2021
Revenue	130,847,179	159,084,397	186,565,796	191,909,156	<b>215,824,259</b>
Profit before income tax	5,204,808	5,343,378	6,262,467	7,175,483	<b>8,143,814</b>
Income tax expenses	(1,147,029)	(887,117)	(1,431,725)	(1,570,219)	<b>(1,869,245)</b>
Profit for the year	4,057,779	4,456,261	4,830,742	5,605,264	<b>6,274,569</b>
Attributable to:					
Owners of the Company	3,520,644	3,881,063	4,080,994	4,496,217	<b>5,093,467</b>
Non-controlling interest	537,135	575,198	749,748	1,109,047	<b>1,181,102</b>

Unit: RMB'000

Assets and Liabilities	As at 31 December				
	2017	2018	2019	2020	2021
Total assets	94,344,475	126,879,332	137,026,396	149,185,656	<b>163,435,509</b>
Total liabilities	54,668,627	80,446,061	87,640,468	94,444,926	<b>104,369,299</b>
Total equity	39,675,848	46,433,271	49,385,928	54,740,730	<b>59,066,210</b>
Attributable to:					
Owners of the Company	34,030,843	39,013,575	41,659,059	45,354,678	<b>49,359,480</b>
Non-controlling interests	5,645,005	7,419,696	7,726,869	9,386,052	<b>9,706,730</b>

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

## Chairman's Statement



**Mr. Zhou Jun**  
*Chairman*

At the beginning of the month, the four-yearly Winter Olympics just came to an end.

In half a month, the Beijing Winter Olympics presented a high-level event for the world, including figure skating and freestyle skiing with the focus of the whole audience, ice hockey and curling with close teamwork, and speed skating which seems to test individual ability but pays attention to division of labor and cooperation, each of which was good at winning and brilliant.

The same is true of today's pharmaceutical industry.

There are R&D innovative companies and research institutions with unique skills, well-organized and well-managed established pharmaceutical companies and pharmaceutical commercial companies, CXO companies that not only value personal abilities but also rely on system empowerment, and of course, professional investment institutions that deeply cultivate the industry and have keen insight.

If seven or eight years ago, China's winter events were not rich enough, minority sports were not popular enough, and the participants were not enthusiastic enough, then today, the industry is so busy that it needs a platform of the Winter Olympics style to carry it, so that the players of all tracks can focus on the fields that they are best at.

### **SHANGHAI PHARMACEUTICALS HAPPENS TO BE SUCH A PLATFORM.**

As a A+H share listed company, Shanghai Pharmaceuticals not only has an efficient and standardized governance mechanism, but also has an international vision and operational logic.

## Chairman's Statement



As a state-owned enterprise, while respecting the scientific and commercial laws, Shanghai Pharmaceuticals can carry out the new development concept of innovation, coordination, green, openness and sharing more thoroughly.

As the only comprehensive group company in China whose pharmaceutical business and industry are in the first echelon, Shanghai Pharmaceuticals has a complete range of chemicals, traditional Chinese medicines and biological drugs and a comprehensive distribution, retail and Internet layout, and can provide services for all pharmaceutical projects.

Shanghai Pharmaceuticals jointly invested about RMB1.5 billion with CanSino to build a super COVID-19 vaccine factory in Shanghai Baoshan from scratch in only half a year. This cooperation originated from Shanghai Pharmaceuticals's distribution system spreading all over the country, was expanded based on the deep industrial base of Shanghai Pharmaceuticals in the production of biological products, and finally rooted in the long-term trust of all sectors of society in the initial purpose of Shanghai Pharma to protect people's health.

Relying on its ability to transform R&D achievements in the whole chain from clinical research and production to approval, marketing and terminal promotion, as well as the infrastructure, talent reserve and financial strength connecting each link, Shanghai Pharmaceuticals has cooperated with more than 10 outstanding innovative pharmaceutical companies at home and abroad in new drug pipeline products in the fields of anti-tumor, immunity, cardiovascular and cerebrovascular diseases, digestion and metabolism, established a "industry-university-research" platform with many first-class scientific research institutes and medical institutions, and jointly established several new mixed-ownership legal entities with top scientific researchers.

In less than two years since its establishment, SPH Ruier established a rare disease platform with 15 products put into the market and 16 projects under study-SPH Ruier, and a technological innovation center that has made achievements in many fields such as inhalation, sustained and controlled release, oral soluble film, complex injection, active pharmaceutical ingredients and so on, both of which take the grafting development route of “gathering sycamore branches” in the Group and “attracting golden phoenix” from outside.

Facing the continuous and scattered development of the industry, Shanghai Pharmaceuticals has deeply cultivated the industry for many years, ready to capture opportunities at any time and draw a new map.

Of course, in today's pharmaceutical industry, although institutions with ideas and abilities to host the Winter Olympics are rare, Shanghai Pharma is by no means unique.

### **THEREFORE, WE SHALL MAKE THE PLATFORM BIGGER.**

The ten-billion-scale private placement project was finally approved, which may be the largest private placement in the history of pharmaceutical industry of A Shares. This project will not only greatly expand the Company's balance sheet, but also bring further optimization of the system and mechanism for Shanghai Pharmaceuticals, a pilot unit of “Double Hundred Actions” reform of state-owned enterprises, by introducing Yunnan Baiyao as a strategic investor. On the basis of the RMB50 billion-scale biomedical industry fund initiated in 2020, Shanghai Pharma established the first RMB300 million-scale innovation and transformation fund focusing on first-in-class drugs in 2021, with capital as salary, dedicated to promoting the original strength of Chinese biomedicine to form a spark.

### **WE SHALL ALSO MAKE THE PLATFORM HIGHER.**

In October 2021, the Shanghai Biomedical Frontier Industry Innovation Center, led by an academican of the Chinese Academy of Sciences, and jointly established by Shanghai Pharmaceuticals, SIIC, Shanghai Jiao Tong University School of Medicine, Fudan University, the Chinese Academy of Sciences, Zhangjiang Group and other units, was officially unveiled at the opening ceremony of the first Shanghai International Biomedical Industry Week, aiming at gathering the resources of “famous enterprises, famous schools and famous institutes” and accelerating the establishment of a cutting-edge achievement transformation platform led by leading enterprises, supported by colleges and universities, and coordinated by various innovation subjects. With an area of 150,000 square meters and a planned investment of RMB8 billion, the SPH Biomedicine Industrial Base (No.92 Zhangjiang Road) is under construction in full swing, aiming at building a national leading open R&D public service platform and an incubation platform, and leading the construction of innovative biomedical industrial clusters in the fields of therapeutic antibodies, cell therapy, microecology and gene therapy.

## WE SHALL ALSO MAKE THE PLATFORM WIDER.

Last year, SPH Cloud Health, which features a high-value drug delivery and prescription circulation platform, and MediTrust Health, which features the “Special Drug Insurance” and “Huimin Insurance”, not only helped the revolutionary therapy CAR-T to be commercialized in China in their respective service areas, but also completed the series B financing of RMB1 billion and the series C financing of RMB2 billion respectively, helping the pharmaceutical business technology platform of “Internet + Medicine + Pharmaceutical + Insurance” hatched by Shanghai Pharm to fully prepare for serving more new and special drug varieties and breakthrough therapies. The cooperation between Shanghai Pharmaceuticals and Yunnan Baiyao is not only the investment of unilateral capital, but also the combination of the advantages of both parties in traditional Chinese medicine variety resources and the operation experience of big health industry, so as to jointly develop a replicable big health business model of traditional Chinese medicines and create an extensible integrated platform of research, production and marketing.

Six years ago, in 2015, the operating income of Shanghai Pharmaceuticals stood at RMB100 billion mark for the first time. In 2021, the operating income of Shanghai Pharmaceuticals exceeded RMB200 billion.

In 2020, Shanghai Pharmaceuticals ranked in the Fortune Global 500 for the first time, ranking 473rd. In 2021, Shanghai Pharmaceuticals ranked in the Fortune Global 500 again, ranking 437th.

From RMB100 billion to RMB200 billion and from China top 500 to World top 500, for a platform-based enterprise, it is not just a simple digital change, but the deep digging of the commercial moat and the promotion of the core competitiveness.

As I mentioned in the annual report last year, pushing a behemoth like Shanghai Pharma is like pushing a flywheel at rest, which requires great initial efforts, but every turn of persistence will drive the flywheel faster and faster.

In this great era of constant changes and development, what our flywheel is driving is not a surf boat, but an aircraft carrier. It will not only ride through the ups and downs of the industry firmly and confidently, but also attract, match and carry more and more like-minded partners to sail for the magnificent tomorrow together.

# Management Discussion and Analysis

## PERFORMANCE OVERVIEW

The year 2021 is another year of recurring global pandemic and frequent issuance of pharmaceutical policies. Encouraging innovation and volume-based procurement of generic drugs are still hot spots; meanwhile, promoting the development of Chinese medicine industry and rare disease drug innovation are also quite concerned by the industry. Faced with great challenges and opportunities, the Company overcame multiple unfavorable situations, seized opportunities and strove for innovation, and achieved better development in all businesses. In 2021, the Company was once again listed among the Fortune Global 500, ranking the 437th, up 36 places from the previous year, and was once again selected as one of the Top 50 Global Pharmaceuticals, advancing its ranking up to 42nd.

During the Reporting Period, the Company achieved operating income of RMB215.824 billion, representing a year-on-year increase of 12.46%. The pharmaceutical manufacturing achieved revenue of RMB25.098 billion, up 5.71% year-on-year, with gross profit margin of 57.80% (including sales revenue of RMB14.724 billion for 60 key varieties, up 9.31% year-on-year, with average gross profit margin of 71.38%); the pharmaceutical service achieved revenue of RMB190.726 billion, up 13.42% year-on-year.

The Company recorded RMB5.093 billion of net profit attributable to shareholders of the listed company, representing a year-on-year increase of 13.28%; RMB7.081 billion of net profit attributable to shareholders of the listed company plus R&D expenses, representing a year-on-year increase of 15.08%; RMB4.001 billion of net profit attributable to shareholders of listed company, net of non-recurring profit and loss, representing a year-on-year increase of 4.70%; RMB5.988 billion of net profit attributable to shareholders of listed company plus R&D expenses, representing a year-on-year increase of 9.32%. The operating net cash inflow of the Company amounted to RMB5.061 billion, maintaining its high-quality development.

During the Reporting Period, the Company's R&D investment reached RMB2.503 billion, representing a year-on-year increase of 26.94%, including RMB1.987 billion of R&D expenditure, representing a year-on-year increase of 19.96%.

## OPERATING HIGHLIGHTS OF THE COMPANY

### • Integration of Finance and Industry and Innovative Development

#### 1. *Successful implementation of a RMB10 billion private placement to introduce strategic investors*

In order to further optimize the Company's shareholding structure, enhance the governance level, improve the operating mechanism and enhance market competitiveness, Shanghai Pharmaceuticals launched a **ten-billion-scale private placement** in 2021 and will introduce Yunnan Baiyao as a strategic investor. Upon the completion of the issue, Yunnan Baiyao will become the second largest shareholder of the Company and deeply participate in the governance and operation of the Company. On 22 March 2022, the Company received the "Approval on the Non-Public Issuance of Shares of Shanghai Pharmaceuticals" issued by the CSRC.

Introducing a new strategic investor will further optimize the shareholding structure of Shanghai Pharmaceuticals, promote the further deepening of the reform of institutional mechanism and bring a new driving force to the long-term development of the Company. At the same time, based on its rich TCM resources (mainly including 7 core TCM subsidiaries, 9 widely recognized core brands, 3 national confidential formulas and 860 TCM products), the Company will fully exploit its advantages in resources, brand building and pipeline with Yunnan Baiyao in the TCM and health industry to develop business synergy and build a TCM and health business platform together.

## **2. *CanSino SPH's vaccine base was constructed and put into operation***

With the strong support from the municipal Party committee, government and relevant committees and bureaus, Shanghai Pharmaceuticals and CanSino cooperated and built a COVID-19 vaccine plant, with an annual capacity of 200 million doses and integration from stock solution to preparation designed in accordance with GMP requirements, in half a year, **becoming the “fastest” infrastructure project of Shanghai Pharmaceuticals**. The project is carried out by CanSino SPH Biologics Inc. (“CanSino SPH”, 48.958% owned by Shanghai Pharmaceuticals, 1.245% owned by Shanghai Biomedical Industrial Equity Investment Fund and 49.797% owned by CanSino respectively), which has laid the foundation for the construction of a large-scale production base for vaccines against major infectious diseases. **By the end of 2021, CanSino SPH has obtained the first production license of COVID-19 vaccine in Shanghai** and was granted with the approval of preparation production, becoming the first enterprise approved to produce COVID-19 vaccine in Shanghai. **On 27 January 2022, the COVID-19 vaccine produced by CanSino SPH was officially announced for mass production and marketing in the “super vaccine factory” located in Baoshan, and the first injection was given on the same day.** The vaccine, called “Convidecia”, is the only single-dose COVID-19 vaccine among the 7 COVID-19 vaccines approved for use in China so far. Because of the characteristics of effective one dose and rapid formation of protection in 14 days, large-scale vaccination can be realized more quickly, which is more convenient for residents with mobility difficulties and busy work. **Convidecia is also one of the first COVID-19 vaccines approved for sequential booster immunization in China.**

## **3. *Promote the construction of Shanghai Biomedical Frontier Industry Innovation Center***

During the Reporting Period, Shanghai Pharmaceuticals joined hands with six units including SIIC, School of Medicine of Shanghai Jiao Tong University, Fudan University, CAS Center for Excellence in Molecular Cell Science and Shanghai Zhangjiang (Group) Co., Ltd., **to break new ground on the establishment of Shanghai Biomedical Frontier Industry Innovation Center** and accelerate the construction of an innovation consortium which is led by leading enterprises, supported by universities and institutes, and coordinated by various innovators.

Gathering the cutting-edge scientific research strengths from “famous universities”, “famous enterprises” and “famous institutes” in Shanghai, the Innovation Center will adopt a market-oriented operation, introduce high-end talents in various forms, closely follow the R&D process of new drugs from the discovery of lead compounds to the acquisition of candidate drug molecules and then to clinical research (before phase II clinical trial), build its own general drug discovery technology platform which is systematic, high-efficiency, high-level and accessible; and incubation and transformation platform, and become a solid bridge for the incubation and transformation of original achievements of universities, institutes and small and medium-sized pharmaceutical enterprises. Through 5-10 years of accumulation, the Center intends to become a global leader in the innovation and transformation of new drugs and therapeutics for tumor and immunity + industrialization, produce real first-in-class new drugs, serve global clinical patients, and promote the original innovation of biomedicine in China. At present, the establishment plan of the Center has been basically determined and is being actively promoted.

#### **4. Rare disease platform starts new business**

In recent years, the state has paid more and more attention to the field of rare diseases and continuously issued a number of encouragement policies, involving multiple aspects such as drug guarantee for rare diseases, drug R&D and tax reduction and exemption. In response to the national call, Shanghai Pharmaceuticals established a rare disease business unit and operating entity, SPH Ruier, in 2020 to carry out the physical operation of the rare disease platform and invest over RMB100 million in rare disease R&D in 2021.

During the Reporting Period, taking SPH Ruier as a platform, the Company concentrated its existing resources on rare disease varieties on the one hand, and closely liaised with domestic and foreign R&D institutions and R&D companies in this field on the other hand to actively introduce cutting-edge innovative varieties. At present, there are a total of 16 ongoing projects, involving global innovative drugs, first generic drugs and multiple scarce drugs urgently needed in clinical practice, covering multiple rare disease categories such as tumors, motor neurons, endocrinology, cardiovascular and metabolism, including one type 1 new drug, two type 2 new drugs and multiple type 3 and 4 projects urgently needed in clinical practice. At present, one product has entered Phase II clinical trial, one product has entered Phase III clinical study stage, and multiple products have entered the production stage to be applied.

Rare disease ongoing project				
S/N	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	SRD1301	Acute leukemia, breast cancer, urothelial carcinoma, etc.	Declaration completed, under review	–
2	SRD2407	Pulmonary hypertension	Process validation	–
3	SRD4512	Amyotrophic Lateral Sclerosis	Ready to declare production	–
4	SRD1302	Acute promyelocytic leukemia	Formulation and process study	–
5	SRD1403	Acute non-lymphocytic leukemia	Ready for process validation	–
6	SRD3405	Phenylketonuria/ Hyperphenylalaninemia	Formulation and process study completed	Formulation and process study completed (US)
7	SRD2304	Pulmonary hypertension	Process validation	–
8	SRD4406	Tuberous sclerosis/Kidney cancer	Process validation completed	–
9	SRD3308	Wilson's disease	Formulation and process study	Formulation and process study (US)
10	SRD4610	Amyotrophic lateral sclerosis	Clinical Phase II	–
11	SRD5211	Antiallergic	Clinical Phase III	–
12	SRD3213	Glycogen storage disease	Preclinical	–
13	SRD4009	Infantile spasms	Real world studies	–
14	SRD6214	$\alpha$ -thalassemia	Preclinical	–
15	SRD6016	Hemophilia	Preclinical	–
16	SRD4415	Niemann-Pick disease type C	Declaration completed	–

The key products of SPH Ruier are introduced as follows:

- Through the holding of Kaichuan Pharmaceuticals, the Company obtained the exclusive manufacturing rights, exclusive marketing and sales rights of the **SRD4610** project after its future approval, and the contract was signed in November 2021. SRD4610 is used for the treatment of amyotrophic lateral sclerosis and has been granted “special review qualification” (green channel) by the CDE and is expected to be approved for marketing upon completion of Phase II clinical trial. By the end of 2021, nearly half of the patients in Phase II clinical trial had been enrolled.
- A cooperative R&D agreement has been signed with Kexin Bicheng for the **SRD5211** project. This product is used to treat acute urticaria, and it is the only second-generation antihistamine injection at present. Its domestic research and development is in the stage of Phase III clinical research.
- The transfer agreement has been signed with Shanghai Ruijin Hospital for the **SRD6214** project. SRD6214 is used for the treatment of  $\alpha$ -thalassemia. Similar products have not been clinically tested in China, and this product is expected to be the first-line drug for  $\alpha$ -thalassemia.
- Ten type 3 and 4 projects in the product line which aim to solve the problem that certain drugs only sold in overseas instead of in China and integrate active pharmaceutical ingredients and preparation to improve the accessibility of patients are steadily advancing.

In cooperation with government organizations, medical institutions, research institutes and patient groups, SPH Ruier has been actively promoting the accelerated implementation of rare disease prevention and treatment protection policies and improving the construction of rare disease ecosystem. In 2021, in cooperation with China Alliance for Rare Diseases, Peking Union Medical College Hospital, Ruijin Hospital Affiliated to School of Medicine of Shanghai Jiao Tong University, Peking University Third Hospital, Institute of Neuroscience of Chinese Academy of Sciences, China Pharmaceutical University, The Illness Challenge Foundation and Hangzhou Care Center of Chinese Organization for Rare Disorders, SPH Ruier held more than 20 academic activities.

In the next three years, Shanghai Pharmaceuticals will strive to make SPH Ruier a national important rare disease drug innovation and research base, a rare disease drug transformation base with global influence, a high-end international production base for rare disease drugs and a guaranteed supply base for urgently needed rare disease drugs.

### 5. **SPH Biomedicine Industrial Base (No. 92 Zhangjiang Road)**

With the continuous enrichment of the Company's innovative drug pipeline and the accelerated transformation of scientific and technological achievements from the innovation cooperation platform, the Company urgently needs to further improve its innovation platform in R&D, incubation, pilot testing and industrialization. No. 92 Zhangjiang Road project is located in the center of Shanghai Zhangjiang Hi-Tech Park, where the biopharmaceutical industry is concentrated, with a construction capital of RMB2.088 billion in the first phase. It mainly focuses on therapeutic antibodies, cell therapy, microecology, gene therapy and other fields, in a bid to build a domestic leading biopharmaceutical industrial base integrating three functions: "new R&D center, innovation incubation platform, pilot and industrialization platform". The project design was awarded the "AIA Architectural Design Award" and "A+ Awards Architectural Design Award", which is highly recognized by the international industry.

### 6. **Establishing a leading "Internet+" pharmaceutical service technology platform**

**SPH Cloud Health** continued to build a national brand of first choice for sales and services of new special drugs with the "Yiyao" (drug benefiting) as the core. Through a leading professional pharmacy service system, it established China's first integrated national professional pharmacy network and a differentiated 2B digital platform + 2C Internet platform to provide a comprehensive sales and service network for new special drugs. On 18 January 2021, SPH Cloud Health completed a RMB1.033 billion Series B financing, opening the fast track for comprehensive upgrading and development under the deep reform of introducing mixed ownership to SOEs, and achieving a significant growth of over 50% in operating income in 2021. During the Reporting Period, SPH Cloud Health comprehensively acquired and deeply integrated the specialized pharmacy network and leading Internet pharmaceutical service system of Cardinal Pharmacy and Baiji Pharmacy, and unified pharmacies near hospitals nationwide within Shanghai Pharmaceuticals system with the brand of "Yiyao" to consolidate the "Internet+" pharmaceutical business technology platform. As the preferred pipeline for innovative drugs to enter China, **"Yiyao Pharmacy" achieved the first launch of nearly 50 new innovative drugs and the first order placement in China in 2021, accounting for about 80% of the first order of new special drugs marketed.** At the same time, it has been involved in the design of the whole process model for the commercial implementation of the revolutionary therapy CAR-T in China, leading the new industry standard.

As the founder of the "Internet + medical + drug + insurance" ecological model, **MediTrust Health** is committed to promoting the deep integration of financial instruments with the medical field through innovative medical payment models, connecting patients, pharmaceutical companies and commercial insurance companies. In March 2021, MediTrust Health announced the completion of Series B financing of RMB1 billion, successfully ranked among the medical technology unicorns. In August, MediTrust Health completed another Series C financing of over RMB2 billion, only 5 months after the last round of financing. In 2021, MediTrust Health registered more than 100 million new service policies. As a hot spot in the health insurance market, **there were 46 new Huimin insurance products and nearly 60 million new service policies in 2021.** During the Reporting Period, MediTrust Health established strategic cooperation with the only two major domestic drug companies of CAR-T therapy in terms of payment, so that patients can not only buy but also afford drugs. Due to its outstanding contribution to the innovation and transformation of the insurance industry, MediTrust Health was awarded the 2021 Typical Case of Service Innovation in China's Insurance Industry by China Banking and Insurance News.

- **R&D investment reached a new high, and the first license-out case was successfully landed.**

During the Reporting Period, the Company further increased its R&D investment, **with total R&D investment reaching RMB2.503 billion, representing a year-on-year increase of 26.94% and accounting for 9.97% of sales revenue from manufacturing. R&D expenses amounted to RMB1.987 billion, representing a year-on-year increase of 19.96% and accounting for 7.92% of sales revenue from manufacturing.**

### 1. Accelerated expansion of new drug pipeline

As of the end of the Reporting Period, the Company has marketed three type 1 new drugs, Oncorine (recombinant human adenovirus type 5), Kallidinogenase (Urinary) and Peifeikang (bifidobacterium triple viable bacteria). **There have been 47 new drug pipelines for clinical application acceptance and entering the clinical study stage, including 39 innovative drugs and 8 improved new drugs. Among the innovative drug pipeline, six are in pivotal studies or clinical Phase III.**

#### 1) New drugs in development

Classification	Quantity (by indication)	Remarks
Innovative drugs	39	29 projects entered the clinical stage, and 10 clinical applications have been accepted
Improved new drugs	8	3 projects entered the clinical stage, and 5 clinical applications have been accepted
Total	47	/

#### 2) Pipeline of innovative drugs in development

S/N	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	Cardiovascular	I001	Primary mild to moderate hypertension	Clinical Phase III	/
2	Digestive and metabolism	X842	Reflux esophagitis	Clinical Phase III	/
3	Neoplasm	BCD-100	Cervical cancer	Clinical Phase III	/
4	Neoplasm	BCD-100	Non-small cell lung cancer	Clinical Phase III	/
5	Psychoneurotic	SRD4610	Amyotrophic lateral sclerosis	Clinical Phase II (Pivotal study)	/
6	Infection	I008-A	AIDS chronic abnormal immune priming	Clinical Phase II (Pivotal study, to be communicated to CDE for confirmation)	/

S/N	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
7	Autoimmunity	I008	Rheumatoid Arthritis	Clinical Phase II	/
8	Digestive and metabolism	I001-A	Diabetic nephropathy	Clinical Phase II	/
9	Autoimmunity	I001-B	Inflammatory enteritis	pre-IND	US, clinical Phase II
10	Neoplasm	I036	Juventus sarcoma	Clinical Phase IIa	* US, clinical Phase II
11	Neoplasm	B003	Breast cancer	Clinical Phase II	/
12	Neoplasm	I022	Advanced solid tumors/ liposarcoma	Clinical Phase I	US, clinical Phase II
13	Cardiovascular	Salvianolic acid A for injection	Angina pectoris of coronary heart disease	Clinical Phase I (Completed)	/
14	Psychoneurotic	I037	Acute ischaemic stroke	Clinical Phase I (Completed)	* US/Taiwan, clinical Phase II
15	Neoplasm	B001	Non-Hodgkin's lymphoma	Clinical Phase I (Completed)	/
16	Neoplasm	I020	Advanced solid tumors	Clinical Phase I	/
17	Neoplasm	I022-K	Advanced solid tumors	Clinical Phase I	/
18	Neoplasm	I025-A	HER2-positive advanced breast cancer	Clinical Phase I	/
19	Autoimmunity	B001-C	Neuromyelitis optica	Clinical Phase I	/
20	Neoplasm	B006	Progressive large cell lymphoma (PTCL), Hodgkin lymphoma	Clinical Phase Ib	/
21	Neoplasm	B007	Non-Hodgkin's lymphoma	Clinical Phase I	/
22	Neoplasm	B015	Advanced solid tumors	Clinical Phase I	/
23	Neoplasm	I010	Non-small cell lung cancer	Clinical Phase I	/
24	Neoplasm	B002	Breast cancer	Clinical Phase I	/
25	Digestive and metabolism	SJ006	Irritable bowel syndrome	/	Canada/US, clinical Phase I completed
26	Neoplasm	B010-A	Advanced hepatocellular carcinoma	IIT	/
27	Neoplasm	Autologous cell immunotherapy	Lung cancer	IIT	/
28	Neoplasm	B019	Leukemia (Primary Care Program)	IIT	/
29	Autoimmunity	B001-A	Multiple sclerosis	Clinical approval obtained	/
30	Neoplasm	I025	HER2-positive advanced breast cancer	pre-IND	/
31	Psychoneurotic	I040	Depression	pre-IND	/
32	Neoplasm	BCD-021	Non-small cell lung cancer, colorectal cancer	pre-IND	/

S/N	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
33	Neoplasm	BCD-022	Breast cancer	pre-IND	/
34	Autoimmunity	BCD-057	Rheumatoid Arthritis	pre-IND	/
35	Autoimmunity	BCD-085	Psoriasis	pre-IND	/
36	Autoimmunity	BCD-085	Ankylosing arthritis	pre-IND	/
37	Neoplasm	B013	Breast cancer	pre-IND	* US, clinical Phase I
38	Neoplasm	B013	Mantle cell lymphoma	/	* US, clinical Phase II
39	Neoplasm	B013	Chronic lymphocytic leukemia	/	* US, clinical Phase II
40	Autoimmunity	KBL697	Psoriasis	Preclinical	* US/Australia, clinical Phase II
41	Respiratory system	KBL693	Asthma	Preclinical	* Australia, clinical Phase I

\* Note: For the varieties under cooperative development, overseas rights and interests belong to the partners

### 3) Introduction to 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 **a antihypertensive drug with a new mechanism** of action, I001 tablets have successfully completed the clinical trial and data clearing of Phase III, stage I after the first patient of Phase III was enrolled on 10 June 2021, which is expected to provide an effective treatment approach and richer treatment means for the majority of mild and moderate patients. The Company's in-depth pharmacological and translational medical research found that renin is highly expressed in inflammatory bowel disease (UC) lesions, which in turn initiates the complement system and exacerbates inflammation, and confirmed that I001 has a significant effect on UC in preclinical in vitro and in vivo experiments. On 30 December 2020, I001, **a new indication of UC, was qualified for Phase II clinical trials by the FDA** and synchronously applied for clinical trials for this indication in China. At the same time, based on the consideration that chronic kidney disease can affect renin secretion and exacerbate the condition, the researchers applied I001 on a rhesus monkey model of spontaneous chronic renal insufficiency with chronic heart failure (NYHA class II-IV) and also found that it could significantly improve proteinuria. On 30 July 2021, it 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 there is no standard therapeutic schedule for it and has great mark potential. On 27 August 2021, it was approved for clinical trial; on 20 January 2022, the first subject was enrolled for Phase I clinical trial, and the 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. It is highly humanized and is expected to **have lower immunogenicity and longer half-life than rituximab**. B007 is administered through subcutaneous injection, which has obvious advantages in clinical application compared with intravenous injection. **Subcutaneous formulations can avoid the risk of infusion reactions compared with intravenous formulations, with very low immunogenicity and good safety.** Subcutaneous injection can be self-administered with a short treatment time, usually only 5 minutes, while intravenous injection takes about 2 hours, and **its convenience** can improve patient compliance and significantly reduce the medical burden. In addition, the in vitro activity, target selectivity, in vivo efficacy and therapeutic window of B007 are equivalent to or have certain advantages over some drugs of the same type (rituximab, obinutuzumab, ofatumumab, etc.). 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 drug 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. The target CD30 is highly expressed in Hodgkin lymphoma (HL) and anaplastic large cell lymphoma (ALCL). The clinical effective rates of Adcetris, an ADC drug with the same target in the world, for HL and ALCL are 73% and 86%, respectively, **effectively supplementing the high toxicity, drug resistance and recurrence caused by traditional ABVD regimen in the treatment of Hodgkin lymphoma.** Compared with Adcetris, a drug with the same target, B006 has no bystander effect and is more safe. In addition, B006 employs a non-degradable linker, and MDR1-mediated drug efflux of B006 was not found, which may be clinically more effective. This project has completed the Phase I clinical dose escalation phase of the trial, and the clinical trial of the dose expansion phase is ongoing.

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

NJ-2021-002(Z), (F) are improved new drug projects that realize the development and application of drugs in new fields by developing a brand-new pharmacological mechanism for existing active drugs while changing the route of administration of active ingredients. The drug is a potent selective leukotriene receptor inhibitor, which has both anti-inflammatory and promoting healing effects, and can act on oxidative stress damage. 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 a Phase I clinical trial in March 2022, is expected to be effective postmarketing in relieving the problems of wound edema pain and healing difficulties in patients undergoing hemorrhoid surgery. 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. 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.**

- **FZZ-2021-003 (osteoarthritis)**

FZZ-2021-003 is a improved new drug project. Aiming at the key targets in the pathogenesis of osteoarthritis, this project applies the existing active drugs and allows the drugs to act directly on the lesion site with a new route of administration through special drug loading technology, thus exerting the active drug effect, realizing the improvement of chondrocyte microenvironment, promoting cartilage regeneration, blocking inflammation, and discontinuing and reversing injury. This project has completed animal pharmacodynamic and pharmacological trials, is carrying out formulation and process optimization studies, and is expected to declare to IND in 2022. After the product is marketed, it is **expected to become the first osteoarthritis drug that truly targets the cause and can achieve the effect of changing the disease process.**

#### 4) Introduction and license-out

**During the Reporting Period, the Company achieved the first overseas license-out of its self-developed innovative drug, and licensed the overseas rights of SPH6162 to HUYABIO.**

- **SPH6162** is a small molecule anti-tumor new drug independently developed by Central Research Institute of Shanghai Pharmaceuticals. In October 2021, HUYABIO entered into an agreement with Shanghai Pharmaceuticals for a milestone payment of up to US\$292.5 million plus a 3-6% sales commission for the exclusive product development, manufacturing and marketing license and sublicensing rights for SPH6162 outside of mainland China, Hong Kong, Macau and Taiwan.

**In terms of innovative product introduction, the Company has also made successive progress.** The Company has successfully signed contracts for several license-in products, including Guizhou Sinorda X842 novel acid suppression project, Korea KoBioLabs probiotic project (KBL697 and KBL693), Phagelux antibacterial ClyO project, and the new acute stroke drug I037 in cooperation with Lumosa Therapeutics is also progressing as expected.

- **X842** is a new generation potassium-competitive acid blocker (P-CAB) oral drug. The Company acquired the exclusive entrusted manufacturing and industrial sales rights for all indications of the API and preparations of Guizhou Sinorda novel acid inhibitor X842 project in mainland China, Hong Kong, Macau and Taiwan for a transaction amount not exceeding RMB690 million (excluding the sales commission).
- **KBL697 and KBL693** are two single-strain live bacterial drugs that have entered the clinical stage and are used to treat a variety of immune system diseases, and Phase I clinical studies have been completed in Australia. During the development phase, the Company will make payments up to a total of US\$12.25 million (an additional US\$1 million if Phase I clinical study in China is exempted) and post-marketing sales milestone payments up to a total of US\$95 million, plus a sales commission of 3-5% of net sales.
- **ClyO** is a bacteriophage lyase with a novel mechanism of action against staphylococcal bacteria, and compared with traditional antibiotics, ClyO is strongly and rapidly bactericidal in vitro and is not prone to drug resistance. The Company acquired the rights to develop, manufacture, register, distribute, sell, market, promote and sublicense the new anti-bacterial infection drug ClyO in mainland China, Hong Kong and Macau for a transaction amount not to exceed US\$50.5 million (excluding the sales commission), including the indication of ClyO for systemic infections caused by staphylococcus aureus.

- For Phase I clinical drug trial of **I037** (“LT3001 for injection”), a new drug for the treatment of acute ischemic stroke (AIS), which was conducted in cooperation with Lumosa Therapeutics (6535.TW), the first subject was enrolled in January 2021. By the end of January 2022, Phase I clinical trial had been completed, and Phase II clinical trial was being started.

### 2. **Technology innovation center platform is beginning to show results**

To further accelerate the layout and **technology development of improved new drugs and high-end preparation**, the Company has established in-depth cooperative relationships with various well-known domestic universities, R&D institutions and enterprises. The Company actively promoted **the construction of various technical innovation platforms for inhalation preparations, sustained-release preparations, orally soluble film preparations, complex injectables and active pharmaceutical ingredients (APIs), etc., and accelerated the exploration and application research of new preparation technologies and raw material synthesis technologies**. During the Reporting Period, the Technology Innovation Center **has developed a total of 16 type 2 new drug projects**, with an increase of 12 projects compared with 2020. The product pipeline has covered respiratory, cardiovascular, psychoneural, analgesic, anti-infective, digestive and metabolism fields.

During the Reporting Period, SPH Innovative a wholly-owned subsidiary of the Company, signed a product introduction agreement with Hangzhou Arissa and Jiangyin Usunbio and Zhenhe Pharmaceutical respectively, and introduced improved new drugs such as AP2500, UP-611 and GenMA-001, further enriching the Company’s new product pipeline.

In December 2021, **the Company entered into a deep strategic cooperation with Overseas Pharmaceuticals, a special sustained-release new drugs R&D company, and signed a RMB150 million Series C capital-increase agreement** to enter the field of sustained-release technology, further complement the pipeline of improved new drugs, and will work together to promote the development of new preparations in the field of psychoneurology. By the end of 2021, Overseas Pharmaceuticals has obtained 15 implied clinical license of solid oral sustained-release improved new drugs, which is a leading position in the industry.

During the Reporting Period, **Huiyong Company**, a Company incubated by Shanghai Pharmaceuticals, **completed Series A+ financing (in RMB) of hundreds of millions**. This round of financing was led by Guoxin Investment, followed by Shanghai Biomedical Industrial Equity Investment Fund, the original shareholder. Founded in May 2018, **Huiyong Company** is an improved innovative drug development company with several key technology research platforms for high-end preparations, including oral sustained-release, targeted preparation, poorly soluble drug preparation, new injection, process transformation and quality study.

During the same period, Zhejiang SPH Jiuzhou Biopharmaceutical Co., Ltd, a joint venture established by the Company and Jiuzhou Pharmaceutical, was formally inaugurated. It is committed to building a first-class high-end innovative preparation platform in China, and has started the research and development of anti-infective, hypoglycemic and PPI drugs.

### 3. **Accelerated approval of consistency evaluation**

**In terms of generic drug**, the Company saw the 22 varieties (29 specifications) passing the consistency evaluation of generic drugs in 2021, increasing the total number of product varieties passing consistency evaluation to 40 varieties (56 specifications), ranking forefront in the industry. The consistency evaluation of injections achieved a “zero” breakthrough, and a total of 4 varieties (ceftriaxone sodium for injection, lansoprazole for injection, lidocaine hydrochloride injection and dopamine hydrochloride injection) passed. See the “Major R&D projects” below for details of the products newly added for consistency evaluation in 2021.

### 4. **Multi-point cooperation between industry, academia and research**

The Company continues to expand the group of innovative drug products with clinical value following the principle of “independent R&D + external cooperation”. And it has, relying on its market-based system and mechanism, achieved strategic cooperation with a number of well-known universities, scientific research institutes and medical institutions. During the Reporting Period, the work progress of such R&D innovation cooperation platform is as follows:

- Shanghai Jiao Tong University School of Medicine and Affiliated Hospital of Shanghai Jiao Tong University: **Shanghai Xun Yao Biotechnology Co., Ltd., a mixed-ownership enterprise** jointly established by Shanghai Pharmaceuticals together with Prof. Liu Junling Team at Shanghai Jiao Tong University School of Medicine, Shanghai Second Medical University Investment and Management Co., Ltd. and Shanghai Biomedical Industrial Equity Investment Fund, officially announced its establishment, with its opening ceremony held in August 2021. The Company focuses on the development of antibody drugs, nucleic acid drugs and cell therapy techniques, and is dedicated to the exploration of new pathogenic mechanisms and the development of innovative drugs in various fields and **is also a major innovation result of the “industry-academia-research-investment” cooperation model**. The company is now in normal operation, and 1-2 innovative drug programs are expected to go into clinical stage in 2022.

## Management Discussion and Analysis

- West China Hospital of Sichuan University: The first batch of cooperative R&D projects has been launched and is under smooth progress; five of the second round of cooperative R&D projects are under pre-evaluation or cooperation negotiation.
  - Shenyang Pharmaceutical University: The contract for 1 early-stage innovative drug project has been signed.
  - Center for Excellence in Molecular Cell Science, CAS: The contracts for 4 early-stage innovative drug projects have been signed.
  - Shanghai Children's Medical Center: A new version of comprehensive cooperation agreement has been prepared, and both parties intend to cooperate in rare diseases, pediatric preparations, and expansion of the Company's pipeline indications.
- **Innovation and change of marketing ideas; lean manufacturing to reduce costs and increase efficiency**

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

### **1. 40 varieties with sales revenue exceeding RMB100 million**

By following "product-focus" strategy, and **taking advantage of "one product, one strategy"**, **the Company registered 40 varieties with the sales revenue from manufacturing segment exceeding RMB100 million for the year**, covering cardiovascular, digestive system, immunometabolic, systemic anti-infective, psycho-neurological and anti-tumor fields.

During the Reporting Period, by analyzing the impact of policies and changing trends in the industry, the Company adjusted its marketing strategies accordingly, strengthened refined investment promotion, made use of more market gaps, segmented target markets and carried out various product promotion activities in a professional and compliant manner. For varieties with sales revenue exceeding RMB100 million, such as polymyxin sulfate for injection, trypsin for injection, neostigmine methylsulfate injection, sodium thiosulfate for injection, and Weifuchun, the Company achieved rapid year-on-year growth in sales revenue by integrating the supply chain, improving the sales model and strengthening marketing investment.

At the same time, the Company accelerated the cultivation of TCM varieties, continuously explored the development of inherited and innovative TCM, insisted on academic promotion and clinical research project research, strengthened the construction of expert pools, explored the function and main features of new products, and strengthened the exploration of clinical evidence-based evidence, such as Gualoupi Injection and Guanxinling Tablets, to achieve faster growth of TCM products.

## 2. **Quality first and technology empowerment**

Shanghai Pharmaceuticals has established a quality control system covering the whole life cycle of drugs with quality as its priority. During the Reporting Period, SHAPHAR, a subsidiary of the Company, was awarded the “**Shanghai Government Quality Gold Award 2020**”; SPH No.1 Biochemical, a subsidiary of the Company, was awarded the “Excellent Case of Digital Transformation in Shanghai Enterprise Quality Management in 2021”, and the standard project “Digital Requirements for Biopharmaceutical Quality Control Laboratory” was awarded the “**Shanghai Standard**”. The Company made every effort to promote cost reduction and efficiency improvement through six major initiatives, namely, optimizing production layout, improving technical and economic indicators, comprehensive lean management, increasing centralized procurement, improving personnel efficiency, and enhancing energy saving and consumption reduction, and **the overall expense ratio of the Group decreased by 1.75%**. In terms of manufacturing excellence and technological innovation, the **Shanghai Municipal Science and Technology Major Project “Ultra-limited Manufacturing”**, which was declared by our subsidiary SPH No.1 Biochemical, together with East China Normal University and East China University of Science and Technology, **passed the mid-term inspection and acceptance**.

- **Deepening layout of business network and outstanding contribution from new business**

While actively maintaining the stable development of its existing commercial business, the Company strives to expand its network coverage while exploring and building new business models and core competencies.

### 1. **Consolidation of the position as the leading service provider for imported drugs and innovative drugs in the PRC**

**In terms of imported drugs**, the Company successfully introduced 18 import varieties under general agency throughout the year, continuing to account for 50% of the total general agents in imported innovative drugs. The Company strives to build an innovative drug service platform to provide global pharmaceutical enterprises with such fields as one-stop supply chain management services covering pre-market cooperation, import and export services, national distribution, and innovative value addition.

During the Reporting Period, the Company (as a strategic investor for the listing of Shanghai Allist Pharmaceutical Technology Co., Ltd. on the science and technology innovation board) signed a strategic cooperation agreement with the intention to carry out in-depth cooperation in the fields of logistics and warehousing, national distribution, “Internet+” new retail, innovative financial payment and the whole life cycle management of innovative drugs and to help Allist accelerate the commercialization process of its drugs under development. In addition, SPH International Supply Chain Co., Ltd, a subsidiary of the Company, also participated in the listing in Hong Kong, issuance and subscription of SciClone Pharmaceuticals as a cornerstone investor, and carried out comprehensive cooperation in pre-marketing services, international supply chain, full pipeline coverage, new retail expansion, innovative payment, etc. around a number of imported original products of SciClone Pharmaceuticals.

**In terms of import vaccine agency service**, the Company achieved sales revenue of RMB4.3 billion during the Reporting Period. At present, the sales volume of Class II vaccines is mainly affected by the situation of epidemic prevention and control, but there is still promising space for future development. The Company has a leading vaccine supply chain service platform with nationwide cold chain logistics capability. Over the past two years, the Company has further extended its industrial chain from import distribution to production and R&D by introducing the COVID-19 vaccine cooperation as a breakthrough, and accelerated the industrial layout in the vaccine field.

### **2. *Continuous expansion of network coverage***

The Company has been planning to conduct business for using market gaps in all regions and accelerating domestic distribution network coverage through mergers and acquisitions, while promoting equity integration of provincial platforms to enhance regional market competitiveness. During the Reporting Period, the Company completed a number of business and device projects in Chongqing, Yunnan, Hunan, Liaoning, etc. by establishing new companies through cooperation, increasing capital in the same proportion, and acquiring and merging, and is actively promoting the layout of commercial networks in Tibet, Qinghai, etc. to further consolidate its network advantages.

### **3. *Integration of SPH Cardinal for 4 years has achieved remarkable success***

Since 2018, by implementing the Five-sphere Integrated Plan with a combination of measures, Shanghai Pharmaceuticals has been promoting the deep integration of SPH Cardinal from strategy, organization, management, business, information, etc. After four years of efforts, under the fundamental pressure of the pharmaceutical industry, the development trend of SPH Cardinal has improved comprehensively, profitability has been continuously improved, industrial competitiveness has been significantly enhanced, and net sales margin has climbed from 0.65% in 2017 to 2% in 2021.

### **4. *Non-pharmaceutical business such as device and health business is promoted to become a new growth driver***

In 2021, the Company's sales for device, health and other non-pharmaceutical business amounted to about RMB24.7 billion, representing a year-on-year increase of about 28%. SHAPHAR has carried out 330 projects nationwide in the device contracting business, with a winning bid of RMB906 million, and SPH Keyuan's device business has introduced over 8,000 new products in total. The Company actively held nationwide device seminars, selected leading suppliers in different categories as targets for joint visits, sorted out variety resources, standardized business management processes, expanded synergies, and helped the device distribution business develop continuously.

- **Accelerating the expansion of international business, and promoting the construction of overseas companies**

The Company's International Business Division actively carried out overseas registration of the Group's industrial products, and has launched overseas registration projects for 10 Class A products in 2021. Considering that the overseas export business of industrial products is still small and fragmented, the Company also intends to set up a new overseas sales company in Thailand to promote the export of the Company's drugs, medical instruments and healthcare products to Thailand and other Southeast Asian markets, so as to further enhance the international market competitiveness of the Group's industrial products.

In terms of overseas M&A, SPH Medical Instruments, a subsidiary of Shanghai Pharmaceuticals, acquired 100% equity interest in Fimet Invest OY in June 2021. Founded in 1981, Fimet Invest OY is mainly engaged in production and operation of dental chairs and other dental related equipment; as one of the first batch of overseas enterprises entering the PRC, it has been in cooperation with SPH Medical Instruments for 27 years. After this acquisition, SPH Medical Instruments has established a complete structure of medical equipment plus consumables in the dental medical industry, integrating European R&D and design with Chinese manufacturing into the operation mode of "one Fimet" to rapidly develop domestic and international markets; on this basis, the Company will continue to improve the richness of the dental industry through BD and build a competitive international brand.

- **Developing Shanghai Pharmaceuticals in a digital manner, and creating an efficient organization**

During the Reporting Period, the Company continued to empower its business by digitalization construction of SPH, using big data as a means to further improve its system capabilities, build an efficient organization and establish a core support platform. Guided by the principle of being "visible, manageable and adjustable", the Company has formed internal business analysis results to provide a solid data basis for management to know the business development status and make effective decisions in a timely and accurate manner, while the Company has created external channels to promote corporate value to achieve timely and effective disclosure of information. Through the implementation of the first phase of the Data Command Center project, the Company's data management and service capabilities have been greatly improved. The Company also focused on expanding the coordination and application of human resource platform in the future, and promote the application of big data informatization in product planning, marketing, manufacturing and R&D to further enhance operational efficiency.

- **Establishing human resource planning, and strengthening talent training and talent pool maintenance**

In terms of the construction of the human resources system, the Company formulated a new three-year HR strategic plan for the Group, clarifying the overall objectives, key initiatives and action plans; launched a project to build the Group's job ranking system, laying a solid foundation for promoting the standardization of organizational positions; accelerated the implementation of multiple pipeline access mechanisms for talents to continuously enhance the influence of the employer brand; improved the cadre talent management system, strengthened the introduction, development and retention of talents, strengthened the construction of core talent team, and accumulated strength for the continuous enrichment of talent reserve; insisted on advocating performance culture, exploring multiple performance assessments, creating a dynamic talent incentive mechanism and employment mechanism, and further stimulating the potential and motivation of talents; using the construction of the human resources system with digital technologies as a driving force, consolidated the capacity building of human resources system and improved operational efficiency.

## **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 SIIC, 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.

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, with the continuous increase of the vaccination rate of the COVID-19, 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 and volume-based procurement of generic drugs were still hot spots, and at the same time, China further promoted the development of Chinese pharmaceutical industry, rare disease drugs, etc.; 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 issued important policies such as adjustment of the list of essential medicines.

Category	Date	Department	Document	Content
Top-level planning	2022/01/30	Issued jointly by the Ministry of Industry and Information Technology, the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Commerce, the National Health Commission, the Ministry of Emergency Management, the National Healthcare Security Administration, the National Medical Products Administration, and the National Administration of Traditional Chinese Medicine.	The 14th Five-Year Plan for the Development of Pharmaceutical Industry	<ol style="list-style-type: none"> <li>During the “14th Five-Year Plan period”, the R&amp;D investment of the whole industry increased by more than 10% annually;</li> <li>Enhance the capability to guarantee the rare disease drugs urgently needed in clinic; and a number of policies encouraged enterprises to speed up the development of related drug varieties.</li> </ol>
Pharmaceutical circulation	2021/10/21	The Ministry of Commerce	The Guiding Opinions on Promoting the High-quality Development of the Drug Distribution Industry during the 14th Five-Year Plan Period	By 2025, the annual sale volume of the top 100 pharmaceutical wholesale enterprises will account for more than 98% of the total amount of pharmaceutical wholesale market.
Development of traditional Chinese medicines	2021/02/09	The General Office of the State Council	The Notice on Several Policies and Measures to Accelerate the Characteristic Development of Traditional Chinese Medicines	Give full play to the characteristics and advantages of traditional Chinese medicines, and promote the mutual complementary and coordinated development of traditional Chinese medicines and western medicines.
	2021/12/31	The National Healthcare Security Administration, and the National Administration of Traditional Chinese Medicine	The Guiding Opinions on Medical Insurance Supporting the Inheritance, Innovation and Development of Traditional Chinese Medicines	Point out the concrete measures to inherit, develop and make good use of traditional Chinese medicines

Category	Date	Department	Document	Content
Vaccine industry	2021/10/09	The National Medical Products Administration	The Regulations on Administration of the Production and Circulation of Vaccines (Draft for Comments)	Put forward that China shall realize the traceability of the whole process from production to use of the smallest packaging unit of vaccines
List of Essential Medicines	2021/11/15	The National Health Commission	The Measures for the Administration of National Essential Medicines List (Revised Draft) (for Comments)	Dynamically adjust the list of essential medicines
List of Medical Insurance Medicines	2021/12/3	The National Healthcare Security Administration	The Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2021)	The list of medical insurance medicines and the list of essential medicines were expanded, with a total of 74 kinds of medicines added to the lists and 11 kinds of medicines transferred out of the lists. Successful negotiation was made for 67 kinds of exclusive medicines not listed in the lists.
Volume-based procurement	2021/11/04	The National Healthcare Security Administration	The Notice on Doing Well the Continuation Work after the Expiration of the Agreement on Centralized Volume-based Procurement of Medicines Organized by the State	Put forward a series of requirements for the smooth continuation after the expiration of the procurement agreement.

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 42nd 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 Academia Sinica as the core platform and focusing on the domestic Class 1 new drugs and the development of 505b(1) of the United States, 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, 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 high-end generic medicines, and was based on improved new medicines such as difficult imitation, rush imitation and complex dosage forms. **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, focused on the secondary development of large varieties of traditional Chinese medicines, and promoted the development of hospital preparations and classic prescriptions. **In the rare diseases drugs segment**, the Company took the rare disease drugs division (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 24 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, and continuously conducted the development of new businesses and model innovation by means of scientific and technological informatization, taking advantage of the advantages of its own platform, and using new mechanisms.

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

- Ranked 437th in the Fortune Global 500 in 2021;
- Ranked 58th in the 2021 Fortune China Top 500 published by the Fortune (Chinese version);
- Ranked 964th in the 2021 Global Top 2000 Enterprises published by the Forbes;
- Ranked 2nd in the scale and volume of China's pharmaceutical circulation business in the Development Report of China's Pharmaceutical Circulation Industry issued by the Ministry of Commerce;
- Ranked 122nd in the 2021 Top 500 Chinese Enterprises published by the China Enterprise Confederation and the China Enterprise Directors Association, and 48th in the Top 500 Chinese manufacturing enterprises;
- Ranked 8th in the Top 100 Chinese pharmaceutical industry enterprises published by the China National Pharmaceutical Industry Information Center, and won the title of "Best Industrial Enterprise of China Pharmaceutical R&D Product Line in 2021" published by the China National Pharmaceutical Industry Information Center;
- Ranked 42nd in the top 50 global pharmaceutical companies published by the Pharmaceutical Executive; and
- Ranked 12th in the 2021 Top 100 Shanghai Enterprises jointly published by Shanghai Enterprise Confederation, Shanghai Federation of Economic Organizations, Shanghai Enterprise Directors Association and Jiefang Daily Press, and 4th in the Top 100 Shanghai Manufacturing Enterprises.

### CORE COMPETITIVENESS ANALYSIS

#### 1. Advantages of the industrial chain value

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

#### 2. Product structure advantages

The Company has profound history. Over the years, it owns rich product resources. It produces 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, and extensively cooperated with universities and colleges, research institutes and medical institutions to establish strategic cooperation and project cooperation on project aspect and jointly develop innovative drugs and therapies. The Company has launched the construction of a number of major innovation platforms for the key steps and major shortcomings of innovative drug R&D, forming a complete innovation value chain from R&D, pilot testing, clinical and industrialization, etc. and has brought into play the leading company-driven effect. As a result, the R&D competitiveness of the Company is gradually coming to the fore.

#### 4. Business network advantages

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

#### 5. Service innovation advantages

The Company keeps providing services for reform of public medical institutions and exploring new models and fields with partners through its own supply chain network and information solutions. The Company is in a nationally leading position in terms of innovative business model, such as supply chain extension service within hospitals, the third-party logistics service, direct-delivery of drug service, one-stop service for imported drugs, information management of drug stocks, and clinical support service.

#### 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	215,824,259,035.31	191,909,156,160.88	12.46	Increase of sales income during the Reporting Period
Operating cost	187,281,149,284.71	165,180,103,773.59	13.38	Increase of sales income during the Reporting Period
Costs of sales	13,318,033,452.43	12,158,701,303.57	9.53	Increase of sales income during the Reporting Period
Management expense	5,143,417,730.84	4,731,794,293.37	8.70	Increase of operation and administration expense during the Reporting Period
R&D expenditure	1,987,277,619.33	1,656,670,833.68	19.96	Increase of investment in R&D during the Reporting Period
Finance costs	1,245,369,014.83	1,239,584,410.58	0.47	Increase of interest expense during the Reporting Period
Losses from impaired assets	140,441,120.37	898,616,318.25	-84.37	Decrease of provisions for impairment losses on goodwill during the Reporting Period
Credit impairment loss	-677,891.56	-39,657,678.67	98.29	Decrease of reversal of impairment provisions for receivables during the Reporting Period
Investment income	1,811,393,898.70	976,194,502.02	85.56	Increase of investment income recognized due to transferring the subsidiary to the associate during the Reporting Period
Gains arising from changes in fair value	-206,003,766.29	116,797,793.20	/	Decrease of fair value of financial assets measured at fair value during the Reporting Period
Non-operating income	81,956,962.86	192,725,699.31	-57.47	Decrease of compensation obtained during the Reporting Period
Net cash flow generated from operating activities	5,061,326,276.35	6,844,720,625.06	-26.06	Increase in payment for goods during the Reporting Period
Net cash flow generated from investing activities	-6,015,575,888.57	-1,705,676,409.44	-252.68	Increase in net cash outflow from disposal of subsidiaries during the Reporting Period
Net cash flow generated from financing activities	1,565,628,486.68	-1,261,229,815.69	/	Increase of extra short-term financing bills issued during the Reporting Period

## 2. Income and cost analysis

### (1) Principal business by industry

*Unit: RMBO'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	2,509,847.68	1,035,400.83	58.75	5.71	3.24	+0.99 percentage point
Distribution	19,061,666.58	17,818,624.31	6.52	13.70	14.21	-0.42 percentage point
Retail	776,759.73	674,512.08	13.16	-8.82	-8.39	-0.41 percentage point
Others	24,199.02	14,563.02	39.82	-28.18	-37.48	+8.95 percentage points
Offsetting	-868,313.33	-858,491.54	/	/	/	/

### (2) Principal business by region

*Unit: RMBO'000*

By region	Operating Income	Operating cost	Gross profit margin (%)	Increase/ decrease in operating income year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year
Domestic Sales	21,266,157.14	18,532,525.64	12.85	12.90	13.84	-0.72 percentage point
Overseas Sales	238,002.54	152,083.06	36.10	-22.06	-28.69	+5.95 percentage points

### (3) Principal business by product field

*Unit: RMBO'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	520,242	151,538	70.87	-5.83	-3.59	-0.68	/
Digestive and metabolism	217,556	72,703	66.58	4.18	-6.87	3.96	/
Systemic anti-infection	252,576	160,530	36.44	22.82	39.16	-7.46	/
Central nervous system	164,678	33,655	79.56	22.74	17.95	0.83	/
Anti-tumour and immunomodulatory agents	148,245	28,161	81.00	1.08	3.13	-0.38	/
Musculoskeletal system	102,708	25,917	74.77	2.32	8.27	-1.39	/
Respiratory system	150,951	32,677	78.35	6.47	-14.71	5.38	/
Others	952,892	530,220	44.36	7.75	-0.76	4.77	/
Total	2,509,848	1,035,401	/	5.71	3.24	/	/

Note: 1 Gross profit margin in the above table=(operating income – operating cost)/operating income \* 100%

2 The operating cost in the field of Systemic anti-infection increased significantly over the previous year, mainly due to the impact of policies on some drugs and the impact of product sales structure, resulting in a higher increase in cost than income.

(4) Table of analysis of cost

Unit: RMB0'000

By industry	Cost composition	Amount for the current period	Proportion of the cost to the total cost of the Reporting Period (%)	Amount for the Corresponding period of last year	Proportion of the cost to the total cost of the corresponding period of last year (%)	Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
Manufacturing	Raw materials, ancillary materials and packaging materials	732,355.28	70.73	708,340.41	70.63	3.39	/
Manufacturing	Power expenses	30,963.78	2.99	29,807.11	2.97	3.88	/
Manufacturing	Depreciation expense	56,783.96	5.48	55,984.21	5.58	1.43	/
Manufacturing	Salaries	82,264.09	7.95	76,322.80	7.61	7.78	/
Manufacturing	Other manufacturing cost	133,033.72	12.85	132,499.31	13.21	0.40	/
Manufacturing	Total manufacturing cost	1,035,400.83	100.00	1,002,953.84	100.00	3.24	/
Service and others	Cost	18,564,336.23	/	16,395,103.80	/	13.23	/
	Offsetting total cost	-871,622.13	/	-880,047.26	/	-0.96	/
	Total operating cost	18,728,114.93	/	16,518,010.38	/	13.38	/

3. Expenses

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

4. R&D investment

(1) Table of R&D investment

Unit: RMB0'000

Expensed R&D investment for the current period	198,727.76
Capitalized R&D investment for the current period	51,582.98
Total investment in R&D	250,310.74
Proportion of the total amount of R&D investment to operating income (%)	9.97
Proportion of capitalized R&D investment (%)	20.61
Number of R&D personnel of the Company	1,418
Proportion of the number of R&D personnel to the total number of personnel of the Company (%)	3.01

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

## (2) R&amp;D investment in major projects

Unit: RMBO'000

R&D projects	R&D Investment amount	Expensed R&D Investment amount	Capitalized R&D Investment amount	Proportion of R&D investment to the operation income (%)	Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
I001	6,058.61	6,058.61	0	0.24	65.85	Conducted the clinical research phase II for Hypertension indication, actively expanded the pre-clinical research for new indications and made the clinical application
I008	3,009.67	3,009.67	0	0.12	49.76	The clinical research phase II for rheumatoid arthritis and anti-HIV indications was initiated simultaneously.
I037	838.34	838.34	0	0.03	58.95	Completed clinical phase I and prepared to conduct clinical trial phase II
B007	2,133.23	2,133.23	0	0.08	-3.46	/
B015	1,454.79	1,454.79	0	0.06	-71.38	Significant payment for introducing projects in 2020

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

## (3) Major R&amp;D projects

Unit: RMBO'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 I
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.

## Management Discussion and Analysis

### (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 22 varieties (29 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	Flunarizine Hydrochloride Capsules	Supplementary Application	Nervous system drugs	Yes	No	Approved
2	Hydroxychloroquine Sulfate Tablets	Supplementary Application	Antipyretic, analgesic, antiinflammatory, antirheumatic, and antimalarial drugs	Yes	No	Approved
3	Telmisartan Tablets	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
4	Carbamazepine Tablets	Supplementary Application	Nervous system drugs	Yes	No	Approved
5	Diltiazem Hydrochloride Tablets	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
6	Clozapine Tablets	Supplementary Application	Drugs for mental disorders	Yes	No	Approved
7	Lidocaine Hydrochloride Injection	Supplementary Application	Anesthesia	Yes	No	Approved
8	Dopamine Hydrochloride Injection	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
9	Estazolam Tablets (two enterprises)	Supplementary Application	Drugs for mental disorders	Yes	No	Approved
10	Ceftriaxone Sodium for Injection (four specifications)	Supplementary Application	Antimicrobial drugs	Yes	No	Approved
11	Metronidazole Tablets	Supplementary Application	Antimicrobial drugs and antiparasitic drugs	Yes	No	Approved
12	Lansoprazole for Injection	Supplementary Application	Drugs for digestive system	Yes	No	Approved
13	Duloxetine Hydrochloride Enteric Tablets	Supplementary Application	Drugs for mental disorders	Yes	No	Approved
14	Simvastatin Tablets (two specifications)	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
15	Perindopril Tert-butylamine Tablets (two specifications)	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
16	Cimetidine Tablets	Supplementary Application	Drugs for digestive system	Yes	No	Approved
17	Nifedipine Sustained-release Tablet (II)	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
18	Enalapril Maleate Tablets (two specifications)	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
19	Aripiprazole Capsules	Supplementary Application	Drugs for mental disorders	Yes	No	Approved
20	Aripiprazole Tablets	Supplementary Application	Drugs for mental disorders	Yes	No	Approved
21	Amoxicillin Capsules	Supplementary Application	Antimicrobial drugs	Yes	No	Approved
22	Allopurinol Tablets	Supplementary Application	Anti Gout 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.

- (5) Information about drug (product) that obtained approval  
During the Reporting Period, the Company obtained clinical approval for 12 drugs, and obtained production approval for 4 drugs.

No.	Drugs (products) that obtained approval	Approval matters	Acceptance of application No./Approval No.	Indications	Classification of registration
1	SPH4336 Tablets	Clinical	IND 156878	Liposarcoma	U.S. IND
2	Recombinant Anti- CD20 Humanized Monoclonal Antibody Subcutaneous Injection	Clinical	2021LP00106	CD20-positive B Cell Non-Hodgkin's Lymphoma	Class 1 of biological products for therapeutic use
3	Recombinant Anti- CD20 Humanized Monoclonal Antibody Injection	Clinical	2021LP01846	Aquaporin-4 antibody (AQP4-IgG) positive	Class 1 of biological products for therapeutic use
4	SPH5030 Tablets	Clinical	2021LP01072	Advanced solid tumor	Class 1 of chemicals drug
5	SPH5030 Tablets	Clinical	2021LP01073	Advanced solid tumor	Class 1 of chemicals drug
6	SPH8216 (TK216) Injection	Clinical	2021LP00578	Relapsed/refractory Ewing sarcoma	Class 1 of chemicals drug
7	SPH6516 Tablets	Clinical	2021LP01350	Advanced solid tumor	Class 1 of chemicals drug
8	SPH6516 Tablets	Clinical	2021LP01351	Advanced solid tumor	Class 1 of chemicals drug
9	SPH3127 Tablets	Clinical	2021LP01178	Diabetic nephropathy	Class 1 of chemicals drug
10	SPH3127 Tablets	Clinical	2021LP01179	Diabetic nephropathy	Class 1 of chemicals drug
11	Montelukast Sodium Gel	Clinical	2021LP00038	Hemorrhoids	Class 2.2 and Class 2.4 of chemicals drug
12	Acetic Acid Contraceptive Gel	Clinical	2021LP00832	Contraceptives	Class 2.2 and Class 2.4 of chemicals drug
13	Rosuvastatin Calcium Tablets (5mg)	Manufacturing	Guoyaozhunzi No. H20213421	Lipid regulation and anti-atherosclerosis	Class 4 of chemicals drug
14	Rosuvastatin Calcium Tablets (10mg)	Manufacturing	Guoyaozhunzi No. H20213422	Lipid regulation and anti-atherosclerosis	Class 4 of chemicals drug
15	Caffeine Citrate Injection	Manufacturing	Guoyaozhunzi No. H20213273	Apnea of prematurity	Class 4 of chemicals drug
16	Parecoxib Sodium for Injection	Manufacturing	Guoyaozhunzi No. H20213562	Short-term treatment for pain after surgery	Class 4 of chemicals drug

Note: Acetic Acid Contraceptive Gel is jointly declared by Shanghai Xinya pharmaceutical Minhang Co., Ltd., the holding subsidiary of the Company and Shanghai Institute of Family Planning Science. The latter is the holder.

## Management Discussion and Analysis

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

During the Reporting Period, the Company actively carried out international certification of drugs. The new indications of SPH4336 Tablets for liposarcomahas received clinical approval from FDA; the Hydroxychloroquine Sulfate Raw Material and Hydroxychloroquine Sulfate Tablets (200mg) are under review and approval for their ANDA.

### 5. Cash flows

During the Reporting Period, the net cash flow generated from operating activities of Shanghai Pharmaceuticals was RMB5.061 billion during the Reporting Period, representing a year-on-year decrease of 26.06%; the net cash flow generated from investing activities was RMB-6.016 billion; and the net cash flow from financing activities was RMB1.566 billion. The net cash flow generated from operating activities accounted for 80.66% of net profit.

### Assets and liabilities

Unit: RMB

Items	Current Ending Amount	Proportion of Ending Amount to Total Assets (%)	Last Ending Amount	Proportion of Last Ending Amount to Total Assets (%)	Change ratio of Current Ending Amount to Last Ending Amount (%)	Description
Derivative financial assets	3,284,464.66	0.002	501,339.00	0.0003	555.14	Increase in fair value of derivative financial assets held during the Reporting Period
Notes receivable	1,278,880,689.20	0.78	290,539,262.58	0.19	340.17	Increase in bank acceptance bills held during the Reporting Period
Receivables financing	1,619,009,831.53	0.99	2,485,373,691.07	1.67	-34.86	Decrease in bank acceptance bills held which meet derecognition conditions during the Reporting Period
Long-term equity investment	9,073,275,353.92	5.55	6,651,064,005.61	4.46	36.42	Increase in investments in associates and joint ventures during the Reporting Period
Other equity instruments investment	73,392,413.17	0.04	33,051,720.32	0.02	122.05	Increase in fair value of financial assets during the Reporting Period
Other non-current financial assets	1,388,900,666.61	0.85	978,557,029.53	0.66	41.93	Increase of financial assets measured at fair value during the Reporting Period
Construction in progress	2,914,130,007.74	1.78	1,737,203,979.54	1.16	67.75	Increase in investments in fixed assets during the Reporting Period
Other non-current assets	856,897,933.62	0.52	392,501,251.42	0.26	118.32	Increase in prepayment for construction costs during the Reporting Period
Derivative financial liabilities	774,097.78	0.0005	9,314,855.96	0.006	-91.69	Decrease in fair value of derivative financial liabilities held during the Reporting Period
Non-current liabilities due within one year	582,042,566.55	0.36	8,968,037,785.73	6.01	-93.51	Decrease of long-term borrowings due within one year and bonds payable during the Reporting Period
Other current liabilities	9,232,381,601.62	5.65	5,018,616,438.36	3.36	83.96	Increase of extra short-term financing bills during the Reporting Period
Long-term borrowings	7,157,751,703.48	4.38	1,184,078,311.36	0.79	504.50	Increase in bank borrowings with over one year during the Reporting Period
Other non-current liabilities	227,688,064.66	0.14	144,645,012.23	0.10	57.41	Increase in repurchase payment for equity payable during the Reporting Period

## Analysis on Investment Conditions

### 1. Overall analysis on external equity investments

Unit: RMB0'000

Amount of investment during the Reporting Period	275,941.04
Increase or decrease in amount of investment	-52,905.68
Amount of investment in the same period of last year	328,846.72
Percentage of increase or decrease in amount of investments (%)	-16.09

### 2. Major equity investment

As at 31 December 2021, 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:

Acquiree	Time of acquisition	Purchasing cost (RMB0'000)	Principal business activities	Percentage of shareholding	Capital source	Partner	Whether involved in litigation
Finet Invest OY	28 June 2021	20,349.66	Medical Instruments	100.00%	Own fund	Third parties	No

Name of subsidiary	Disposal price	Disposal ratio	Disposal method	Time of loss of control	Judgment basis at the point of loss of control	The difference between the disposal price and the fair value of the net assets of the subsidiary and the repurchase option granted at the level of the consolidated financial statements corresponding to the disposal of the investment	The amount of other comprehensive income related to the equity investment of original subsidiary transferred to the investment profit and loss
SPH Cloud Health	Not applicable	24.77%	Passive dilution	5 February 2021	Finance and operation of the investee are no longer controlled	RMB1.002 billion	-

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	649.34	162.47	1,156.63	25.93
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100.00%	13.00	278.26	75.66	487.65	9.98
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100.00%	11.92	60.94	32.32	62.22	6.46
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	2.25	33.32	12.04	27.72	0.59
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	18.82	12.24	19.97	0.26
Shanghai TCM Co., Ltd.	Production and sales of drugs	100.00%	14.76	81.22	41.47	65.06	4.30
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75.00%	1.29	40.39	16.97	12.57	0.50
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	1.58	45.09	26.20	58.55	3.16
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	5.46	37.73	30.90	12.05	5.85
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	13.83	8.97	16.45	1.19
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	8.91	6.65	7.17	1.17
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	2.00	5.35	4.21	5.50	0.80
Liaoning Herbex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	1.02	11.32	2.12	9.02	0.88
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	5.14	2.86	3.84	-0.34
SPH Materials Supply and Sales Co., Ltd.	Wholesale of Chemicals and APIs	100.00%	1.01	2.27	1.12	1.42	-0.07
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical instruments	100.00%	1.27	7.76	5.29	4.10	-0.08
SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	1.41	4.25	3.55	1.61	0.02
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	9.97	1.30	12.60	0.48
TECHPOOL Bio-pharma Co., Ltd.	Production and sales of drugs	67.14%	1.00	19.34	15.39	13.54	2.00

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. In 2022, the development trend of the pharmaceutical industry will be mainly reflected in the following aspects:

1. Policies such as volume-based procurement drove pharmaceutical companies to innovate and transform. With the promotion of the normalization of national volume-based procurement, and the exchange of price for quantity of generic drugs, pharmaceutical companies paid more attention to the development of out-of-hospital markets. At the same time, pharmaceutical companies gradually focused on varieties with higher barriers and better competitive pattern, strengthen innovation and technological upgrading, and integrate with the international market to accelerate the transformation to innovation.
2. National medical insurance negotiation 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, have become an important catalyst for increasing the volume of innovative products and improving the penetration rate of innovative products.
3. The development of domestic innovative vaccines was accelerated. The research and development of COVID-19 vaccines promoted 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, and domestic innovative vaccines were expected to usher in a small climax of marketing.
4. The development of traditional Chinese medicines continued to improve. China has always adhered to the attitude of supporting and promoting the development of traditional Chinese medicines. With the implementation of policies and the influence of the COVID-19 pandemic, with its unique advantages in the field of treating chronic diseases, the revitalization and development of traditional Chinese medicines will usher in a new pattern.
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.

## Management Discussion and Analysis

- **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 continue to focus on joint ventures, cooperation or technology transfer with well-known global pharmaceutical companies to open up the global innovation chain and value chain. At the same time, it will actively promote the establishment of open research and development platforms with domestic universities, research institutes, hospitals, etc., and continue to enrich its product line and increase technical ability levels. The Company will vigorously promote the innovation of pharmaceutical business service content and service model, further strengthen the development of advantageous businesses such as drug import services, medical institution supply chain, prescription extension services, and supplier value-added services, and actively use modern information technologies such as cloud computing and big data to continue to innovate business model. Apart from that, the Company will conduct further study on how to deepen the internal mixed reform, incubation and introduction of external investment of state-owned enterprises, establish a new business platform for joint ventures and cooperation in a timely manner, and innovate development paths, models and mechanisms.
- **Focusing on “international development”.** The Company will accelerate the pace of international development, actively participate in international competition, and strengthen the systemic ability of the Company’ preparation products in international registration and sales by exporting preparations passing the certification of European and the U.S.A. and reaching the internationally advanced level. The Company will continue to strengthen overseas R&D cooperation with a global perspective, monitor overseas M&A projects with major markets, and seek opportunities for pharmaceutical investment and export in countries along the “Belt and Road”.
- **With the help of “combination between industry and finance”.** The Company will deepen the operation of integrated production and financing, expand various financing channels and investment methods, ensure that the Company maintains a good capital structure, and improve investment and financing efficiency.

- **Rooted in “intensive development”.** In the pharmaceutical manufacturing segment, the Company will gradually transform and upgrade to an R&D pharmaceutical company driven by technological innovation. To realize that, the Company will continue to improve the management system for efficient and close collaboration in marketing, manufacturing, research and development, and investment, strengthen the professional capacity building of vertical integration management within the Group, enhance the competitiveness of the product portfolio market in the focused fields. Also, it will vigorously promote the construction of a first-class marketing system and further tap the potential of the Group’s exclusive products, specialty products, scarce medicines, traditional Chinese medicine, and rare disease medicines. In the pharmaceutical services sector, the Company will actively adapt to industrial changes, accelerate the commercial network layout and internal resource integration, vigorously promote the construction of provincial platforms, accelerate the downward extension of terminal service networks, actively expand featured businesses, strengthen regional leading advantages, and conduct sound management in key provinces guided by “one province, one strategy”, further improve the construction of the logistics system, orderly promote the storage and logistics upgrade project, strengthen business process optimization and resource sharing, promote the transition from traditional supply chain services to technology-based health services based on “technology + services”, and gradually transform into a service-driven and technology-driven modern health service provider.
- **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 2022, the Company will adhere to the general operating policy of “making ensuring stability a top priority, pursuing progress while ensuring stability, and striving for change while ensuring stability”. “Making ensuring stability a top priority”, the Company will actively respond to the industry change, and strive to overcome the influence of various unfavorable factors to ensure the steady growth of operating performance. “Pursuing progress while ensuring stability, and striving for change while ensuring stability”, the Company will speed up the innovation and development, international development and the digitalization construction of SPH, and introduce the market-oriented system and mechanism to lay a solid foundation for the Company’s longer-term innovation and transformation development.

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.

## Management Discussion and Analysis

In terms of talent team, the Company will further improve the manpower system, optimize the layout of talents, focus on core talents 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

Considering that prevention and control of the COVID-19 epidemic have gradually become part of our daily lives and the regional rebound of the epidemic may occur from time to time, 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”) is pleased to present its report together with the audited annual financial statements of the Group for the year ended 31 December 2021. The annual report has been reviewed by the audit committee of the Company and approved at the 29th 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, SIIC. Its principal business covers pharmaceutical industry, distribution and retail, and Shanghai Pharma possesses unique comprehensive advantages of industry chain, is capable of sharing the sustainable growth opportunity of China’s healthcare and pharmaceutical industry, and furthermore, bringing synergy effect via resources sharing among business sectors.

Details of the principal business of the Group’s main subsidiaries are set out in note 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 (INCLUDING MAJOR RISKS AND UNCERTAINTIES OF RELEVANT BUSINESS AND ITS LIKELY FUTURE DEVELOPMENTS)

For details, please refer to the chapter headed “Management Discussion and Analysis” above.

## RESULTS AND DIVIDEND

The profit of the Group for the year ended 31 December 2021 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 2021: The Company proposes to distribute cash dividend of RMB4.20 (tax inclusive) for every ten Shares to all shareholders. As at the date of this announcement, total proposed cash dividend of RMB1,193,827,293.12 (tax inclusive) shall be distributed based on 2,842,445,936 shares of the total share capital of the Company upon exercise of options under the stock option incentive scheme, accounting for 23.44% 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 RMB27,404,770,741.55. During the Reporting Period, there is no conversion of capital reserve into share capital of the Company.

On 22 March 2022, the Company received the “Approval on the Non-Public Issuance of Shares of Shanghai Pharmaceuticals” issued by the CSRC and published the relevant announcement on the same date. Meanwhile, the first batch share options of 2019 stock option incentive scheme of the Company were under the exercisable period. Based on the above situation, the total share capital may be changed due to non-public issuance and exercise of options before the record date regarding implementation of profit distribution.

## Report of the Board of Directors

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 2021 annual general meeting of the Company.

Cash dividend of H Shares is expected to be paid before 30 August 2022. 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 2021 was RMB3,055,823,875.26 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 2021 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.

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 "2021 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 RMB9,546.28 million, accounting for 4.42% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB3,248.16 million, accounting for 1.51% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB9,980.16 million, accounting for 5.33% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB2,182.92 million, accounting for 1.17% of the total purchase for the year.

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

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

## **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

## **INTEREST OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS**

As of 31 December 2021, 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.

## **CONTRACTS OF MANAGEMENT**

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

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

Unit: Share

Name of shareholder (in full)	Increase/Decrease during the Reporting Period	Number of Shares held at the end of the Reporting Period	Shareholding percentage (%)	Number of trade restricted Shares held	Pledged or frozen	Nature of shareholders
HKSCC NOMINEES LIMITED <sup>note 1</sup>	-45,373,400	749,116,324	26.358	0	Unknown	Foreign legal person
Shanghai Pharmaceutical (Group)	0	716,516,039	25.211	0	Nil	State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi	45,409,700	367,823,198	12.942	0	Nil	State-owned legal person and foreign legal person
China Securities Finance Corporation Limited	0	85,333,703	3.002	0	Unknown	Unknown
Hong Kong Securities Clearing Company Limited <sup>note 2</sup>	3,032,772	53,112,408	1.869	0	Unknown	Foreign legal person
Guosheng Group and Guosheng Assets	0	44,632,100	1.570	0	Nil	State-owned legal person
NSSF 604 Combination	-9,357,406	14,893,700	0.524	0	Unknown	Unknown
Yinhua Fund – Agricultural Bank – Yinhua China Securities and Financial Assets Management Program	0	11,964,367	0.421	0	Unknown	Unknown
Abu Dhabi Investment Authority	9,833,165	11,275,274	0.397	0	Unknown	Unknown
Harvest Fund – Agricultural Bank – Harvest China Securities and Financial Assets Management Program	0	9,986,887	0.351	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 145,521,400 H Shares held by SIIC and its wholly-owned subsidiaries and 23,515,100 H Shares held by Guosheng Group and Guosheng Assets through Southbound Trading. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen;

Note 2: Hong Kong Securities Clearing Company Limited is the nominee holder of the RMB ordinary shares under Shanghai- Hong Kong Stock Connect.

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

As at 31 December 2021, according to the information available to the Company and to the knowledge of the Directors, the following shareholders had interests or short positions in the Shares or underlying Shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued H Shares or A Shares at the general meetings of the Company. Interests and short positions of Directors and Chief Executive are set out 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 H shares/A shares held as at the end of the Reporting Period to the entire issued H Shares/A Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group <sup>Note 1 (1)</sup>	A shares/H shares	Interests of controlled corporation	1,084,339,237(L)	48.82(A shares)/ 15.83(H shares)	38.15
Shanghai Shangshi Group <sup>Note 1 (2)</sup>	A shares	Beneficial owner/Interests of controlled corporation	938,317,837(L)	48.79	33.02
Shanghai Pharmaceutical (Group)	A shares	Beneficial owner	716,516,039(L)	37.26	25.21
BlackRock, Inc.	H shares	Interests of controlled corporation	59,307,467(L) 102,500(S)	6.45 0.01	2.09 0.00
Citigroup Inc.	H shares	Approved lending agent	47,869,107(L) 614,700(S) 46,567,305(P)	5.20 0.06 5.06	1.68 0.02 1.64
LSV ASSET MANAGEMENT	H shares	Investment manager	46,026,070(L)	5.01	1.62

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

Note 1: (1) SIIC is a wholly-owned subsidiary of Shanghai SASAC. SIIC group refers to SIIC and its wholly owned subsidiaries. According to the Decision on Authorising Shanghai Industrial Investment (Holdings) Co., Ltd. to Operate the State-owned Assets of Shanghai Overseas Companies, its Major Overseas Group Companies and Shanghai Shangshi (Group) Co., Ltd. (Hu Guo Zi Wei Shou [1998] No. 6) issued by the Shanghai SASAC in 1998, SIIC was authorised to be the de facto controller of Shanghai Shangshi and is therefore deemed to hold Shares of the Company through Shanghai Shangshi. As at the end of the Reporting Period, SIIC group held 1,084,339,237 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 145,521,400 H Shares were directly held by SIIC group, and 938,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi Group;

(2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi Group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 938,317,837 A Shares held by Shanghai Shangshi Group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi Group, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group).

- Note 2: (1) Figures disclosed above are based on the information provided on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://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 2021, 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.

In conclusion, as at 31 December 2021, 28,330,000 A-share share options were granted by the Company.

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 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.

### 1. PURPOSE OF THE OPTION INCENTIVE SCHEME

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

## 2. DETERMINATION OF AND DISTRIBUTION TO PARTICIPANTS UNDER THE OPTION INCENTIVE SCHEME

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 2021, 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	1.694%	0.017%
Li Yongzhong	Executive Director, vice president	39.00	1.377%	0.014%
Shen Bo	Executive Director, vice president, chief financial officer	39.00	1.377%	0.014%
Zhao Yong	Vice President	33.00	1.165%	0.012%
Mao Jianyi	Vice President	33.00	1.165%	0.012%
Gu Haoliang	Vice President	33.00	1.165%	0.012%
Liu Dawei <sup>Note 1</sup>	Vice President (resigned)	33.00	1.165%	0.012%
Zhang Yaohua	Vice President	33.00	1.165%	0.012%
Chen Jinzhu <sup>Note 2</sup>	Vice President, secretary to the Board, joint company secretary	33.00	1.165%	0.012%
Middle level management and core employees of the Company (229 persons in total, including the initial grant and reserved option grant)		2,509.00	88.563%	0.883%
<b>Total</b>		<b>2,833.00</b>	<b>100.000%</b>	<b>1.000%</b>

Note 1: Mr. Liu Dawei resigned as the vice president of the Company on 26 January 2021 (for details, please refer to the Company's overseas regulatory announcement dated 27 January 2021 (A share announcement Lin No. 2021-005)) and his share options granted remained unchanged as at 31 December 2021.

Note 2: Ms. Chen Jinzhu was appointed as the vice president of the Company on 4 March 2021 (for details, please refer to the Company's overseas regulatory announcement dated 5 March 2021 (A share announcement Lin No. 2021-014)) and her share options granted remained unchanged as at 31 December 2021.

### 3. NUMBER OF SHARE OPTIONS GRANTED UNDER THE OPTION INCENTIVE SCHEME

The number of A-share share options granted under the Option Incentive Scheme is 28,330,000, representing not more than 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 by the General Meetings (being 18 December 2019) on a cumulative basis.

### 5. VESTING PERIOD

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

### 6. EXERCISE PERIOD AND EXERCISE DATE

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

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

## Report of the Board of Directors

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:

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

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

## 7. EXERCISE PRICE

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

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

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

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

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

## 8. VALIDITY PERIOD

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

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

### ***(2) Validity period of the share options***

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

## 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 2021 are as follows:

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

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 2021, no initial granted options and granted reserved options were exercised and cancelled.

## 10. VALUE OF SHARE OPTIONS AND ACCOUNTING POLICIES IN RELATION THERETO

### (1) Value of share options

According to the relevant requirements of the Accounting Standards for Business Enterprises No. 11 – Share-based Payments and Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments issued by the Ministry of Finance, the Company elected the Black-Scholes model (B-S model) for the calculation of the fair value of shares options. As the valuation of options are subject to a number of assumptions and with regard to the limitation of the B-S model, the Company would like to remind all the shareholders and potential investors of the Company that the estimation of such value is subjective and uncertain.

#### Initial Grant

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

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

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

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

## Report of the Board of Directors

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 Hong Kong laws) (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 2021 are set out below (Below value of options are calculated based on the current expected number of exercisable options, subject to subsequent adjustment according to actual conditions):

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

### Reserved Options Grant

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

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

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

- (i) Market price of underlying shares: RMB19.00 per A Share (the closing price of the Company’s Shares on the Reserved Options Grant Date is RMB19.00 per A Share)
- (ii) Exercise price: RMB20.16 per A Share
- (iii) Validity period: 2.5 years, 3.5 years, and 4.5 years (depending on the weighted average exercise period of options vested in each period)
- (iv) Volatility rate: 32.20%, 30.71% and 28.66% (using the Company’s volatility rate in the past 2.5 years, 3.5 years, and 4.5 years)

- (v) Risk-free interest rates: 2.94%, 3.02%, and 3.09% (using the 2.5-year, 3.5-year, and 4.5-year benchmark deposit interest rate of government bonds)
- (vi) Expected dividend yield: 2.03% (using the Company's average dividend yield in the past three years)

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

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 2021 are set out Below value of options are calculated based on the current expected number of exercisable options, subject to subsequent adjustment according to actual conditions):

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

## (2) Accounting policies in relation to share options

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

- (i) Grant Date  
As share options are not exercisable on the Grant Date, accounting treatment is not required. The Company shall determine the fair value of the share options on the Grant Date.
- (ii) Vesting period  
On each balance sheet date during the vesting period, the services obtained in the current period shall, based on the best estimate of the number of the share options, be included in cost of the relevant assets or expenses and the other capital reserves in capital reserves at the fair value of the share options on the Grant Date.
- (iii) Exercise period  
No adjustment shall be made to the relevant costs or expense, and the total amount of the owner's equities, which have been recognized.

## Report of the Board of Directors

(iv) Exercise date

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

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

The Company does not grant any right to any director, supervisor or his/her spouse or children of less than 18 years old to subscribe for any share or bonds of the Company (including its affiliates). Save as disclosed above, for the year ended on 31 December 2021, 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 (original code provision A.1.8) of part II of the Corporate Governance Code. As of the end of Reporting Period, the insurance provision remains effective.

### PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2021, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

### PRE-EMPTIVE RIGHTS

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

### DISCLOSEABLE CONTINUING CONNECTED TRANSACTION UNDER THE HONG KONG LISTING RULES

#### 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 2021, 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 2021 connected transaction	Annual cap for the 2021 connected transaction
During the period from January to December 2021	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	Housing, machinery leasing and property service	4,362.79	10,000.00
During the period from January to December 2021	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	The value of the use right assets involved	2,985.44	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).

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

The Company approved the Proposal regarding Entering into Procurement Framework Agreement and the Daily Related Transactions/Continuing Connected Transactions with Wing Fat Printing Co., Ltd. at the 16th meeting of the seventh session of the Board of Directors held on 19 January 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 RMB60 million for the purchase amount, which will be valid from 1 January 2021 to 31 December 2021.

In 2021, 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 Boards, 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:

## Report of the Board of Directors

Unit: RMB100 million

<b>Date of transaction</b>	<b>Party of connected transaction</b>	<b>Types of connected transaction</b>	<b>Subject of connected transaction</b>	<b>Actual amount of the 2021 connected transaction</b>	<b>Annual cap for the 2021 connected transaction</b>
During the period from January to December 2021	Wing Fat Printing Group	Procure the printed packaging materials from connected companies	Printed packaging materials	0.42	0.6

Note: For details, please refer to Company's announcement dated 20 January 2021 in relation to entering into the Procurement Framework Agreement (A share announcement Lin No. 2021-003). 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.

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

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

In 2021, the actual amount of continuing connected transactions between the Group and the Finance Company under the Financial Services Agreement did not exceed the above-mentioned maximum amount approved by the annual general meeting, and the highest applicable percentage ratio corresponding the actual amount was higher than 5%. Therefore, the transaction shall be subject to reporting, annual review, announcement and independent shareholders' approval requirements. Actual loan services were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for such loan services; the highest applicable percentage ratio for actual settlement and financial services provided by connected company, calculated on an annual basis, were less than 0.1%. Details are as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2021 connected transaction	Annual cap for the 2021 connected transaction
During the period from January to December 2021	Finance Company	Deposit service provided by connected company	Deposit service (maximum daily balance)	28.99	30

Note: For details, please refer to Company's announcement dated 29 March 2019 in relation to the renewal of financial services agreement and the Company's announcement dated 28 June 2019 in relation to poll results of general meetings (A share announcements Lin No. 2019-021, 054); as the Company holds 30% of the equity interests in the Finance Company, and the shareholding in Finance Company by Shanghai Shangshi, the Controlling Shareholder of the Company, is more than 10%, the Finance Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

### Commercial Factoring Services Framework Agreement renewed between the 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 2021, 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:

## Report of the Board of Directors

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2021 connected transaction	Annual cap for the 2021 connected transaction
During the period from January to December 2021	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 Shanghai Financial Leasing Co., Ltd is more than 10%, the Factoring Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

### Confirmation of continuing connected transactions

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

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

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

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

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

## OTHER DISCLOSEABLE CONNECTED TRANSACTIONS UNDER THE HONG KONG LISTING RULES

### Series B Financing of SPH Cloud Health

The original shareholders (the Company and SHAPHAR) entered into the Capital Increase Agreement with the investors (the seven investors who subscribed for the additional registered capital of SPH Cloud Health pursuant to the Capital Increase Agreement) and SPH Cloud Health on 12 January 2021, whereby the investors agreed to subscribe for the additional registered capital, totaling RMB688.5625 million, of SPH Cloud Health for a consideration of RMB1,032.84375 million in accordance with the terms and conditions of the Capital Increase Agreement; Shanghai Pharmaceuticals waived its right of first refusal in this round of financing (this capital increase). After the completion of this capital increase, the Company directly and indirectly held a total of approximately 47.974% equity interest in SPH Cloud Health. SPH Cloud Health ceased to be a subsidiary of the Company and its financial results were no longer included in the Company's consolidated financial statements. The original shareholders and the investors also entered into a shareholders' agreement in relation to, among other things, the corporate governance of SPH Cloud Health and the relationship between the shareholders. For details, please refer to the Company's announcement dated 10 February 2021 in relation to deemed disposal of SPH Cloud Health (A share announcement Lin No. 2021-008)

As Shanghai Huadong Industry Co., Ltd., one of the investors, is a wholly-owned subsidiary of Shanghai Shangshi, the controlling shareholder of the Company, and is a connected person of the Company, and therefore the transaction constitutes a connected transaction for the Company. As the maximum applicable percentage ratio for the transaction is higher than 0.1% but lower than 5%, the transaction is only subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement.

### Directed non-public issuance of A Shares

On 11 May 2021, the Board approved, among other things, the proposed non-public issuance of A shares and the Company entered into the Shanghai Tandong Subscription Agreement and the Yunnan Baiyao Subscription Agreement with Shanghai Tandong Corporate Advisory Services Co., Ltd. (“Shanghai Tandong”) and Yunnan Baiyao, respectively. Subject to the satisfaction of the relevant conditions precedent, the Company will issue a maximum of 187,000,000 A Shares and 665,626,796 A Shares (representing no more than 30% of the total number of issued shares of the Company prior to the proposed non-public issuance of A shares) to Shanghai Tandong and Yunnan Baiyao respectively, at the issue price of RMB16.87 per A share. The proceeds from the proposed non-public issuance of A shares are expected to be no more than RMB14,383,814,048.52. For details, please refer to the announcement and circular of the Company dated 12 May 2021 and 26 July 2021 in relation to the proposed non-public issuance of A shares, such connection was considered and approved at the extraordinary general meeting, the A-share class meeting and the H-share class meeting on 12 August 2021.

On 22 March 2022, the Company received the “Approval on the Non-Public Issuance of Shares of Shanghai Pharmaceuticals” issued by the CSRC.

Shanghai Tandong, one of the subscribers, is a wholly-owned subsidiary of Shanghai Shangshi, a controlling shareholder of the Company and therefore Shanghai Tandong is a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. As such, under Chapter 14A of the Hong Kong Listing Rules, the transaction under the Shanghai Tandong Subscription Agreement constitutes a connected transaction of the Company and is subject to the reporting, annual review and announcement requirements and independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

### Acquisition of 100% shares of SPH Biological Medicine

On 27 May 2021, the Company entered into an equity transfer agreement with Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (“Shanghai Asia Pioneer”), pursuant to which, Shanghai Asia Pioneer agreed to transfer 100% equity interest in Shanghai SPH Biological Medicine Co., Ltd. (“SPH Biological Medicine”) to the Company at a consideration of RMB750,808,416.07, subject to the filing to the state-owned assets supervision and administration department. Upon the completion of the acquisition, the Company will directly hold 100% equity interest in SPH Biological Medicine. SPH Biological Medicine will become a wholly-owned subsidiary of the Company and its financial results will be included into the consolidated financial statements of the Group. For details, please refer to the Company’s announcements dated 28 May 2021 and 1 June 2021 in relation to acquisition of 100% equity interest in SPH Biological Medicine.

As Shanghai Asia Pioneer is a wholly-owned subsidiary of Shanghai Pharmaceutical (Group), a controlling shareholder of the Company, it constitutes a connected person of the Company under Rule 14A.07 of the Hong Kong Listing Rules. As such, according to Chapter 14A of the Hong Kong Listing Rules, acquisition of 100% equity interest in SPH Biological Medicine constitutes a connected transaction of the Company and the highest applicable percentage ratio is more than 0.1% but less than 5%, such transaction is subject to the reporting, annual review and announcement requirements but exempt from circular and the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

## 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 “2021 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 2021 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

Unit: RMB100 million

Name of Bond	Abbreviation	Code	Date of Issue	Due Date	Balances of the Bonds	Interest Rate (%)	Repayment of principal and interest	Trading Place
Shanghai Pharmaceuticals Holding Co., Ltd. Public Issuance of 2018 Corporate Bonds (first tranche)	18 SPH 01	155006.SH	5 November 2018	7 November 2021	-	4.10	Interest paid annually, with the last installment of interest paid together with the principal	Shanghai Stock Exchange

“18 SPH 01” are issued to eligible investors. The due date of the corporate bonds of this tranche is 7 November 2021, and the Company has completed the payment of the interest of the bonds, which was RMB123.00 million in total. The proceeds from the corporate bonds of this tranche was mainly used to supplement the working capitals and repay the bank borrowings and other interest-bearing debts.

## CAPITAL STRUCTURE AND LIQUIDITY

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 63.86% as at 31 December 2021, representing an increase of 0.55 percentage point on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 6.36 times (2020: 6.08 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 26.18%.

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 2021 were RMB29.706 billion, nil and RMB9.077 billion, respectively, of which the balance of loans in US Dollar amounted to RMB3.007 billion, the balance of loans in New Zealand Dollar amounted to RMB277 million, the balance of loans in Euro amounted to RMB7 million, the balance of loans (including long and short-term bonds) at a fixed interest rate amounted to approximately RMB34.634 billion. The net amount of accounts receivable and notes receivable as at 31 December 2021 was RMB59.387 billion, representing an increase of 11.97% 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 2021, the balance of accounts payable and notes payable was RMB41.995 billion, representing an increase of 11.12% 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 2021, the balance of the Group's other monetary funds was RMB2,253 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 2021, the Group pledged the accounts receivable with the book value of RMB900 million to the bank as a guarantee for short-term borrowings of RMB665 million.

As at 31 December 2021, the Group pledged the accounts receivable with the book value of RMB191 million to the bank as a guarantee for long-term borrowings of RMB116 million and long-term borrowings due within one year of RMB2 million.

As at 31 December 2021, houses, buildings, machinery and equipment with a book value of RMB369 million (original price: RMB591 million) and land use rights of 295,500 square meters (original price: RMB389 million, book value: RMB378 million) were used as collateral for RMB368 million of short-term borrowings, RMB75 million of long-term borrowings and RMB26 million of long-term borrowings due within one year.

As at 31 December, 2021, the bank pledged borrowings of RMB941 million were short-term borrowings obtained by discounting commercial acceptance bills of RMB88 million, the short-term borrowings obtained by discounting bank acceptance bills of RMB163 million, the short-term borrowings obtained by discounting letters of credit of RMB25 million, and the short-term borrowings obtained by using the accounts receivable with book value of RMB900 million as collaterals.

As at 31 December 2021, the 100% equity interest in Shanghai Fimet Medical Instrument Co., Ltd. (a subsidiary of the Group) was pledged for the pledged bank borrowings of RMB84 million.

## 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		Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter guarantee	Guarantee provided to related parties	Connected relationship
				(date of agreement)	Commencement date of guarantee							
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	372,547.00		2020/10/22	2021/1/22	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	464,056.43		2020/10/22	2021/4/22	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	98,562.52		2020/11/20	2021/2/20	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	555,235.24		2020/11/20	2021/5/20	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	573,392.82		2020/11/26	2021/5/26	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	160,410.67		2020/12/23	2021/3/23	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	10,080.00		2020/12/23	2021/6/23	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	568,877.76		2020/8/26	2021/2/26	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	244,944.00		2020/9/10	2021/3/10	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	431,613.28		2020/9/21	2021/3/21	Joint guarantee	Yes	No	No	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	6,449,961.29		2020/9/27	2021/3/27	Joint guarantee	Yes	No	No	No	Associate

External guarantees provided by the Company (excluding those provided to its subsidiaries)														
Guarantor	Relationship between the guarantor and the listed company		Guaranteed party	Value of guarantee	Date of guarantee			Type of guarantee	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of counter guarantee	Any Guarantee parties	Guarantee provided to related parties	Connected relationship
	Wholly-owned subsidiary	Wholly-owned subsidiary			(date of agreement)	Commencement date of guarantee	Expiry date of guarantee							
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	333,539.86	2021/3/25	2021/6/25	Joint guarantee	Yes	No	No	No	Associate		
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	Chongqing Medicines Shanghai Pharma Sales Co., Ltd	723,130.66	2021/3/25	2021/7/25	Joint guarantee	Yes	No	No	No	Associate		
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)											1,056,670.52			
Total remaining balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)												–		
Guarantees provided by the Company and its subsidiaries to its subsidiaries														
Total value guaranteed for its subsidiaries during the Reporting Period											12,005,291,975.87			
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)											8,503,520,317.66			
Total value guaranteed by the Company (including guarantees to subsidiaries)														
Total value guaranteed (A+B)											8,503,520,317.66			
Proportion of total value guaranteed in the Company's net assets (%)											17.23			
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)											2,984,927,608.20			
Amount of total value guaranteed exceeding 50% of net assets (E)												/		
Total of value guaranteed for the above three items (C+D+E)											2,984,927,608.20			
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	183
Number of in-service employees of the major subsidiaries	40,314
Total number of in-service employees	47,056
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	277

### Composition of professions

Type of profession	Number of staff in the profession
Production staff	13,389
Sales staff	19,397
Technical staff	6,046
Finance staff	1,893
Administrative staff	4,729
Others (Service staff)	1,602
Total	47,056

### Education level

Type of Education Level	Number of persons
PhD	139
Master	1,808
University graduate	13,816
College graduate	15,121
Specialized secondary school (high school) graduate	4,936
Below specialized secondary school graduate	11,236
Total	47,056

## 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 (7) of financial statements.

In 2021, 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 (29) 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, Pharmacy Knowledge Popularization Class, Management Competency Improvement Class for Various Professional Lines, 3 Major Theme Forums (medical professional class, management new knowledge class, cultural general knowledge class) and etc.

In 2021, Shanghai Pharma University developed from version 1.0 to version 2.0 and transformed itself from management-driven curriculum-based training to business-driven, practical and customized training. Meanwhile, Shanghai Medicine University pushed forward the implementation of the "dynamic development strategy with six verticals and six horizontals" to improve Shanghai Pharmaceuticals' talent training system. It organized training projects at various levels. In 2021, a total of 6,900 people participated in the training of Shanghai Pharma University, completing 121 on-site training sessions and 45 online courses, with a total of 1,413 hours of learning. 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 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 classes on popularization of pharmacy knowledge and development of internationalization ability for middle and senior managers to enrich the knowledge reserve of "knowing medicine, loving medicine and manufacturing good medicine" and broaden international management horizon for leaders respectively. 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.

## PUBLIC FLOAT

As at 31 December 2021, the total share capital of the Company was 2,842,089,322 Shares (1,923,016,618 A Shares and 919,072,704 H Shares), including 2,842,007,722 Shares without trade restrictions (1,922,935,018 A Shares and 919,072,704 H Shares). 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.

## CHANGES IN AUDITORS FOR PAST THREE YEARS

In 2019, the Company appointed PricewaterhouseCoopers Zhong Tian LLP as the Company's domestic auditor for 2019 and appointed PricewaterhouseCoopers as the Company's overseas auditor for 2019.

In 2020, in view that the Company intended to align the preparation of its financial statements in accordance with China Accounting Standards and PricewaterhouseCoopers Zhong Tian LLP, the domestic auditor of the Company, has been approved by the MOF and the CSRC and eligible to provide auditing services by using the China Standards on Auditing to the Mainland China incorporated issuers listed in Hong Kong, the Board proposed to terminate the re-appointment of its overseas auditor, which was considered and approved at the general meeting. The Company appointed PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor for 2020 to undertake other responsibilities of overseas auditor which are required by the Hong Kong Listing Rules as well. PricewaterhouseCoopers has confirmed that there were no matters regarding the termination of its re-appointment as the Company's overseas auditor that need to be brought to the attention of the Shareholders. There is no disagreement between the Company and PricewaterhouseCoopers regarding the termination of its reappointment.

In 2021, the Company reappointed PricewaterhouseCoopers Zhong Tian LLP as the Company's auditor for 2021.

## 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 2021.

## Directors, Supervisors and Senior Management

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

Unit: Share

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/Decrease of Shares during the year	Reasons for change (increase/decrease)	Total Remuneration payable by the Company during the Reporting Period (RMB10,000) (before tax)	Whether obtained salary from connected parties of the Company
Zhou Jun	Chairman, Non-Executive Director	Male	53	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Ge Dawei	Vice Chairman, Non-Executive Director	Male	59	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Cho Man	Executive Director, President	Male	61	27 June 2019	27 June 2022	20,009 A Shares	20,009 A Shares <sup>Note 1</sup>	0	/	586.64	No
Li Yongzhong	Executive Director, Vice President	Male	52	27 June 2019	27 June 2022	0	0 <sup>Note 2</sup>	0	/	574.44	No
Shen Bo	Executive Director, Vice President, Chief Financial Officer	Male	49	27 June 2019	27 June 2022	71,700 A Shares	71,700 A Shares <sup>Note 3</sup>	0	/	543.44	No
Li An	Non-Executive Director	Female	61	27 June 2019	27 June 2022	0	0	0	/	0	No
Cai Jiangnan	Independent Non-Executive Director	Male	65	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Hong Liang	Independent Non-Executive Director	Male	47	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Gu Zhaoyang	Independent Non-Executive Director	Male	56	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Manson Fok	Independent Non-Executive Director	Male	65	27 June 2019	27 June 2022	0	0	0	/	30.00	No
Xu Youli	Chief Supervisor	Male	48	27 June 2019	27 June 2022	0	0	0	/	0	Yes
Huan Jianchun	Employee Supervisor	Male	60	27 June 2019	27 June 2022	3,000 H Shares	3,000 H Shares	0	/	0	Yes
Xin Keng	Supervisor	Male	55	27 June 2019	27 June 2022	0	0	0	/	0	No
Zhao Yong	Vice President	Male	50	27 June 2019	27 June 2022	0	0	0	/	436.83	No
Mao Jianyi	Vice President	Male	54	27 June 2019	27 June 2022	0	0	0	/	406.10	No
Gu Haoliang	Vice President	Male	60	27 June 2019	27 June 2022	0	0	0	/	483.85	No
Zhang Yaohua	Vice President	Male	49	27 June 2019	27 June 2022	0	0	0	/	437.85	No
Chen Jinzhu	Vice President, Secretary to the Board of Directors, Joint Company Secretary	Female	36	29 August 2019	27 June 2022	0	0	0	/	357.05	No
Total	/	/	/	/	/	91,709 A Shares 3,000 H Shares	91,709 A Shares 3,000 H Shares	0	/	3,946.20	/

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 of Arts from Nanjing University, a master of Economics in International Finance from Fudan University and a Ph.D. 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 over 20 years of professional experience in securities, merger and acquisition, financial investment, real estate, project planning and corporate management. He is currently an executive director and a president of Shanghai Industrial Investment (Holdings) Co., Ltd. He is also the vice chairman 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), and the vice chairman of Shanghai Overseas United Investment Co., Ltd. (上海海外聯合投資股份有限公司). Mr. Zhou Jun is also a member of the executive committee of the Chinese People's Political Consultative Conference in Shanghai, the chairman of Shanghai Pharmaceutical Profession Association, Shanghai Environment Protection Industry Association and Shanghai Young Entrepreneurs Association.

Mr. Zhou Jun joined Shanghai Industrial Investment (Holdings) Co., Ltd. in April 1996 and held the positions of the executive director of Shanghai Industrial Urban Development Group Limited (stock code 00563), 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 has a bachelor's degree in pharmacy from Sichuan University (former West China University of Medical Science) and a master's degree in management from the School of Management of Fudan University. He is a senior economist. Mr. Cho is currently an executive director and the president of the Company and holds directorship in certain subsidiaries of the Company. He served as vice chairman and chief executive officer of the Wing Fat Printing Co., Ltd., vice president of China Resources Pharmaceutical Group Limited, deputy general manager of Sanjiu Enterprise Group, chairman and general manager of Sanjiu Economic Trading Co., Ltd. and Nine Stars Printing and Packaging Co., Ltd., vice director and head of sales department of Shenzhen South Pharmaceutical Factory, and head of transfusion medicine department, head of the drug injection department and pharmacist of Nanfang Hospital, First Military Medical University, Guangzhou, etc.

### Li Yongzhong

Mr. Li Yongzhong is an executive master of business administration from the China Europe International Business School. He is qualified as a pharmacist. He is currently the executive director and vice president of the Company and the general manager and director of Shanghai 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 is a master of professional accountancy from Chinese University of Hong Kong and a Chinese Certified Public Accountant. He is currently the executive director, vice president and chief financial officer of the Company, and holds directorships in certain subsidiaries of the Company. Mr. Shen Bo is currently the non-executive directors of Tianda Pharmaceuticals Limited (a company listed on the Hong Kong Stock Exchange) (stock code 00455) and Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the science and technology innovation board of the Shanghai Stock Exchange with stock codes 01349 and 688505, respectively). His previous positions included the deputy manager of the finance department of Shanghai Jinling Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd., and the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd, etc.

### Li An

Ms. Li An obtained a bachelor's degree in Engineering from Shanghai University of Science and Technology and is a senior economist. She is currently the non-executive director of the Company. Ms. Li An is currently a director 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's degree in Economics from East China Normal University, a master's degree in Economics from Fudan University and a Ph.D. in Social Politics from Brandeis University in the United States of America. Mr. Cai is currently the independent non-executive director of the Company. Mr. Cai Jiangnan has been engaged in teaching, researching and consulting in respect of health economics and health policy in universities, consulting companies and government departments in both China and the United States of America for nearly 30 years and published a large number of influential research results. He is currently the founder and executive director of Shanghai Chuangqi Health Development Research Institute (上海創奇健康發展研究院). He is also independent directors of WuXi AppTec Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange with stock codes 02359 and 603259, respectively), and Beta Pharmaceuticals Co., Ltd. (a company listed on the Shenzhen Stock Exchange) (stock code 300558). He previously served as the independent director of each of Harmonicare Medical Holdings Limited (stock code 01509) and Zhejiang DI'AN Diagnostics Co., Ltd. (stock code 300244), the director of Health Management and Policy Center in and an adjunct professor of economics in China Europe International Business School, Senior Research Scientist of health policy of the Health & Social Services of Massachusetts, U.S.A (美國麻省衛生福利部), the first head of the Department of Public Economics in School of Economics, Fudan University and the director of the Institute of Economic Development, East China University of Science and Technology, etc.

### Hong Liang

Mr. Hong Liang obtained a bachelor's degree in Economic Law from East China University of Political Science and Law and a master's degree in International Comparative Law from Chicago-Kent College of Law in the United States of America. He is currently the independent non-executive director of the Company. Mr. Hong Liang has extensive experience in corporate law, finance law, state assets and state-owned enterprises and other related law fields. He is currently the Founding Partner of Shanghai Zhihe Law Firm (上海至合律師事務所), an independent director of Shanghai Weaver Software Co., Ltd. (上海泛微網絡科技股份有限公司, stock code: 603039), 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 holds a B.A. degree in English from Tsinghua University, an M.A. degree in Management from Renmin University of China, and a M.A. degree in Economics and Ph.D. degree in Accounting from Tulane University U.S.A. He is a CPA (non-practicing) in the U.S.A. He is currently an independent non-executive director of the Company and a Professor of Accountancy, and an Outstanding Fellow of the Faculty of Business Administration at the Chinese University of Hong Kong (CUHK). Previously he was an Assistant and Associate Professor at Carnegie Mellon University, and an Associate Professor and Honeywell Professor in Accounting at the Carlson School of Management, University of Minnesota, where he was also the person in charge of the Accounting Ph.D. program. Dr. Gu Zhaoyang has taught financial accounting, managerial accounting, financial statement analysis and capital market accounting research at the undergraduate, MBA, EMBA and Ph.D. levels, and has published several research papers and served as a referee at a number of top academic journals.

### Manson Fok

Mr. Manson Fok is a Bachelor of Medicine and Bachelor of Surgery, a Fellow of the Royal College of Surgeons of Edinburgh, United Kingdom, a Fellow of the Hong Kong College of Surgeons, and a Fellow of the Hong Kong Academy of Medicine (Surgery). He is currently an independent non-executive director of the Company. Mr. Manson Fok has been committed to the study of esophagus and upper gastrointestinal diseases and vascular diseases for many years, actively promoting the development of minimally invasive surgery, and has published many articles on international medicine and written chapters of over 10 professional books. Currently, he serves as the Dean of Faculty of Medicine of the Macau University of Science and Technology (MUST), the Dean and the chairman of the board of directors of the MUST Hospital. He also holds key positions in various foundations, professional committees and medical associations, and is a visiting professor at many well-known institutions in China. He previously served as the vice chairman of the Endoscopy Skills Evaluation Committee of the Ministry of Health of China, the executive deputy director and the head of the Surgical Department of the Kiang Wu Hospital of Macau, a doctor of the Hong Kong Tung Wah Hospital and a senior lecturer of the Queen Mary Hospital of Hong Kong, etc.

### Xu Youli

Mr. Xu Youli obtained a bachelor's degree in Economics from the University of Finance and Economics in Shanghai and a master's degree of Business Administration degree from Fudan University. He is a senior accountant, certified public accountant and an international certified internal auditor. Mr. Xu is currently the chief supervisor of the Company. Mr. Xu currently serves as the vice president of Shanghai Industrial Investment (Holdings) Co. Ltd.. He was previously a manager of the supervision and audit department of East China Branch of China Huaneng Group and a director of Shanghai Industrial Development Co., Ltd. (stock code 600748).

### Huan Jianchun

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

### Xin Keng

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

### Zhao Yong

Mr. Zhao Yong holds a Master of Laws degree from the International Politics Department of Fudan University, and is a graduate of Advanced Business Administration from Cheung Kong Graduate School of Business. He currently serves as the deputy secretary to the Party Committee and vice president of the Company and the 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 and holds directorship in certain subsidiaries of the Company. He served as vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd. and Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., and director of Shenzhen Kondarl (Group) Co. Ltd. (stock code 000048), etc.

## Directors, Supervisors and Senior Management

### Gu Haoliang

Mr. Gu Haoliang obtained a bachelor's degree of Industrial Accounting in Shanghai University of Finance and Economics, a Ph.D. of business administration of ESC RENNES School of Business, France. He is a senior economist and senior accountant. He is currently the vice president of the Company, the chairman of the Company's subsidiaries, SPH Sine Pharmaceutical Factory Co., Ltd. and Xiamen Traditional Chinese Medicine Co., Ltd., the head of the marketing center of the Company, and holds directorship in certain subsidiaries of the Company. He was also the former chief financial officer of the prescription medicine business department of Shanghai Pharmaceutical (Group) Co., Ltd., the general manager of SPH Sine Pharmaceutical Factory Co., Ltd., the general manager of Shanghai Sine Tianyi Pharmaceutical Co., Ltd., the deputy general manager of Shanghai Honglian Electric Appliance Co., Ltd., the deputy general manager of Shangling Tian'an Refrigerator Co., Ltd., the deputy general manager of Hengtai Textile Co., Ltd., the finance director of Shanghai Aerospace Bureau 802 Institute, etc.

### Zhang Yaohua

Mr. Zhang Yaohua has a bachelor's degree in Polymer Chemistry from Fudan University and a MPAcc from Shanghai National Accounting Institute – Shanghai University of Finance and Economics, is an engineer and an economist. He is currently a vice president of the Company and holds directorship in certain subsidiaries of the Company. He previously served as the general manager of department of strategy and investment of the Company, Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd and SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司), etc.

### Chen Jinzhu

Ms. Chen Jinzhu holds a bachelor's degree in economics and management from the University of Oxford and a Ph.D. degree in economics from Harvard University. She is a senior economist and Chartered Financial Analyst (CFA), and holds a number of professional qualifications in the fields of finance and investment. She is currently the vice president, secretary to the board of directors, joint company secretary and the director of the Board Office. She previously served as an assistant investment consultant at the Beijing Branch of the Private Banking Division, assistant general manager and then deputy general manager of the Gongyi Sub-Branch, and the general manager of the Business Center Sub-Branch of Henan Branch, of Industrial and Commercial Bank of China Limited; director of international business of China Minsheng Investment Co., Ltd.; deputy general manager of the International Business Center and regional head of the Hong Kong Office of Anbang Insurance Group Co., Ltd., etc.

## POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHAREHOLDER ENTITY

Name of personnel	Name of shareholder entities	Position held in the shareholder entity	Starting date of term of office	Expiry date of term of office
Zhou Jun	Shanghai Industrial Investment (Holdings) Co., Ltd.	Executive director	May 2012	Up to date
		President	September 2016	Up to date
	Shanghai Shangshi (Group) Co., Ltd.	Vice chairman and president	September 2016	Up to date
	Shanghai Pharmaceutical (Group) Co., Ltd.	Chairman, director and president	February 2017	Up to date
Ge Dawei	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice chairman and executive director	September 2017	Up to date
	Shanghai Pharmaceutical (Group) Co., Ltd.	Vice chairman	December 2019	Up to date
Li An	Shanghai Shengrui Investment Co., Ltd.	Executive director	January 2016	December 2021
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
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	Up to date
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

## Directors, Supervisors and Senior Management

Name of personnel	Name of other entities	Position held in other entities	Starting date of term of office	Expiry date of term of office
Li Yongzhong	Cardinal (China) Investment Co., Ltd.	Chairman	January 2018	July 2021
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
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	Shanghai Medical Instruments Co., Ltd.	Chief supervisor	October 2018	January 2021
		Chairman	January 2021	Up to date
Shen Bo	SPH Project Biocad Limited	Director	May 2019	Up to date
Shen Bo	SPH-Biocad (HK) Limited	Director, CEO	October 2019	Up to date
Shen Bo	Shanghai Pharmaceutical Imp. & Exp. Co., Ltd.	Executive director	December 2019	Up to date
Shen Bo	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)	Vice chairman	August 2020	Up to date
Huan Jianchun	Shanghai Pharmaceutical Co., Ltd.	Supervisor	June 2020	Up to date
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
Mao Jianyi	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	June 2013	July 2021
Gu Haoliang	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Chairman	June 2014	Up to date
Gu Haoliang	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Director	August 2016	Up to date
Gu Haoliang	Shanghai Pharma Sales Co., Ltd.	Chairman	September 2016	Up to date
Gu Haoliang	SPH Qingdao Growful Pharmaceutical Co., Ltd.	Director	September 2016	Up to date
Gu Haoliang	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Chairman	January 2018	Up to date
		Director	November 2010	Up to date
Gu Haoliang	Shanghai Sine United Medicinal Herbs Co., Ltd.	General manager	August 2018	Up to date
Gu Haoliang	Shanghai Shangke Pharmaceutical Co., Ltd.	Chairman	December 2018	Up to date
Gu Haoliang	Liaoning Herbpex Pharmaceutical (Group) Co., Ltd.	Director	March 2019	Up to date
		Chairman	June 2020	Up to date
Gu Haoliang	Sichuan Guojia Pharmaceutical Science & Technology Co., Ltd.	Director	December 2019	Up to date
Gu Haoliang	Xiamen Traditional Chinese Medicine Co., Ltd.	Chairman	April 2020	Up to date
Gu Haoliang	SPH Industrial Marketing Management Co., Ltd. (上海醫藥集團工業營銷管理有限公司)	Executive director	November 2020	Up to date
		General manager	November 2020	Up to date
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	May 2017	Up to date

## 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
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	Up to date
Zhang Yaohua	SPH PHILILAB, INC	Director	March 2020	Up to date
Zhang Yaohua	Shanghai SPH Innovational Pharmaceutical Co., Ltd. (上海上藥創新製藥有限公司)	Executive director	August 2020	Up to date
Chen Jinzhu	Shanghai Pharmaceuticals (HK) Investment Limited	Director, General manager	November 2020	Up to date
Chen Jinzhu	Shanghai Pharmaceutical Grand Health Cloud Commerce Co., Ltd.	Director	June 2020	Up to date
Chen Jinzhu	Shanghai Ruijian Capital Management Co., Ltd.	Director	June 2020	Up to date
Chen Jinzhu	Shanghai Lianyi Investment Center	Member of the investment committee	May 2021	Up to date

## CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Note: Mr. Liu Dawei ceased to be the vice president of the Company since 22 January 2021 (for details, please refer to the Company's overseas regulatory announcement dated 27 January 2021 (A share announcement Lin No. 2021-005)). Ms. Chen Jinzhu has served as the vice president of the Company since 4 March 2021 (for details, please refer to the Company's overseas regulatory announcement dated 5 March 2021 (A share announcement Lin No. 2021-014)), and continued to act as the secretary to the Board and joint company secretary (for details, please refer to the Company's announcement dated 30 August 2019 in relation to the change of board secretary, joint company secretary and authorised representative).

## Corporate Governance Report

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

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

### COMPLIANCE WITH THE MODEL CODE BY DIRECTORS AND SUPERVISORS

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

### BOARD OF DIRECTORS

#### Composition of the board of directors

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

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

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

#### Primary duties of the board of directors

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

## Board meetings

In accordance with code provision C.5.1 (original code provision A.1.1) and code provision C.2.7 (original code provision A.2.7) of part II of the Corporate Governance Code, during the Reporting Period, the Board held at least four regular meetings every year, which were convened by the chairman and notices of board meetings were served on all directors and supervisors as required by relevant requirements; independent non-executive directors met with the chairman individually at least once.

During the Reporting Period, the board of directors held a total of twelve meetings, at which proposals were considered in relation to the Company's business results, financial accounts and budgets, policies formulation, profit distribution, non-public issuance of A shares, connected transactions as well as the performance of the corporate governance function, etc.

## COMMITTEES UNDER THE BOARD

### Remuneration and assessment committee

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

During the Reporting Period, the remuneration and assessment committee held two meetings, at which the performance review report on senior management and the proposal for appraisal of operating results and remuneration standards of the senior management were discussed.

### Audit committee

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

During the Reporting Period, the audit committee held a total of nine 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, non-public issuance of A shares, etc.

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

### Strategy committee

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

During the Reporting Period, the strategy committee held one meeting, at which the “14th Five” Operation and Development Plan Summary for the Company was discussed.

### Nomination committee

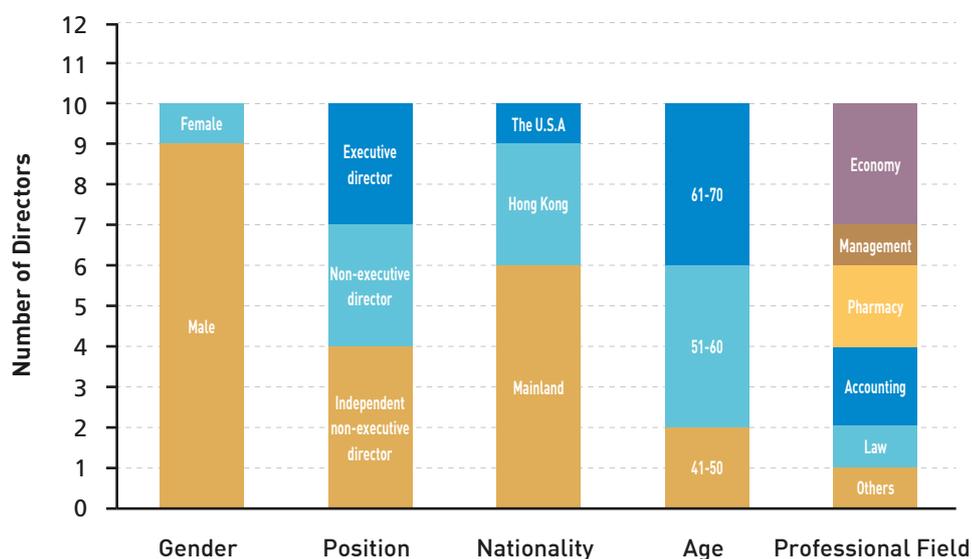
The nomination committee under the board of directors of the Company consists of three directors, including Mr. Cai Jiangnan (an independent non-executive director) acting as its convener/chairman, Mr. Cho Man (an executive director) and Mr. Hong Liang (an independent non-executive director). The nomination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

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

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

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

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



## ATTENDANCE OF DIRECTORS AND COMMITTEE MEMBERS

The following table sets forth the attendance of each director during their terms of office at meetings of the Board and board committees and the Company's general meeting for the year ended 31 December 2021:

Name of Director	Attendance/Numbers of Meetings					
	Board of Directors	Remuneration and assessment committee	Audit committee	Strategy committee	Nomination committee	General Meeting
<b>Executive directors</b>						
Mr. Cho Man	12/12				1/1	2/2
Mr. Li Yongzhong	12/12					2/2
Mr. Shen Bo	12/12					2/2
<b>Non-executive directors</b>						
Mr. Zhou Jun	12/12			1/1		2/2
Mr. Ge Dawei	12/12	2/2				2/2
Ms. Li An	12/12					0/2
<b>Independent non-executive directors</b>						
Mr. Cai Jiangnan	12/12			1/1	1/1	1/2
Mr. Hong Liang	12/12	2/2	9/9		1/1	2/2
Mr. Gu Zhaoyang	12/12	2/2	9/9			2/2
Mr. Manson Fok	12/12		9/9	1/1		2/2

## **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 2021 was set at RMB24.50 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.60 million (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the auditor of the Company, PricewaterhouseCoopers Zhong Tian LLP.

In 2021, a non-audit service fee of approximately RMB0.8122 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 2021.

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 2021, such system of the Company is considered operating effectively and adequately.

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

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

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

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

## SHAREHOLDER'S RIGHTS

The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised and their legitimate interests can be safeguarded and that the general meetings can be convened and held in strict compliance with the relevant laws and regulations. The Articles of Association and rules of procedures for the general meeting 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 the management of investor relations, and global investor call meetings were held regularly and launched global institutional investor's road show activities, actively participated in and received investors' survey. Meanwhile, the Company positively responded to and answered the investor's questions through the "SSE E interactive platform", investor hotline and e-mails.

## **COMPANY SECRETARY**

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Ms. Chen Jinzhu and Ms. Leung 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 2021, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules. The main internal main contact person of the Company of Ms. Leung Shui Bing is the vice president, board secretary and joint company secretary of the Company, Ms. Chen Jinzhu.

## **DIRECTOR'S CONTINUOUS PROFESSIONAL DEVELOPMENT**

During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills. Each director is provided with necessary training and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company regularly provides all the directors with monthly data summary, latest information regarding the corporate governance and directors' responsibilities under the listing rules of two places and other applicable laws and regulations, so that the directors are able to make informed decisions and discharge their responsibilities and duties as directors of the Company.

## **ARTICLES OF ASSOCIATION**

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

Shanghai Pharmaceuticals Holding Co., Ltd.

Financial Statements  
For the year ended 31 December 2021

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English Translation for Reference Only

## **Auditor's Report**

PwC ZT Shen Zi (2022) No.10006  
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To the Shareholders of Shanghai Pharmaceuticals Holding Co., Ltd.,

### **Opinion**

#### *What we have audited*

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

- the consolidated and company balance sheets as at 31 December 2021;
- 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 2021, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

### **Basis for Opinion**

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

## Key Audit Matters

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Goodwill impairment assessment</p> <p>Refer to notes 2(30)(a)(iii) (Critical accounting estimates and judgements) and 4(20) (Goodwill) to the consolidated financial statements.</p> <p>At 31 December 2021, the Company had goodwill amounting to RMB13,197,805,843.08, against which a provision of RMB1,958,833,482.32 was set aside.</p> <p>In assessing the recoverable amounts of Shanghai Pharmaceuticals' cash generating unit (CGU) or CGUs that include goodwill, management engaged external valuation experts to assist in determining the discounted cash flows. Determination of discounted cash flows involved developing key assumptions, including:</p> <ul style="list-style-type: none"> <li>• compound annual growth rate within the budget period;</li> <li>• growth rates to extrapolate cash flows beyond the budget period;</li> <li>• gross margin; and</li> <li>• pre-tax discount rate.</li> </ul> <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>	<p>We understood, evaluated and validated the design and operating effectiveness of the key internal controls over the goodwill.</p> <p>For the relevant CGU or CGUs, we compared the current year actual results with the year 2021 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 specialists, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We assessed the valuation approaches and methodologies adopted in the cash flow forecasts by reference to industry practice;</li> <li>• 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;</li> <li>• Comparing the compound annual growth rates within the budget period with the Shanghai Pharmaceuticals' historical growth rates and industry historical data;</li> <li>• Comparing the growth rates to extrapolate cash flows beyond the budget period with our independent expectation based on economic data;</li> </ul>

Key Audit Matter	How our audit addressed the Key Audit Matter
	<ul style="list-style-type: none"> <li>• Comparing the gross margin with the Shanghai Pharmaceuticals' past performance, taking into consideration of market trends;</li> <li>• Assessing the discount rate by considering and recalculating the weighted average cost of capital for the individual CGU and comparable companies in the pharmaceutical industry, as well as considering territory specific factors, such as risk free interest rate and debt ratio prevailing in relevant market as of base date; and</li> <li>• We tested the mathematical accuracy of the calculations of discounted cash flows.</li> </ul> <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 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 4 (Trade receivables) to the consolidated financial statements.</p> <p>At 31 December 2021, the Group held trade receivables amounting to RMB60,001,944,426.20, against which an impairment provision of RMB1,894,174,256.45 was set aside.</p> <p>Management applied expected credit loss (“ECL”) model under “Accounting standards for business enterprises No.22 – recognition and measurement of financial instruments ” to measure the impairment provision against trade receivables at the reporting date.</p> <p>Management estimated the loss allowance of trade receivables based on the lifetime expected credit losses. For receivable balances with objective evidence of impairment, individual provision was made based on a probability-weighted estimate of the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive. Receivables without objective evidence of impairment are grouped based on shared credit risk characteristics. The collective provision was determined based on the historical credit loss rates to the respective aging category of gross carrying amount of receivables. The expected credit loss rates are adjusted to reflect current and forward- looking information.</p> <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>	<p>We evaluated and validated the controls which management adopted to monitor the recoverability of receivables, including controls over identification of objective evidence of impairment and estimation of the impairment provisions.</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 a sample of trade receivable balances, focusing on significant or high risk balances. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of these customers, and lawyers’ letters, where applicable.</p> <p>We assessed the Group’s methodology of estimating collective provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers’ repayment pattern and market condition.</p> <p>With the assistance of our credit review specialists, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul> <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>

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter</b>
<p>Inventory provisions</p> <p>Refer to notes 2(30)(a)(iv) (Critical accounting estimates and judgements) and 8 (Inventories) to the consolidated financial statements.</p> <p>At 31 December 2021, Shanghai Pharmaceuticals held inventories amounting to RMB28,255,644,421.77, against which a provision of RMB1,151,609,131.65 was set aside.</p> <p>Inventories are carried at the lower of cost and net realisable value (NRV) in the consolidated financial statements.</p> <p>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 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 validity period of inventories prepared by management on sample basis and tested the IT automatic controls related to the maintenance of inventory aging analysis where relevant.</p> <p>We selected a sample of inventories close to expiration dates for which no provision was made and examined the contracts or agreements with the suppliers for return arrangements.</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 2021 annual report of Shanghai Pharmaceuticals other than the financial statements and our auditor’s report thereon.

### **Other Information (cont'd)**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Shanghai Pharmaceuticals’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause Shanghai Pharmaceuticals to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Shanghai Pharmaceuticals to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Signing CPA LIU WEI  
(Engagement Partner)

29 March 2022

Signing CPA ZHOU LINJIE

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEET AS AT 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2021 Consolidated	31 December 2020 Consolidated	31 December 2021 Company	31 December 2020 Company
<b>Current assets</b>					
Cash at bank and on hand	4(1)	22,390,385,718.86	22,296,232,678.85	4,956,241,685.91	4,579,604,820.98
Derivative financial assets	4(2)	3,284,464.66	501,339.00	-	-
Notes receivables	4(3)	1,278,880,689.20	290,539,262.58	-	-
Accounts receivables	4(4), 17(1)	58,107,770,169.75	52,745,905,873.59	-	-
Receivables financing	4(5)	1,619,009,831.53	2,485,373,691.07	-	-
Advances to suppliers	4(6)	2,457,761,134.48	2,389,930,684.70	5,462,462.14	790,551.35
Other receivables	4(7), 17(2)	2,419,107,971.82	2,009,456,454.89	19,489,191,886.01	18,765,161,811.48
Inventories	4(8)	27,104,035,290.12	24,088,257,693.63	-	-
Current portion of non-current assets	4(12)	126,505,618.81	105,325,100.98	-	-
Other current assets	4(9)	987,691,443.81	1,151,403,402.29	3,728,979.13	-
<b>Total current assets</b>		<b>116,494,432,333.04</b>	<b>107,562,926,181.58</b>	<b>24,454,625,013.19</b>	<b>23,345,557,183.81</b>
<b>Non-current assets</b>					
Long-term receivables	4(12)	197,742,289.76	169,846,933.41	-	-
Long-term equity investments	4(13), 17(3)	9,073,275,353.92	6,651,064,005.61	26,939,075,300.25	23,540,785,117.11
Other equity instrument investments	4(10)	73,392,413.17	33,051,720.32	-	-
Other non-current financial assets	4(11)	1,388,900,666.61	978,557,029.53	1,000,330,863.71	498,583,871.27
Investment properties	4(14)	213,323,262.12	235,288,086.77	-	-
Fixed assets	4(15)	10,484,118,204.34	10,490,715,695.26	95,247,382.34	65,896,189.09
Construction in progress	4(16)	2,914,130,007.74	1,737,203,979.54	41,134,707.27	42,409,498.05
Bearer biological assets	4(17)	402,569,065.33	405,818,258.87	-	-
Right-of-use assets	4(18)	1,992,433,702.85	1,992,650,919.19	80,816,751.81	92,534,928.16
Intangible assets	4(19)	6,049,431,213.09	5,195,253,776.03	67,951,930.43	126,712,343.54
Development costs	4(19)	259,227,946.08	223,825,636.29	75,797,743.15	-
Goodwill	4(20)	11,238,972,360.76	11,342,268,158.55	-	-
Long-term prepaid expenses	4(21)	429,117,473.86	415,320,475.59	8,013,318.30	1,049,175.12
Deferred tax assets	4(22)	1,367,544,935.42	1,359,363,370.67	-	-
Other non-current assets	4(24)	856,897,933.62	392,501,251.42	305,634,463.20	1,971,000.00
<b>Total non-current assets</b>		<b>46,941,076,828.67</b>	<b>41,622,729,297.05</b>	<b>28,614,002,460.46</b>	<b>24,369,942,122.34</b>
<b>TOTAL ASSETS</b>		<b>163,435,509,161.71</b>	<b>149,185,655,478.63</b>	<b>53,068,627,473.65</b>	<b>47,715,499,306.15</b>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY BALANCE SHEET AS AT 31 December 2021 (CONTINUED)

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2021 Consolidated	31 December 2020 Consolidated	31 December 2021 Company	31 December 2020 Company
<b>Current liabilities</b>					
Short-term borrowings	4(25)	22,514,574,027.35	20,139,185,856.91	1,051,400,832.59	1,201,180,284.72
Derivative financial liabilities	4(2)	774,097.78	9,314,855.96	-	-
Notes payables	4(26)	4,764,748,001.67	4,930,726,339.18	-	-
Accounts payables	4(27)	37,230,666,373.90	32,861,440,182.89	43,111,344.29	72,712,344.69
Contract liabilities	4(28)	1,310,920,870.47	1,310,837,272.06	20,097,189.17	4,207,189.17
Employee benefits payable	4(29)	1,433,028,127.78	1,273,965,868.83	64,292,350.69	40,364,926.49
Taxes payable	4(30)	1,692,660,081.03	1,478,067,469.53	2,024,631.71	5,011,664.49
Other payables	4(31)	13,062,527,812.97	12,142,797,539.60	14,675,113,166.07	11,406,637,449.64
Current portion of non-current liabilities	4(33)	582,042,566.55	8,968,037,785.73	26,539,361.75	3,045,389,022.24
Other current liabilities	4(34)	9,232,381,601.62	5,018,616,438.36	9,077,033,424.66	5,018,616,438.36
<b>Total current liabilities</b>		<b>91,824,323,561.12</b>	<b>88,132,989,609.05</b>	<b>24,959,612,300.93</b>	<b>20,794,119,319.80</b>
<b>Non-current liabilities</b>					
Long-term borrowings	4(35)	7,157,751,703.48	1,184,078,311.36	1,380,000,000.00	580,499,888.89
Lease liabilities	4(36)	1,434,274,148.94	1,501,021,800.19	60,875,539.35	68,304,958.71
Long-term payables	4(37)	315,161,494.71	353,574,673.96	-	-
Provisions	4(32)	23,243,898.02	25,760,655.02	-	-
Deferred income	4(38)	2,349,080,148.54	2,224,069,068.73	53,628,980.57	35,356,169.85
Long-term employee benefits payable	4(39)	39,007,184.36	46,411,122.61	-	-
Deferred tax liabilities	4(22)	998,768,820.78	832,375,455.83	5,859,736.77	5,859,736.77
Other non-current liabilities	4(40)	227,688,064.66	144,645,012.23	-	-
<b>Total non-current liabilities</b>		<b>12,544,975,463.49</b>	<b>6,311,936,099.93</b>	<b>1,500,364,256.69</b>	<b>690,020,754.22</b>
<b>Total liabilities</b>		<b>104,369,299,024.61</b>	<b>94,444,925,708.98</b>	<b>26,459,976,557.62</b>	<b>21,484,140,074.02</b>
<b>Owners' equity</b>					
Share capital	4(41)	2,842,089,322.00	2,842,089,322.00	2,842,089,322.00	2,842,089,322.00
Capital surplus	4(42),17(4)	16,070,723,052.49	15,897,587,875.18	19,094,211,080.76	18,969,516,229.49
Other comprehensive income	4(43),17(5)	(144,394,206.19)	(265,410,759.58)	(146,268.20)	292,608.91
Surplus reserve	4(44)	1,992,463,708.39	1,826,058,272.88	1,616,672,906.21	1,454,949,047.78
Undistributed profits	4(45),17(6)	28,598,598,034.67	25,054,352,978.09	3,055,823,875.26	2,964,512,023.95
Total equity attributable to equity owners of the Company		49,359,479,911.36	45,354,677,688.57	26,608,650,916.03	26,231,359,232.13
Minority interests		9,706,730,225.74	9,386,052,081.08	-	-
<b>Total owners' equity</b>		<b>59,066,210,137.10</b>	<b>54,740,729,769.65</b>	<b>26,608,650,916.03</b>	<b>26,231,359,232.13</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>163,435,509,161.71</b>	<b>149,185,655,478.63</b>	<b>53,068,627,473.65</b>	<b>47,715,499,306.15</b>

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

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE YEAR ENDED 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2021 Consolidated	2020 Consolidated	2021 Company	2020 Company
<b>Revenue</b>	4(46),17(7)	215,824,259,035.31	191,909,156,160.88	137,484,511.05	183,701,052.91
Less: Cost of sales	4(46),4(52), 17(7)	(187,281,149,284.71)	(165,180,103,773.59)	(998,811.10)	(2,067,947.37)
Taxes and surcharges	4(47)	(666,227,626.41)	(592,994,352.44)	(621,968.29)	(1,423,030.34)
Selling expenses	4(48),4(52)	(13,318,033,452.43)	(12,158,701,303.57)	-	-
General and administrative expenses	4(49),4(52)	(5,143,417,730.84)	(4,731,794,293.37)	(280,808,601.20)	(230,452,270.90)
Research and development expenses	4(50),4(52)	(1,987,277,619.33)	(1,656,670,833.68)	(419,700,462.71)	(336,494,929.97)
Financial expenses - net	4(51)	(1,245,369,014.83)	(1,239,584,410.58)	(343,942,150.12)	(356,329,203.64)
Including: Interest expenses		(1,518,228,462.53)	(1,411,892,516.32)	(360,851,524.34)	(236,999,828.65)
Interest income		338,179,842.70	288,327,323.99	40,801,170.16	34,436,327.25
Add: Other income	4(55)	498,785,787.96	548,898,062.46	18,495,647.54	22,846,174.28
Investment income	4(56),17(8)	1,811,393,898.70	976,194,502.02	2,446,699,468.98	2,308,203,863.58
Including: Share of profit of associates and joint ventures		789,596,389.32	1,009,547,230.32	236,429,165.15	244,351,099.64
Derecognition of financial assets at amortised cost		(78,213,297.37)	(43,904,615.06)	-	-
(Losses)/profit arising from changes in fair value	4(57)	(206,003,766.29)	116,797,793.20	78,687,958.67	2,920,133.47
Credit impairment (losses)/reversals	4(54)	677,891.56	39,657,678.67	33,027,784.76	(5,245,958.47)
Asset impairment reversals/(losses)	4(53)	(140,441,120.37)	(898,616,318.25)	-	-
Gains/(losses) on disposals of assets	4(58)	58,289,306.83	52,149,230.81	17,457.89	-
<b>Operating profit</b>		8,205,486,305.15	7,184,388,142.56	1,668,340,835.47	1,585,657,883.55
Add: Non-operating income	4(59)	81,956,962.86	192,725,699.31	2,970,284.49	-
Less: Non-operating expenses	4(60)	(143,628,375.65)	(201,631,278.24)	(7,256,764.90)	(1,920,512.92)
<b>Total profit</b>		8,143,814,892.36	7,175,482,563.63	1,664,054,355.06	1,583,737,370.63
Less: Income tax expenses	4(61)	(1,869,245,448.24)	(1,570,218,526.39)	-	-
<b>Net profit</b>		6,274,569,444.12	5,605,264,037.24	1,664,054,355.06	1,583,737,370.63
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		6,274,569,444.12	5,605,264,037.24	1,664,054,355.06	1,583,737,370.63
Net profit from discontinued operations		-	-	-	-
Classified by ownership of the equity					
Attributable to equity owners of the Company		5,093,467,260.97	4,496,216,958.55	Not applicable	Not applicable
Minority interests		1,181,102,183.15	1,109,047,078.69	Not applicable	Not applicable
<b>Other comprehensive income, net of tax</b>	4(43)	87,438,895.87	280,861,821.82	(438,877.11)	1,801,998.86
Attributable to equity owners of the Company		121,016,553.39	285,849,223.91	(438,877.11)	1,801,998.86
Other comprehensive income that will not be reclassified to profit or loss		40,340,692.85	3,119,302.65	-	-
Changes in fair value of other equity instrument investments		40,340,692.85	3,119,302.65	-	-
Other comprehensive income that will be reclassified to profit or loss		80,675,860.54	282,729,921.26	(438,877.11)	1,801,998.86
Shares of other comprehensive income of the investee accounted for using equity method that will be reclassified to profit or loss		(660,939.74)	2,694,251.87	(438,877.11)	1,801,998.86
Allowance of debt investments at FVOCI		(1,989,081.17)	337,169.80	-	-
Effective portion of gains or losses on hedging instruments in a cash flow hedge		11,147,712.98	-	-	-
Translation differences on translation of foreign currency financial statements		72,178,168.47	279,698,499.59	-	-
Attributable to minority interests		(33,577,657.52)	(4,987,402.09)	-	-
<b>Total comprehensive income</b>		6,362,008,339.99	5,886,125,859.06	1,663,615,477.95	1,585,539,369.49
Attributable to equity owners of the Company		5,214,483,814.36	4,782,066,182.46	Not applicable	Not applicable
Attributable to minority interests		1,147,524,525.63	1,104,059,676.60	Not applicable	Not applicable
<b>Earnings per share</b>	4(62)				
Basic earnings per share (RMB)		1.79	1.58	—	—
Diluted earnings per share (RMB)		1.79	1.58	—	—

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

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

## CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2021 Consolidated	2020 Consolidated	2021 Company	2020 Company
<b>Cash flows from/(used in) operating activities</b>					
Cash received from sales of goods or rendering of services		233,373,894,734.94	210,000,997,792.49	150,289,597.50	213,773,339.46
Refund of taxes and surcharges		114,145,887.15	66,658,069.67	-	-
Cash received relating to other operating activities	4(63)(a)	1,981,936,627.02	1,910,598,495.04	423,466,387.79	693,483,248.89
<b>Sub-total of cash inflows</b>		235,469,977,249.11	211,978,254,357.20	573,755,985.29	907,256,588.35
Cash paid for goods and services		(203,678,913,822.90)	(180,165,640,067.90)	(72,065,415.30)	(10,342,503.94)
Cash paid to and on behalf of employees		(8,701,743,133.50)	(7,748,774,301.34)	(228,794,138.94)	(182,925,213.73)
Payments of taxes and surcharges		(6,353,145,276.65)	(5,916,081,609.76)	(1,474,462.98)	(3,909,270.99)
Cash paid relating to other operating activities	4(63)(b)	(11,674,848,739.71)	(11,303,037,753.14)	(683,095,914.83)	(923,367,286.92)
<b>Sub-total of cash outflows</b>		(230,408,650,972.76)	(205,133,533,732.14)	(985,429,932.05)	(1,120,544,275.58)
<b>Net cash flows from/(used in) operating activities</b>	4(64)(a)	5,061,326,276.35	6,844,720,625.06	(411,673,946.76)	(213,287,687.23)
<b>Cash flows (used in)/from investing activities</b>					
Cash received from disposal of investments		2,535,871,480.76	4,172,903,129.92	2,535,871,480.76	4,010,242,036.27
Cash received from returns on investments		752,325,069.60	633,153,333.92	2,037,188,541.97	1,785,221,131.77
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		190,900,213.51	383,859,030.69	-	46,424.31
Net cash received from disposal of subsidiaries and other business units	4(64)(b)	113,700,452.16	110,133,270.06	-	-
Cash received relating to other investing activities	4(63)(c)	1,474,979,036.17	4,153,365,435.56	2,051,371,223.03	4,131,428,232.26
<b>Sub-total of cash inflows</b>		5,067,776,252.20	9,453,414,200.15	6,624,431,245.76	9,926,937,824.61
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(4,118,771,490.69)	(3,009,971,315.92)	(116,984,554.13)	(86,091,198.73)
Cash paid to acquire investments		(3,147,839,640.48)	(4,490,914,000.00)	(2,950,000,000.00)	(4,470,457,000.00)
Net cash paid to acquire subsidiaries and other business units	4(64)(b)	(1,153,023,103.87)	(2,155,788,274.13)	(95,960,000.00)	(125,720,000.00)
Cash paid relating to other investing activities	4(63)(d)	(2,663,717,905.73)	(1,502,417,019.54)	(4,244,388,117.49)	(7,147,672,972.76)
<b>Sub-total of cash outflows</b>		(11,083,352,140.77)	(11,159,090,609.59)	(7,407,332,671.62)	(11,829,941,171.49)
<b>Net cash flows (used in)/from investing activities</b>		(6,015,575,888.57)	(1,705,676,409.44)	(782,901,425.86)	(1,903,003,346.88)
<b>Cash flows from financing activities</b>					
Cash received from capital contributions		169,344,191.63	141,546,446.55	-	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries		169,344,191.63	141,546,446.55	-	-
Cash received from borrowings		37,554,016,283.18	36,769,159,585.51	2,150,392,561.76	3,980,000,000.00
Cash received from issuance of debentures		18,992,660,269.71	12,495,812,500.00	18,992,660,269.71	12,495,812,500.00
Cash received relating to other financing activities	4(63)(e)	1,619,233,415.92	1,672,813,579.90	2,410,541,959.96	185,740,437.91
<b>Sub-total of cash inflows</b>		58,335,254,160.44	51,079,332,111.96	23,553,594,791.43	16,661,552,937.91
Cash repayments of borrowings		(52,214,562,424.96)	(47,575,479,978.03)	(19,500,000,000.00)	(12,400,000,000.00)
Cash payments for distribution of dividends, profits or interest expenses		(3,323,089,290.53)	(3,517,618,288.42)	(1,464,984,822.64)	(1,344,038,247.29)
Including: Cash payments for distribution of dividends or profits to minority shareholders of subsidiaries		(647,169,358.44)	(1,099,223,735.57)	-	-
Cash payments relating to other financing activities	4(63)(f)	(1,231,973,958.27)	(1,247,463,661.20)	(667,713,547.42)	(215,161,294.94)
<b>Sub-total of cash outflows</b>		(56,769,625,673.76)	(52,340,561,927.65)	(21,632,698,370.06)	(13,959,199,542.23)
<b>Net cash flows from financing activities</b>		1,565,628,486.68	(1,261,229,815.69)	1,920,896,421.37	2,702,353,395.68
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>		(50,323,444.55)	(17,627,517.49)	359,009.09	5,224,362.93
<b>Net increase in cash and cash equivalents</b>	4(64)(a)	561,055,429.91	3,860,186,882.44	726,680,057.84	591,286,724.50
Add: Cash and cash equivalents at beginning of period		19,576,444,789.85	15,716,257,907.41	3,989,558,641.83	3,398,271,917.33
<b>Cash and cash equivalents at end of period</b>	4(64)(c)	20,137,500,219.76	19,576,444,789.85	4,716,238,699.67	3,989,558,641.83

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

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 December 2021

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Attributable to equity owners of the Company						Minority interests	Total owners' equity
		Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserves	Undistributed profits		
<b>Balance at 1 January 2020</b>		2,842,089,322.00	15,720,601,835.88	-	(542,229,067.12)	1,667,684,535.82	21,970,908,120.34	7,726,873,546.48	49,385,928,293.40
<b>Movements for the year ended 31 December 2020</b>		-	176,986,039.30	-	276,818,307.54	158,373,737.06	3,083,444,857.75	1,659,178,534.60	5,354,801,476.25
Total comprehensive income		-	-	-	-	-	-	-	-
Net profit		-	-	-	-	-	4,496,216,958.55	1,109,047,078.69	5,605,264,037.24
Other comprehensive income	4(43)	-	-	-	285,849,223.91	-	(4,987,402.09)	(4,987,402.09)	280,861,821.82
Total comprehensive income		-	-	-	285,849,223.91	-	4,496,216,958.55	1,104,059,676.60	5,886,125,859.06
Capital contribution and withdrawal by owners		-	-	-	-	-	-	-	-
Capital contribution by owners		-	-	-	-	-	-	141,546,446.55	141,546,446.55
Amount recorded in owners' equity arising from share-based payment arrangements	4(42)	-	34,742,418.42	-	-	-	-	-	34,742,418.42
Others	4(42)	-	142,243,620.88	-	-	-	-	1,125,322,866.54	1,267,566,487.42
Profit distribution		-	-	-	-	-	-	-	-
Appropriation to surplus reserves	4(44)	-	-	-	-	158,373,737.06	(158,373,737.06)	-	-
Profit distribution to equity owners	4(45)	-	-	-	-	-	(1,250,519,301.68)	(699,261,386.78)	(1,949,780,688.46)
Others	4(45)	-	-	-	-	-	(12,909,978.43)	(12,489,068.31)	(25,399,046.74)
Transfer within owners' equity		-	-	-	-	-	-	-	-
Transfer from other comprehensive income to retained earnings	4(45)	-	-	-	(9,030,916.37)	-	9,030,916.37	-	-
<b>Balance at 31 December 2020</b>		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
<b>Balance at 1 January 2021</b>		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
<b>Movements for the year ended 31 December 2021</b>		-	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		-	-	-	-	-	5,093,467,260.97	1,181,102,183.15	6,274,569,444.12
Other comprehensive income	4(43)	-	-	-	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(42)	-	31,332,721.62	-	-	-	-	-	31,332,721.62
Others	4(42)	-	141,802,455.69	-	-	-	-	(125,863,012.68)	15,939,443.01
Profit distribution		-	-	-	-	-	-	-	-
Appropriation to surplus reserves	4(44)	-	-	-	-	166,405,435.51	(166,405,435.51)	-	-
Profit distribution to equity owners	4(45)	-	-	-	-	-	(1,364,202,874.56)	(852,571,713.20)	(2,216,774,587.76)
Others	4(45)	-	-	-	-	-	(18,613,894.32)	(17,755,846.72)	(36,369,741.04)
<b>Balance at 31 December 2021</b>		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

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

Legal representative: Zhou Jun

Principal in charge of accounting: Cho Man

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 December 2021

(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
<b>Balance at 1 January 2020</b>		2,842,089,322.00	18,847,858,307.71	-	(1,509,389.95)	1,296,575,310.72	2,789,667,692.06	25,774,681,242.54
<b>Movements for the year ended 31 December 2020</b>		-	121,657,921.78	-	1,801,998.86	158,373,737.06	174,844,331.89	456,677,989.59
Total comprehensive income								
Net profit		-	-	-	-	-	1,583,737,370.63	1,583,737,370.63
Other comprehensive income	17(5)	-	-	-	1,801,998.86	-	-	1,801,998.86
Total comprehensive income		-	-	-	1,801,998.86	-	1,583,737,370.63	1,585,539,369.49
Capital contribution and withdrawal by owners								
Capital contribution by owners		-	-	-	-	-	-	-
Amount recorded in owners' equity arising from share-based payment arrangements	17(4)	-	34,742,418.42	-	-	-	-	34,742,418.42
Others	17(4)	-	86,915,503.36	-	-	-	-	86,915,503.36
Profit distribution								
Appropriation to surplus reserves	17(6)	-	-	-	-	158,373,737.06	(158,373,737.06)	-
Profit distribution to equity owners	17(6)	-	-	-	-	-	(1,250,519,301.68)	(1,250,519,301.68)
<b>Balance at 31 December 2020</b>		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
<b>Balance at 1 January 2021</b>		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
<b>Movements for the year ended 31 December 2021</b>		-	124,694,851.27	-	(438,877.11)	161,723,858.43	91,311,851.31	377,291,683.90
Total comprehensive income								
Net profit		-	-	-	-	-	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)
<b>Balance at 31 December 2021</b>		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

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

Legal representative: Zhou Jun

Principal in charge of accounting: Cjo Man

Head of accounting department: Shen Bo

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in RMB Yuan unless otherwise stated)

#### 1 General Information

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

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

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

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

On 31 December 2021, the Company’s share capital was RMB2,842,089,322.00 with a total share capital of 2,842,089,322 shares, in which, 1,923,016,618 (A shares) RMB-denominated ordinary shares listed in China, and 919,072,704 (H shares) overseas listed foreign shares.

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

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in RMB Yuan unless otherwise stated)

#### 1 General information (Cont'd)

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

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

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

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

These financial statements are authorised for issue by the Board of Directors of the Company on 29 March 2022.

#### 2 Significant accounting policies and accounting estimates

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

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

##### (1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

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

The financial statements of the Company for the year ended 31 December 2021 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 2021 and their financial performance, cash flows and other information for the year ended 31 December 2021.

**(3) Accounting year**

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

**(4) Recording currency**

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

**(5) Business combinations**

**(a) Business combinations involving enterprises under common control**

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

**(b) Business combinations involving enterprises not under common control**

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

**(5) Business combinations (Cont'd)**

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

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

**(6) Preparation of consolidated financial statements**

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

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

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

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

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

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

**(7) Cash and cash equivalents**

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

**(8) Foreign currency translation**

**(a) Foreign currency transactions**

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

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

**(b) Translation of foreign currency financial statements**

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

**(9) Financial instruments**

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

(a) Financial assets

(i) Classification and measurement

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

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

Debt instruments

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

Amortised cost

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

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

**(9) Financial instruments (Cont'd)**

(a) Financial asset (Cont'd)

(i) Classification and measurement (Cont'd)

Fair value through other comprehensive income (FVOCI)

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

Fair value through profit or loss (FVPL)

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

Equity instruments

The Group measures its equity instruments that have no control, joint control or significant influence at FVPL and 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.

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

**(9) Financial instruments (Cont'd)**

**(a) Financial asset (Cont'd)**

**(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.

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

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

For 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).

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

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

**(9) Financial instruments (Cont'd)**

(a) Financial asset (Cont'd)

(ii) Impairment (Cont'd)

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

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

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

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

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

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

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

**(9) Financial instruments (Cont'd)**

(a) Financial asset (Cont'd)

(iii) De - recognition

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

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

(b) Financial liability

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

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

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

(c) Determination of fair value of financial instruments

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

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

**(10) Inventories**

(a) Classification

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

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

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

**(a) Determination of investment cost**

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

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

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

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

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

For long-term equity investments accounted for using the equity method, the Group 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. The unrealised profit or loss arising from the intra-group transactions amongst the Group and its investees is eliminated in proportion to the Group's equity interests in the investees, and then based on which the investment income is recognised. For the loss on the intra-group transactions amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

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

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

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

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

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

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

- (d) Impairment of long-term equity investments

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

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

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

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

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

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

**(12) Investment properties**

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

The Group applies the cost model for subsequent measurement of investment properties. Depreciation or 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.

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.

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

**(13) Fixed assets (Cont'd)**

(b) Depreciation method of fixed assets

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

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

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

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

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

(d) Disposal of fixed assets

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

**(14) Construction in progress**

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for 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)).

**(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.

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

**(15) Borrowing costs (Cont'd)**

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.

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.

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

**(17) Intangible assets**

Intangible assets include land use rights, business network, brands and trademarks, permissions, 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 30-70 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 and 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.

**(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, 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.

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

**(17) Intangible assets (Cont'd)**

(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.

(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)).

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

**(18) Long-term prepaid expenses**

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

**(19) Impairment of long-term assets**

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

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

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

**(20) Employee benefits**

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

**(a) Short-term employee benefits**

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

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

**(20) Employee benefits (Cont'd)**

**(b) Post-employment benefits**

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

**Basic pensions**

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

**(c) Termination benefits**

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

**Early retirement benefits**

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

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

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(All amounts in RMB Yuan unless otherwise stated)

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

**(21) Profit distribution**

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

**(22) Provisions**

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

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

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

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

**(23) Revenue recognition**

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

**(a) Sales of goods**

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

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

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

**(23) Revenue recognition (Cont'd)**

**(b) Rendering services**

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

Revenue is recognised by the stage of completion of the services. Trade receivables are recognised when the Group has an unconditional right to collection. For the remaining part of the services, a contract asset is recognised. The Group recognises the loss provision using the expected credit loss model (Note2(9)) for its trade receivables and contract assets. If the payments received or receivable exceed the services rendered, a contract liability is recognised for the excess. Contract assets and contract liabilities under the same contract are presented on a net basis.

**(24) Government grants**

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when:

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

**(26) Lease**

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

The Group as the lessee

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

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

**(26) Lease (Cont'd)**

The Group as the lessee (Cont'd)

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

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

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

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

For the rental waivers as a result of COVID-19 and for the period ended 30 June 2022 only, the Group applies the practical expedient and records the undiscounted waivers in profit or loss when the agreement is reached to dismiss the original payment obligation with corresponding adjustment of lease liabilities.

The Group as the lessor

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

**(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.

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

**(26) Lease (Cont'd)**

**(b) Finance lease**

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

**(27) Share-based payment**

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

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

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

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

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

**(28) Held for sale and discontinued operations**

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

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

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

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

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

**(29) Segment information**

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

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

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

**(30) Critical accounting estimates and judgements**

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

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

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

**(i) Useful life of fixed assets**

The management of the Group reviews the estimated useful lives, residual values and depreciation method of fixed assets at each financial year-end. The estimated useful lives are determined by reference to the Group's business model, asset management policy and expected lifespan of the assets. The estimated useful lives could change significantly as a result of certain factors. Management will increase the depreciation expense where useful lives are less than previously estimated lives, or it will write down technically obsolete or non-strategic assets that have been abandoned or sold. The estimated residual values are determined based on all relevant factors (including but not limited to by reference to the industry practice and estimated residual values).

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

**(ii) Useful lives of business network**

The Group determines the estimated useful lives and consequently the related amortisation charges for its business network. These estimates are based on the historical experience of the actual useful lives of business network of similar nature and functions. Management will increase the amortisation charges where useful lives are less than previously estimated lives, which may also result in impairment of intangible assets. Actual economic lives may differ from estimated useful lives.

Periodic review could result in a change in amortisable lives and therefore amortisation expenses in future periods.

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

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

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups 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 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.

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

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

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

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

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

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

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion, selling expense and related tax. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(v) Measurement of expected credit loss

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

When considering forward-looking information, the Group takes into account different macroeconomic scenarios. The Group regularly monitors and reviews important macroeconomic assumptions and parameters related to the calculation of expected credit losses, including the risk of economic downturn, external market environment, technological environment, changes in customer profile, Gross Domestic Product ("GDP") and Consumer Price Index ("CPI"), etc. The key macroeconomic parameters are set differently in favourable, benchmark and unfavourable economic scenario. For the mostly used parameter GDP, are 6.60%, 5.20% and 3.00% respectively(2020: 8.6%、6.86% and 4.80%). The Group monitors and reviews assumptions related to the calculation of expected credit losses on a regular basis. For the year ended 31 December 2021, the Group had considered the uncertainties arising from COVID-19 and updated relevant assumptions and parameters accordingly.

(vi) Current and deferred income tax

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

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

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

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

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

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

- (b) Critical judgments in applying the accounting policies
- (i) Classification of financial assets

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

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

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

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

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

(b) Critical judgments in applying the accounting policies (Cont'd)

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

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

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

**(31) Significant changes in accounting policies**

The Ministry of Finance released the Notice on Adjusting the Application Scope of the Provisions on the Accounting Treatment Regarding COVID-19-Related Rent Concessions (Cai Kuai [2021] No. 9), the Circular on Issuing Interpretation No. 14 of Accounting Standards for Business Enterprises (Cai Kuai [2021] No. 1) and Q&A on Implementation of Accounting Standards for Business Enterprises in 2021. The financial statements for the year ended 31 December 2021 have been prepared in accordance with the above standards, circulars and Q&A, and the impacts on the financial statements of the Group and the Company are as follows:

(a) Accounting for COVID-19 related rent concessions

For rent concessions caused by COVID-19, agreed by lessors and ended before 30 June 2022, the Group and the Company have adopted the simplified approach in accordance with the above circular in preparing the financial statements for the year ended 31 December 2021 (Note 4(52)), with no significant impact on the financial statements.

(b) Presentation of cash flow statement relating to leases

Prepaid rentals and lease deposit expenses are included in cash outflows from financing activities, except for those related to short-term leases and leases of low-value assets that are treated in a simplified manner, which are still included in cash outflows from operating activities. Both the Group and the Company have adopted the above method of treatment in preparing the financial statements for fiscal 2021, with no significant impact on the financial statements.

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(31) Significant changes in accounting policies (Cont'd)

(c) Presentation of transportation costs

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected Increase/(decrease)	
		2020	
		The Group	The Company
The Group and the Company reclassify transportation costs incurred before the control over goods is transferred to clients and for the performance of the sales contract from selling expenses to cost of sales.	Sales expenses	(706,142,549.24)	-
	Operating costs	706,142,549.24	-

(d) Accounting for changes in determination of contract cash flow of financial asset or financial liability due to the reform of benchmark interest rate

The financial statements for the year ended 31 December 2021 were prepared by the Group and the Company in accordance with the accounting for changes in determination of contract cash flow of financial asset or financial liability due to the reform of benchmark interest rate in the Interpretation No. 14 of Accounting Standards for Business Enterprises. As at 31 December 2021, there was no significant impact on the Group and the Company.(Note 14(1)(b)).

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 3 Taxation

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

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

- (a) Pursuant to the 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 RMB 5 million can be fully deducted against taxable profit in the next month after the asset is put into use, instead of being depreciated annually for tax filing.

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

Enterprise income tax

The actual income tax rate applicable to the Company was 25% for the year ended 31 December 2021 and 31 December 2020.

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

The subsidiaries, Shanghai Sine Pharmaceutical Laboratories Co., Ltd., Shanghai Sine Tianping Pharmaceutical Co., Ltd., Shanghai Sine Jinzhu Pharmaceutical Co., Ltd., Shanghai Sine Wanxiang Pharmaceutical Co., Ltd., Shanghai Sine Yan'an Pharmaceutical Co., Ltd., Shanghai Harvest Pharmaceutical Co., Ltd., Gansu Sine Tiansen Pharmaceutical Co., Ltd., Shandong Sine Pharmaceutical Co., Ltd., Tianjin Jinjin Pharmaceutical Co., Ltd., Shanghai No.1 Biochemical Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Shanghai Zhongxi Pharmaceutical Co., Ltd., Shanghai Jinhe Bio-tech Co., Ltd., Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., Shanghai New Asiatic Medicine Industry Minhang Co., Ltd., SPH Changzhou Pharmaceutical Factory Co., Ltd., Nantong Changyou Pharmaceutical Technology Co., Ltd., SPH Kony (Changzhou) Co., Ltd., Shanghai Xingling Sci.&Tech. Pharmaceutical Co., Ltd., Zhejiang Jiuxu Pharmaceutical Co., Ltd., SPH Shenxiang Health Pharmaceutical Co., Ltd., Shanghai Leiyunshang Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Zhonghua Nantong Pharmaceutical Co., Ltd., Qingdao Shanghai Pharmaceutical Growful Pharmaceutical Co., Ltd., SPH Dongying (Jiangsu) Pharmaceutical Co., Ltd., Chiatai Qingchunbao Pharmaceuticals Co., Ltd., Hangzhou HuQingYuTang Pharmaceutical Co., Ltd., Xiamen Traditional Chinese Medicine Co., Ltd., Liaoning SPH Herbapex Pharmaceutical (group) Co., Ltd., Techpool Bio-Pharma Co., Ltd., Hislink (Beijing) Information Technology Co., Ltd., Shanghai Haichang Medical Plastic Plant, Liaoning Medya Pharmaceutical Co., Ltd., Oval Technologies Inc. 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 2021 was 15%.

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 3 Taxation (Cont'd)

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

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 Huiyuan Pharmaceutical Co., Ltd., Chongqing Tianbao Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Sichuan Biological Products Co., Ltd., , SPH Qiannan 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. 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 2021.

The subsidiaries, SPH (Dali) Chinese Yew Biology Co., Ltd., Sichuan Shangyao Shendu Traditional Chinese Medicine Co., Ltd. is engaged in breeding and planting of forest, and collection of forest products. In accordance with the Paragraph 1, Article 86 of the Regulation on the Implementation of the Enterprise Income Tax Law, the income tax rate applicable to the above company was 0% for the the year ended 31 December 2021 with the exemption from enterprise income tax.

The subsidiaries, Shanxi SPH Medical Instruments Co., Ltd., Luoyang Kangxin Pharmacy Limited, SPH Keyuan Xinhai Qiqihar Pharmaceutical Co., Ltd., 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., SPH Keyuan Xinhai (Beijing) Biological Products Co.,Ltd., Beijing Xinhai Chengkang Pharmacy Limited, Wuhan Kehaiyuan Pharmacy Chain Co., Ltd., SPH Keyuan Xinhai Shengyun Yi'an Pharmaceutical Co., Ltd., SPH Keyuan (Heilongjiang) Pharmacy Limited, SPH Jinzhou Pharmaceutical Co., Ltd., Shanghai Qiyi Dental Equipment Co., Ltd., Shanghai Shangyi Kangge Medical Equipment Co., Ltd., Shanghai Dental Materials Factory Changshu Branch, Shanghai Lei's Hanguang Traditional Chinese Medicine Clinic 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 Xinhai Suihua Pharmaceutical Co.Ltd., Qingdao Yanhuang Yiyi Culture Communication Co., Ltd., Shanghai Yihe (Benxi) Medical Technology Co., Ltd. and Shanghai Wuzhou Medical Treatment Equipment Wholesale Department are identified as micro and small enterprises. In accordance with the related regulations of the Notice of Taxation on Implementing the Inclusive Tax Deduction and Exemption Policies for Micro and Small Enterprises (Cai Shui [2019] No. 13) released by the Ministry of Finance and the State Administration, the above companies, the sales of which per month is below RMB0.1 million (inclusive), are exempted from value-added tax (VAT); the annual taxable income that is not more than RMB1 million shall be included in its taxable income at the reduced rate of 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 50%, with the applicable enterprise income tax rate of 20%.

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 ending 2021.

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

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**4 Notes to consolidated financial statement items**

**(1) Cash at bank and on hand**

	31 December 2021	31 December 2020
Cash on hand	5,022,850.35	8,093,286.77
Cash at bank	17,241,733,169.02	16,640,690,354.60
Financial company deposits	2,890,744,200.39	2,927,661,148.48
Others	2,252,885,499.10	2,719,787,889.00
	<u>22,390,385,718.86</u>	<u>22,296,232,678.85</u>
 Including: cash at bank and on hand overseas	 <u>523,925,501.63</u>	 <u>511,342,819.86</u>

As at 31 December 2021, there was no restricted cash at bank and on hand in the cash at bank of the Group (31 December 2020: Nil); other cash balances of RMB1,441,333,204.83 were pledged as collateral by the Group for the purpose of bank acceptance notes (31 December 2020: RMB1,227,360,620.42); other cash balances of RMB55,627,218.49 were pledged as collateral by the Group for the purpose of letters of credit (31 December 2020: RMB13,700,800.22); other cash balances of RMB570,000,000.00 were time deposits due between three months and one year (31 December 2020: RMB1,410,000,000.00); other restricted cash balances were RMB185,925,075.78 (31 December 2020: RMB68,726,468.36).

**(2) Derivative financial assets and derivative financial liabilities**

	31 December 2021	31 December 2020
Derivative financial assets		
—forward foreign exchange contract(i)	<u>3,284,464.66</u>	<u>501,339.00</u>
Derivative financial liabilities		
—forward foreign exchange contract (i)	<u>774,097.78</u>	<u>9,314,855.96</u>

(i) As at 31 December 2021 and 31 December 2020, the derivatives financial assets and derivative financial liabilities were mainly forward foreign exchange contracts held by the Group.

**(3) Notes receivables**

	31 December 2021	31 December 2020
Bank acceptance notes	939,017,596.40	-
Trade acceptance notes	346,862,027.97	294,978,651.31
Less: Provision for bad debts	(6,998,935.17)	(4,439,388.73)
	<u>1,278,880,689.20</u>	<u>290,539,262.58</u>

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**4 Notes to the consolidated financial statements (Cont'd)**

**(3) Notes receivables (Cont'd)**

- (a) As at 31 December 2021, notes receivable pledged as collateral for the Group's short-term borrowings(Note 4(25)(b)) were listed as follows:

Bank acceptance notes	163,392,033.42
Trade acceptance notes	112,397,862.34
	<u>275,789,895.76</u>

For the year ended 31 December 2021, 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 2021, the Group had no notes receivable for which the related provision for bad debts was provided on the individual basis.

- (ii) As at 31 December 2021, notes receivable for which the related provision for bad debts were provided on the grouping basis were analysed as follows:

Group - trade acceptance notes:

As at 31 December 2021, the Group measured the provision for bad debts of trade acceptance notes based on the lifetime expected credit losses, and the related amount was RMB6,998,935.17 (31 December 2020: RMB4,439,388.73).

- (iii) As at 31 December 2021, the Group had no notes receivable written off.

**(4) Accounts receivables**

	31 December 2021	31 December 2020
Accounts receivables	60,001,944,426.20	54,711,545,483.35
Less: Provision for bad debts	<u>(1,894,174,256.45)</u>	<u>(1,965,639,609.76)</u>
	<u>58,107,770,169.75</u>	<u>52,745,905,873.59</u>

Retail sales at the Group's medicine and pharmaceutical chain stores are usually made in cash or by debit or credit cards. For medicine and pharmaceutical distribution and manufacturing business segments, credit periods usually within 360 days are granted to customers depending on customers' credit quality.

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

**(4) Accounts receivables (Cont'd)**

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

	31 December 2021	31 December 2020
Within 1 year	57,677,153,312.42	52,680,636,068.07
1-2 years	1,081,604,623.11	999,396,493.42
Above 2 years	1,243,186,490.67	1,031,512,921.86
	<u>60,001,944,426.20</u>	<u>54,711,545,483.35</u>

(b) As at 31 December 2021, 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	<u>3,678,043,094.06</u>	<u>(31,033,372.68)</u>	<u>6.13%</u>

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

For the year ended 31 December 2021, the Group carried out factoring without recourse to a few accounts receivables. As at 31 December 2021, the balance of accounts receivables that was derecognised due to factoring without resource was RMB863,243,694.43 (31 December 2020: RMB924,538,934.35). The provision for bad debts was RMB4,944,810.83 (31 December 2020: RMB10,582,512.90), and related expenses were RMB22,136,651.01 (31 December 2020: RMB7,461,115.73)

As at 31 December 2021, accounts receivables with carrying amount of RMB899,753,040.40 were pledged as collateral for the Group's short-term borrowings of RMB664,991,024.67 (Note 4(25)(b)).

As at 31 December 2021, accounts receivables with carrying amount of RMB190,916,984.00 was pledged as collateral for the Group's long-term borrowings of RMB116,016,984.00 (Note 4(35)(b)) and current portion of long-term borrowings RMB1,622,376.47 (Note 4(33)).

As at 31 December 2020, accounts receivables with carrying amount of RMB859,070,788.12 were pledged as collateral for the Group's short-term borrowings of RMB707,162,887.68 (Note 4(25)(b)).

As at 31 December 2020, accounts receivables with carrying amount of RMB92,055,677.00 was pledged as collateral for the Group's long-term borrowings of RMB87,131,177.00 (Note 4(35)(b)) and current portion of long-term borrowings RMB4,669,217.36 (Note 4(33)).

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

**(4) Accounts receivables (Cont'd)**

(d) Provision for bad debts

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

(i) As at 31 December 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	<u>265,728,364.62</u>	100.00%	<u>(265,728,364.62)</u>	Through assessment, provision on an individual basis
	<u>594,638,233.29</u>		<u>(594,638,233.29)</u>	

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

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

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

(4) Accounts receivables (Cont'd)

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

(ii) The analysis of bad debt provisions of accounts receivables on grouping basis is as follows:

	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)	
	<u>59,407,306,192.91</u>		<u>(1,299,536,023.16)</u>	

	31 December 2020			
	Accounts balance		Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount	
Within 6 months	47,279,499,120.70	0.90%	(424,148,613.63)	
6 – 12 months	5,378,437,278.22	2.98%	(160,434,543.53)	
1 – 2 years	811,429,003.66	17.12%	(138,876,371.83)	
Above 2 years	681,055,403.80	100.00%	(681,055,403.80)	
	<u>54,150,420,806.38</u>		<u>(1,404,514,932.79)</u>	

(iii) For the year ended 31 December 2021, the provision for bad debts on an individual basis amounted to RMB43,844,780.66 (for the year ended 31 December 2020: RMB47,981,147.53). RMB5,578,269.60 (for the year ended 31 December 2020: RMB43,154,253.31) was collected or reversed, and the relevant balance was RMB5,578,269.60 (for the year ended 31 December 2020: RMB43,154,253.31). 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	2,000,347.20	Cash
Accounts receivable 2	Collection in the current year	Through assessment, provision on an individual basis	1,026,581.64	Cash
Others	Collection in the current year	Through assessment, provision on an individual basis	<u>2,551,340.76</u>	Cash
			<u>5,578,269.60</u>	

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

**(4) Accounts receivables (Cont'd)**

- (e) For the year ended 31 December 2021, RMB2,136,961.56 accounts receivables were written off by the Group, and the relevant provision for bad debts amounted to RMB2,136,961.56, 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	900,594.59	Unable to collect	Management approval and special audit	No
Accounts receivable 2	Payment for goods	477,037.43	Unable to collect	Management approval and special audit	No
Others	Payment for goods	759,329.54	Unable to collect	Management approval and special audit	No
		<u>2,136,961.56</u>			

**(5) Receivables financing**

	31 December 2021	31 December 2020
Bank acceptance notes	<u>1,619,009,831.53</u>	<u>2,485,373,691.07</u>

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

As at 31 December 2021, the Group measured the provision for bad debts based on the lifetime expected credit losses, and the related amount was RMB4,824,701.57 (31 December 2020: RMB6,099,046.32). 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.

As at 31 December 2021, notes receivable endorsed or discounted but unmatured as shown in the receivables financing were as follows:

	Derecognised
Bank acceptance notes	<u>3,212,973,986.97</u>

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

**(6) Advances to suppliers**

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

	31 December 2021		31 December 2020	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,426,552,095.39	98.73%	2,354,950,696.73	98.54%
Above 1 year	31,209,039.09	1.27%	34,979,987.97	1.46%
	<u>2,457,761,134.48</u>	<u>100.00%</u>	<u>2,389,930,684.70</u>	<u>100.00%</u>

As at 31 December 2021, advances to suppliers aged over 1 year were RMB31,209,039.09 (31 December 2020: RMB34,979,987.97), which were mainly advances of raw materials.

(b) As at 31 December 2021, 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	<u>173,487,542.94</u>	<u>7.06%</u>

**(7) Other receivables**

	31 December 2021	31 December 2020
Compensation receivable from suppliers	1,088,089,537.78	898,984,431.58
Guarantees (including deposits)	759,946,986.28	608,212,971.13
Receivables from enterprises	248,231,914.45	246,570,143.33
Reserves	53,019,804.70	58,241,521.59
Dividends receivable	60,223,172.44	44,005,948.00
Others	988,952,268.26	895,205,846.59
	<u>3,198,463,683.91</u>	<u>2,751,220,862.22</u>
Less: Provision for bad debts	<u>(779,355,712.09)</u>	<u>(741,764,407.33)</u>
	<u>2,419,107,971.82</u>	<u>2,009,456,454.89</u>

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

	31 December 2021	31 December 2020
Within 1 year	2,051,560,611.61	1,745,563,072.69
1-2 years	260,952,317.05	248,577,727.58
Above 2 years	885,950,755.25	757,080,061.95
	<u>3,198,463,683.91</u>	<u>2,751,220,862.22</u>

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

(7) Other receivables (Cont'd)

(b) 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	<u>246,491,665.37</u>	100.00%	<u>(246,491,665.37)</u>	Unable to collect
	<u>480,095,439.48</u>		<u>(480,095,439.48)</u>	

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

	Accounts balance	The third stage — Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Other receivable 1	120,000,000.00	100.00%	(120,000,000.00)	Unable to collect
Other receivable 2	46,195,001.63	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	<u>256,516,023.68</u>	100.00%	<u>(256,516,023.68)</u>	Unable to collect
	<u>490,119,797.79</u>		<u>(490,119,797.79)</u>	

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

(7) Other receivables (Cont'd)

(c) As at 31 December 2021, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

	31 December 2021			31 December 2020		
	Accounts balance	Provision for bad debts	% of total	Accounts balance	Provision for bad debts	% of total
	Amount	Amount	balance	Amount	Amount	balance
The first stage - Expected credit loss rate within the next 12 months on grouping basis						
Compensation receivable from suppliers	1,054,441,861.59	(19,950,279.82)	1.89%	816,146,887.31	(7,008,376.77)	0.86%
Guarantees (including deposits)	758,133,389.46	(8,279,467.97)	1.09%	606,399,374.31	(3,055,720.85)	0.50%
Receivables from enterprises	115,279,427.30	(1,275,963.68)	1.11%	92,129,121.04	(1,939,117.55)	2.10%
Reserves	52,198,108.14	(540,296.33)	1.04%	57,368,999.35	(489,395.69)	0.85%
Dividends receivable	60,223,172.44	(43,795.43)	0.07%	44,005,948.00	(110,014.87)	0.25%
Others	410,387,799.54	(11,328,578.48)	2.76%	342,728,623.25	(2,559,725.27)	0.75%
	<u>2,450,663,758.47</u>	<u>(41,418,381.71)</u>		<u>1,958,778,953.26</u>	<u>(15,162,351.00)</u>	

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

Compensation receivable from suppliers	23,017,063.78	(22,564,381.79)	98.03%	71,193,130.86	(34,143,561.39)	47.96%
Receivables from enterprises	31,433,597.69	(29,305,868.33)	93.23%	49,449,836.62	(38,910,655.07)	78.69%
Reserves	821,696.56	(820,696.56)	99.88%	872,522.24	(703,872.67)	80.67%
Others	212,432,127.93	(205,150,944.22)	96.57%	180,806,621.45	(162,724,169.41)	90.00%
	<u>267,704,485.96</u>	<u>(257,841,890.90)</u>		<u>302,322,111.17</u>	<u>(236,482,258.54)</u>	

As at 31 December 2021 and 31 December 2020, the Group has no other receivables in the second stage.

(d) For the year ended 31 December 2021, RMB36,920,788.22 and RMB18,165,987.20 were made in the provision for bad debts of other receivables in the first stage and the third stage, which were mainly about loss provision of other receivables newly included in the current 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 2021, the Group had no important reversal of provision for bad debts in the first stage, and had important reversal of provision for bad debts on an individual basis of RMB2,763,709.35, and the relevant balance was RMB2,763,709.35.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(7) Other receivables (Cont'd)

(d) (Cont'd)

	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	2,000,000.00	Cash
Others	Collection in the current period	Through assessment, provision on an individual basis	<u>763,709.35</u>	Cash
			<u>2,763,709.35</u>	

(e) For the year ended 31 December 2021, RMB6,830,713.15 other receivables were written off by the Group, and the relevant provision for bad debts amounted to RMB6,830,713.15, 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	5,800,312.15	Unable to collect	Management approval and special audit	No
Other receivable 2	Current accounts	1,013,801.00	Unable to collect	Management approval and special audit	No
Others	Current accounts	<u>16,600.00</u>	Unable to collect	Management approval and special audit	No
		<u>6,830,713.15</u>			

(f) As at 31 December 2021, 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	Current accounts	120,000,000.00	Above 5 years	3.75%	(120,000,000.00)
Other receivable 2	Current accounts	118,278,508.66	Within 1 years	3.70%	(110,891.02)
Other receivable 3	Current accounts	54,880,343.32	Within 3 year	1.72%	(32,398.77)
Other receivable 4	Current accounts	46,195,001.63	2 to 3 years	1.44%	(46,195,001.63)
Other receivable 5	Current accounts	<u>34,033,754.45</u>	Above 5 years	1.06%	<u>(34,033,754.45)</u>
		<u>373,387,608.06</u>		<u>11.67%</u>	<u>(200,372,045.87)</u>

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

(8) Inventories

(a) The inventory is classified as follows:

	31 December 2021			31 December 2020		
	Accounts balance	Provision for decline in the value of inventories	Carrying amount	Accounts balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	1,901,426,075.28	(99,586,015.27)	1,801,840,060.01	1,897,476,386.53	(75,006,390.75)	1,822,469,995.78
Goods in transit	17,132,139.02	-	17,132,139.02	12,092,761.39	-	12,092,761.39
Turnover materials	51,442,390.82	-	51,442,390.82	36,669,411.73	-	36,669,411.73
Consigned processing materials	8,375,028.88	-	8,375,028.88	17,446,245.29	-	17,446,245.29
Work in progress	1,181,481,223.86	(21,024,219.48)	1,160,457,004.38	762,286,703.09	(22,923,200.49)	739,363,502.60
Finished goods	25,086,015,502.78	(1,028,325,896.90)	24,057,689,605.88	22,524,111,330.41	(1,064,857,357.85)	21,459,253,972.56
Consumable biological assets	9,772,061.13	(2,673,000.00)	7,099,061.13	961,804.28	-	961,804.28
	<u>28,255,644,421.77</u>	<u>(1,151,609,131.65)</u>	<u>27,104,035,290.12</u>	<u>25,251,044,642.72</u>	<u>(1,162,786,949.09)</u>	<u>24,088,257,693.63</u>

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

	31 December 2020	Provision in the current year	Decrease in the current year	31 December 2021
Raw materials	75,006,390.75	33,130,096.98	(8,550,472.46)	99,586,015.27
Work in progress	22,923,200.49	-	(1,898,981.01)	21,024,219.48
Finished goods	1,064,857,357.85	15,655,817.32	(52,187,278.27)	1,028,325,896.90
Consumable biological assets	-	2,673,000.00	-	2,673,000.00
	<u>1,162,786,949.09</u>	<u>51,458,914.30</u>	<u>(62,636,731.74)</u>	<u>1,151,609,131.65</u>

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

(9) Other current assets

	31 December 2021	31 December 2020
Taxes prepaid and to be deducted	779,894,867.62	963,933,001.12
Input VAT to be certified	207,796,576.19	187,470,401.17
	<u>987,691,443.81</u>	<u>1,151,403,402.29</u>

(10) Other equity instrument investments

	31 December 2021	31 December 2020
Non-tradable equity instrument investments(i)	<u>73,392,413.17</u>	<u>33,051,720.32</u>

	31 December 2021	31 December 2020
Non-tradable equity instrument investments		
Listed shares		
—Tianda Pharmaceuticals Limited (“Tianda Pharma”)	<u>73,392,413.17</u>	<u>33,051,720.32</u>

	31 December 2021	31 December 2020
Tianda Pharma		
—Cost	87,851,852.85	87,851,852.85
—Accumulated changes in fair value	<u>(14,459,439.68)</u>	<u>(54,800,132.53)</u>
	<u>73,392,413.17</u>	<u>33,051,720.32</u>

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

(11) Other non-current financial assets

	31 December 2021	31 December 2020
Equity instrument investments		
—Listed common shares(a)	290,092,858.15	399,348,474.70
—Unlisted common shares(b)	<u>1,098,807,808.46</u>	<u>579,208,554.83</u>
	<u>1,388,900,666.61</u>	<u>978,557,029.53</u>

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

**(11) Other non-current financial assets (Cont'd)**

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

	31 December 2021	31 December 2020
(a) Listed common shares		
—Cost	356,895,977.16	183,820,089.22
—Accumulated changes in fair value	(39,869,254.14)	236,522,097.00
—Accumulated differences on translation of foreign currency financial statements	<u>(26,933,864.87)</u>	<u>(20,993,711.52)</u>
	<u>290,092,858.15</u>	<u>399,348,474.70</u>
(b) Unlisted common shares		
—Cost	934,451,014.16	480,344,261.62
—Accumulated changes in fair value	<u>164,356,794.30</u>	<u>98,864,293.21</u>
	<u>1,098,807,808.46</u>	<u>579,208,554.83</u>

**(12) Long-term receivables**

	31 December 2021	31 December 2020
Cost –		
Deposits receivable (Note) -total amount	335,565,086.31	347,134,140.71
Medical equipment receivable - total amount	54,366,516.16	-
Less: Provision for bad debts	(2,381,046.12)	(1,405,582.14)
Unrealised finance income – Deposits receivable	(63,302,647.78)	(70,556,524.18)
Current portion of long-term receivables	<u>(126,505,618.81)</u>	<u>(105,325,100.98)</u>
	<u>197,742,289.76</u>	<u>169,846,933.41</u>

Note: the amounts are deposits with over one year of collection period that the Group pays. As at 31 December 2021 and 31 December 2020, long-term receivables of the Group were all in the first stage.

**(13) Long-term equity investments**

	31 December 2021	31 December 2020
Joint ventures(a)	2,113,561,239.73	2,141,911,219.40
Associates(b)	<u>7,037,089,217.27</u>	<u>4,590,203,146.89</u>
Less: Provision for impairment of long-term equity investments	<u>(77,375,103.08)</u>	<u>(81,050,360.68)</u>
	<u>9,073,275,353.92</u>	<u>6,651,064,005.61</u>

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

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

(a) Joint ventures

	31 December 2020	Changes during the current year							31 December 2021	Impairment balance	
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjust- ment	Other equity changes	Cash dividends declared	Provision for impairment			Others
SPH-BIOCAD(HK) Limited	1,302,842,051.92	-	-	(20,404,959.66)	-	-	-	-	(29,545,746.46)	1,252,891,345.80	-
Shanghai Hutchison Pharmaceutical Co., Ltd.	494,538,478.62	-	-	285,640,938.91	-	-	(325,000,000.00)	-	-	455,179,417.53	-
Jiangxi Nanhua Medicines Co., Ltd	298,297,210.46	-	-	36,037,283.98	-	-	-	-	-	334,334,494.44	-
Zhejiang Shangyao Jiuzhou biopharmaceutical Co., Ltd	-	45,000,000.00	-	(2,180,911.61)	-	-	-	-	-	42,819,088.39	-
Shanghai Fimet Medical Instrument Co., Ltd	17,637,761.05	-	-	2,870,197.21	-	-	-	-	(20,507,958.26)	-	-
Others	28,595,717.35	1,558,049.43	-	(976,023.68)	-	-	(840,849.53)	-	-	28,336,893.57	(1,747,365.36)
	<u>2,141,911,219.40</u>	<u>46,558,049.43</u>	<u>-</u>	<u>300,986,525.15</u>	<u>-</u>	<u>-</u>	<u>(325,840,849.53)</u>	<u>-</u>	<u>(50,053,704.72)</u>	<u>2,113,561,239.73</u>	<u>(1,747,365.36)</u>

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

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

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

(b) Associates

	31 December 2020	Changes during the current year							31 December 2021	Impairment balance	
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjust- ment	Other equity changes(ii)	Cash dividends declared	Provision for impairment			Others
Shanghai Pharma Health Commerce Co., Ltd	-	1,454,970,410.10	-	(15,708,590.46)	-	-	-	-	-	1,439,261,819.64	-
Shanghai Roche Pharmaceuticals Ltd.	1,316,037,366.35	-	-	216,716,971.34	-	-	(125,789,200.39)	-	-	1,406,965,137.30	-
Shanghai Shangyao kangxino biopharmaceutical Co., Ltd	-	589,890,000.00	-	(49,982,436.61)	-	(778,635.48)	-	-	-	539,128,927.91	-
Shanghai Fudan- Zhangjiang Bio- Pharmaceutical Co., Ltd. (iii)	405,202,546.53	-	-	42,979,095.24	(660,939.74)	4,866,128.28	(10,507,128.00)	-	-	441,879,702.31	-
Shanghai Industrial Group Finance Co., Ltd.	392,328,721.77	-	-	18,857,117.35	-	-	(7,450,164.45)	-	-	403,735,674.67	-
Shanghai Lianyi Investment Center (limited Partnership)	271,803,660.01	-	-	116,339,570.78	-	-	(38,438,327.35)	-	-	349,704,903.44	-
Beijing Lianxin Pharmaceutical Co., Ltd.	208,617,791.84	-	-	48,242,167.73	-	-	(10,500,000.00)	-	-	246,359,959.57	-
SINO-AMERICAN Shanghai Squibb Pharmaceutical Ltd.	249,757,112.97	-	-	96,603,720.70	-	-	(114,386,328.00)	-	-	231,974,505.67	-
Shanghai Tsumura Pharmaceuticals Co., Ltd.	207,793,140.48	-	-	17,384,185.88	-	-	(3,406,800.00)	-	-	221,770,526.36	-
Shanghai Good Health Captial LLP	222,982,081.05	-	(28,742,000.00)	(3,916,223.48)	-	-	-	-	-	190,323,857.57	-
Shangshi Commercial Factoring Co., Ltd.	157,872,906.71	-	-	2,813,450.30	-	-	(2,923,287.67)	-	-	157,763,069.34	-
Hangzhou Huqing Yutang Pharmaceutical Co., Ltd.	144,936,679.77	-	-	21,921,556.68	-	-	(20,419,840.00)	-	-	146,438,396.45	-

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

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

(b) Associates (Cont'd)

	Changes during the current year									31 December 2021	Impairment balance
	31 December 2020	Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI Adjust-ment	Other equity changes(ii)	Cash dividends declared	Provision for impairment	Others		
Chengdu Wesker Biomedical Co., Ltd.	84,720,742.74	-	-	(34,782,987.57)	-	90,130,923.87	-	-	-	140,068,679.04	-
Shanghai Bracco Sine Pharmaceutical Co., Ltd.	184,107,268.17	-	-	45,040,700.62	-	-	(90,000,000.00)	-	-	139,147,968.79	-
Shanghai Huiyong Medicine Research Co., Ltd.	-	146,300,000.00	-	(18,784,312.39)	-	-	-	-	-	127,515,687.61	-
Shanghai Ajinomoto Amino Acid Co., Ltd.	102,788,089.71	-	-	17,274,497.02	-	-	(5,312,381.30)	-	-	114,750,205.43	-
A.M.Pappas Life Science Venture V,LP	108,310,111.05	15,939,540.00	-	(29,813,031.06)	-	-	-	-	-	94,436,619.99	-
Oncternal Therapeutics, Inc.(iii)	85,519,373.79	-	-	(13,397,274.39)	-	-	-	-	(1,469,151.19)	70,652,948.21	-
Shanghai Leiyunshang Northern Area Medicine General Co., Ltd.	60,501,677.06	-	-	4,497,558.33	-	-	-	-	-	64,999,235.39	-
Shanghai Huashi Pharmaceutical Storage & Transportation Co., Ltd.	-	56,230,702.15	-	14,896.14	-	-	-	-	-	56,245,598.29	-
Chongqing Pharmaceuticals Shanghai Medicine Sales Co., Ltd.	52,578,476.09	-	-	5,817,985.82	-	-	(2,670,500.00)	-	-	55,725,961.91	-
Sichuan Greentech Bio-technology Co., Ltd	39,113,076.76	-	-	9,689,205.50	-	-	-	-	-	48,802,282.26	-

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

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

(b) Associates (Cont'd)

	31 December 2020	Changes during the current year							31 December 2021	Impairment balance	
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI Adjust- ment	Other equity changes(ii)	Cash dividends declared	Provision for impairment			Others
Shanghai Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP	-	45,000,000.00	-	(472,890.35)	-	-	-	-	-	44,527,109.65	-
Shanghai Chest Medical Instruments Co., Ltd	40,392,352.03	-	-	2,872,432.05	-	-	-	-	-	43,264,784.08	-
Shanghai Xunyao Biotechnology Co., Ltd.	-	47,913,000.00	-	(7,975,718.63)	-	-	-	-	-	39,937,281.37	-
Shanghai Sine Promod Pharmaceutical Co., Ltd.	27,813,818.53	-	-	460,055.80	-	-	(3,161,707.89)	-	-	25,112,166.44	-
Tianjin Modern Innovative Tcm Technology Co., Ltd.	17,801,398.81	-	-	(3,140,373.80)	-	-	-	-	-	14,661,025.01	-
Other investments	209,224,754.67	5,470,000.00	(31,896,140.66)	(941,464.37)	-	763,909.03	(685,875.10)	-	-	181,935,183.57	(75,627,737.72)
	<u>4,590,203,146.89</u>	<u>2,361,713,652.25</u>	<u>(60,638,140.66)</u>	<u>488,609,864.17</u>	<u>(660,939.74)</u>	<u>94,982,325.70</u>	<u>(435,651,540.15)</u>	<u>-</u>	<u>(1,469,151.19)</u>	<u>7,037,089,217.27</u>	<u>(75,627,737.72)</u>

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

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

(b) Associates (Cont'd)

- (i) Related information of equity in the associates 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 2021, the fair value of the equity investments amounted to RMB2,190,176,796.64.
- (iii) ONCTERNAL THERAPEUTICS, INC. is listed on NASDAQ. As at 31 December 2021, the fair value of the equity investments amounted to RMB58,891,269.97.

**(14) Investment properties**

	Buildings	Land use rights	Total
Cost			
31 December 2020	440,027,102.85	23,143,293.08	463,170,395.93
Transfer from fixed assets	1,630,408.32	-	1,630,408.32
Transfer to fixed assets	(11,384,830.96)	-	(11,384,830.96)
Translation difference	(100,050.58)	-	(100,050.58)
31 December 2021	<u>430,172,629.63</u>	<u>23,143,293.08</u>	<u>453,315,922.71</u>
Accumulated depreciation			
31 December 2020	(222,317,528.62)	(5,564,780.54)	(227,882,309.16)
Depreciation	(12,704,594.74)	(447,710.76)	(13,152,305.50)
Transfer from fixed assets	(862,944.10)	-	(862,944.10)
Transfer to fixed assets	1,857,384.40	-	1,857,384.40
Translation difference	47,513.77	-	47,513.77
31 December 2021	<u>(233,980,169.29)</u>	<u>(6,012,491.30)</u>	<u>(239,992,660.59)</u>
Closing net book amount			
31 December 2021	<u>196,192,460.34</u>	<u>17,130,801.78</u>	<u>213,323,262.12</u>
31 December 2020	<u>217,709,574.23</u>	<u>17,578,512.54</u>	<u>235,288,086.77</u>

For the year ended 31 December 2021, the depreciation and amortisation of investment properties amounted to RMB13,152,305.50 (for the year ended 31 December 2020: RMB11,246,422.86).

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

(15) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
<b>Cost</b>						
31 December 2020	9,437,044,652.88	5,578,997,385.59	418,760,556.83	1,040,883,760.23	758,740,225.48	17,234,426,581.01
Increase in the current year						
Addition	57,068,561.34	226,160,042.94	41,237,592.52	78,499,331.36	107,918,694.12	510,884,222.28
Transfers from construction in progress	358,134,146.10	219,108,797.54	815,325.23	64,507,088.35	41,966,004.36	684,531,361.58
Business combinations involving enterprises not under common control	12,525,754.43	310,352.16	2,347,021.25	532,435.48	394,370.21	16,109,933.53
Transfers from investment properties	11,384,830.96	-	-	-	-	11,384,830.96
Translation difference	(11,059,873.20)	(12,185,171.93)	(1,809,978.41)	(661,597.62)	(1,726,000.84)	(27,442,622.00)
Decrease in the current year						
Disposal	(81,273,065.19)	(119,252,557.82)	(31,543,300.75)	(49,219,716.19)	(69,695,922.10)	(350,984,562.05)
Transfer to construction in progress	(180,000.00)	-	-	-	-	(180,000.00)
Transfer to investment properties	(1,630,408.32)	-	-	-	-	(1,630,408.32)
Disposal of subsidiaries	(5,357,828.98)	(23,498,363.19)	(5,003,618.13)	(13,271,961.42)	(2,980,589.26)	(50,112,360.98)
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
<b>Accumulated depreciation</b>						
31 December 2020	(2,621,215,886.46)	(2,595,564,187.97)	(292,593,749.24)	(614,598,590.66)	(478,696,734.67)	(6,602,669,149.00)
Increase in the current year						
Depreciation charge	(328,778,060.61)	(467,156,296.78)	(38,482,820.10)	(146,179,786.60)	(78,794,860.74)	(1,059,391,824.83)
Transfers from investment properties	(1,857,384.40)	-	-	-	-	(1,857,384.40)
Translation difference	1,748,329.00	4,149,254.85	380,209.28	640,750.53	100,789.87	7,019,333.53
Decrease in the current year						
Disposals	48,260,126.42	80,326,042.76	22,852,503.93	45,071,298.69	21,781,370.46	218,291,342.26
Transfer to construction in progress	171,000.00	-	-	-	-	171,000.00
Transfer to investment properties	862,944.10	-	-	-	-	862,944.10
Disposal of subsidiaries	1,849,216.95	2,727,716.56	3,305,183.03	10,626,806.40	2,031,770.99	20,540,693.93
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)

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

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

(15) Fixed assets (Cont'd)

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
Accumulated impairment						
31 December 2020	(86,219,731.99)	(48,500,051.31)	(691,072.87)	(2,966,370.77)	(2,664,509.81)	(141,041,736.75)
Increase in the current year						
Impairment charge	(626,250.00)	(4,541,320.08)	-	-	(5,940.00)	(5,173,510.08)
Decrease in the current year						
Disposal	7,915,261.36	9,915,056.60	522,489.17	1,591,711.48	435,000.96	20,379,519.57
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)
Carrying amount						
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
31 December 2020	6,729,609,034.43	2,934,933,146.31	125,475,734.72	423,318,798.80	277,378,981.00	10,490,715,695.26

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

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

**(15) Fixed assets (Cont'd)**

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(19)) were pledged as collateral for short-term borrowings of RMB368,430,000.00 (Note 4(25)(a)), long-term borrowings of RMB75,109,483.49 (Note 4(35)(a)) and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(33)).

As at 31 December 2020, buildings, machinery and equipment with a carrying amount of RMB203,620,909.75 (a cost of RMB397,171,870.97) and 88,663.39 square metres of land use rights (a cost of RMB23,877,141.23, a carrying amount of RMB19,036,227.92) (Note 4(19)) were pledged as collateral for short-term borrowings of RMB413,452,248.96 (Note 4(25)(a)), long-term borrowings of RMB49,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB2,000,000.00 (Note 4(33)).

For the year ended 31 December 2021, depreciation charged to fixed assets amounted to RMB1,059,391,824.83 (for the year ended 31 December 2020: RMB1,013,851,364.15), of which RMB446,893,480.57, RMB202,125,501.76, RMB318,909,654.00 and RMB91,463,188.50 (for the year ended 31 December 2020: RMB415,297,569.53, RMB214,032,664.02, RMB300,786,505.97 and RMB83,734,624.63) were charged to cost of sales, selling expenses, general and administrative expenses and research and development expenses respectively.

For the year ended 31 December 2021, the costs of fixed assets transferred from construction in progress amounted to RMB684,531,361.58 (for the year ended 31 December 2020: RMB1,323,161,167.46).

(a) Temporarily idle fixed assets

As at 31 December 2021, the Group had no material temporarily idle fixed assets (31 December 2020: Nil).

(b) Fixed assets with pending certificates of ownership:

	Carrying amount	Reasons for not obtaining certificates of ownership yet
Buildings	<u>184,641,261.92</u>	Still in the process

**(16) Construction in progress**

	31 December 2021			31 December 2020		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Construction in progress	<u>2,917,227,756.58</u>	<u>(3,097,748.84)</u>	<u>2,914,130,007.74</u>	<u>1,740,439,064.45</u>	<u>(3,235,084.91)</u>	<u>1,737,203,979.54</u>

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**4 Notes to the consolidated financial statements (Cont'd)**

**(16) Construction in progress (Cont'd)**

**(a) Changes in major construction projects**

Names	Budget' 0000	31 December 2020	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2021	% of Budget	Project progress	Accumulative amount of capitalised borrowing costs	Capitalised borrowing costs in the current year	Capitalisati on rate in the current year	Sources of funds
Qingchunbao-Deqing subsidiary Phase II Project	68,937.00	422,736,218.21	370,881,400.26	(114,332,220.46)	(81,738.00)	679,203,660.01	92.97%	92.97%	-	-	-	Self- owned funds
Industrial Innovation and Upgrade of GBE50 and Artificial Musk Building Installation of Northern Pharmaceuticals Phase II Project	57,972.00	310,888,988.30	111,172,891.30	-	-	422,061,879.60	72.80%	72.80%	-	-	-	Self- owned funds
Suide Road Phase II Project of Shanghai Pharmaceutical Logistics Center	51,661.00	59,860,759.73	245,110,915.03	-	(3,246,460.39)	301,725,214.37	77.88%	77.88%	-	-	-	Self- owned funds
Shanghai Pharmaceutical Jinshan Green Pharmaceutical Quality Base	84,921.25	-	225,326,224.15	-	-	225,326,224.15	26.53%	26.53%	-	-	-	Self- owned funds
Chinese herbal medicine deep processing project	59,814.00	31,563,479.26	72,696,420.24	-	-	104,259,899.50	17.43%	17.43%	-	-	-	Self- owned funds
Shanghai Pharmaceutical Group Changzhou Pharmaceutical Business Center	19,985.00	20,718,226.21	73,610,588.88	-	-	94,328,815.09	57.21%	57.21%	-	-	-	Self- owned funds
Technical Project of TCM Granule	68,000.00	-	69,914,196.67	-	-	69,914,196.67	10.28%	10.28%	-	-	-	Self- owned funds
Biochemical Elevated Warehouse Project	8,635.61	33,870,089.97	22,461,654.18	-	-	56,331,744.15	65.23%	65.23%	-	-	-	Self- owned funds
Shanghai Pharma Biopharmaceutical Industry Base Construction Project	19,039.00	4,257,404.24	47,582,576.44	-	-	51,839,980.68	27.23%	27.23%	-	-	-	Self- owned funds
Shandong Xinyi API, Tablet and Supporting Facilities Construction Project	278,848.09	-	51,041,970.60	-	-	51,041,970.60	1.83%	1.83%	-	-	-	Self- owned funds
Relocation Project of Liaoning Meiya Pharmaceutical Co., Ltd.	38,217.00	2,405,606.59	27,835,548.93	-	-	30,241,155.52	7.91%	7.91%	-	-	-	Self- owned funds
Shanghai Pharmaceutical Research Institute Renovation Project	55,753.00	13,834,093.24	11,348,010.09	-	-	25,182,103.33	4.52%	4.52%	-	-	-	Self- owned funds
	7,788.00	18,129,031.62	10,627,679.76	(4,929,232.95)	(2,711,767.89)	21,115,710.54	36.92%	36.92%	-	-	-	Self- owned funds

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(16) Construction in progress (Cont'd)

(a) Changes in major construction projects (Cont'd)

Shanghai Pharmaceutical Xinyi Jiangchang West Road New Construction Project	98,799.00	-	18,030,552.70	-	-	18,030,552.70	1.82%	1.82%	-	-	-	Self- owned funds
Dispensing Granule Project of Haohushi	68,000.00	18,437,073.83	6,760,657.88	(21,531,641.51)	-	3,666,090.20	3.71%	3.71%	-	-	-	Self- owned funds
Huaxi Medicine Industrial Park	19,806.00	127,823,804.73	14,978,423.37	(142,802,228.10)	-	-	79.45%	100.00%	-	-	-	Self- owned funds
Xinyi-Laboratory Renovation	4,428.60	29,792,112.33	7,275,261.32	(37,067,373.65)	-	-	83.70%	100.00%	-	-	-	Self- owned funds
Others	-	646,122,176.19	727,346,517.67	(363,868,664.91)	(246,641,469.48)	762,958,559.47			-	-	-	
		<u>1,740,439,064.45</u>	<u>2,114,001,489.47</u>	<u>(684,531,361.58)</u>	<u>(252,681,435.76)</u>	<u>2,917,227,756.58</u>			-	-	-	

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

(16) Construction in progress (Cont'd)

(b) Provision for impairment of construction in progress

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Others	<u>(3,235,084.91)</u>	<u>-</u>	<u>137,336.07</u>	<u>(3,097,748.84)</u>

(c) As at 31 December 2021, the progress of the construction in progress in the Group was estimated by the proportion of expenditures incurred to budgeted amount.

(17) Bearer biological assets

	Mature biological assets	Immature biological assets	Total
Cost			
31 December 2020	311,818,373.03	121,580,549.93	433,398,922.96
Increase in the current year	-	5,861,607.51	5,861,607.51
Transfer from immature biological assets	43,405,686.00	-	43,405,686.00
Transfer to mature biological assets	-	(43,405,686.00)	(43,405,686.00)
Disposal	-	(822,337.73)	(822,337.73)
31 December 2021	<u>355,224,059.03</u>	<u>83,214,133.71</u>	<u>438,438,192.74</u>
Accumulated depreciation			
31 December 2020	(27,580,664.09)	-	(27,580,664.09)
Depreciation charge	<u>(8,288,463.32)</u>	<u>-</u>	<u>(8,288,463.32)</u>
31 December 2021	<u>(35,869,127.41)</u>	<u>-</u>	<u>(35,869,127.41)</u>
Carrying amount			
31 December 2021	<u>319,354,931.62</u>	<u>83,214,133.71</u>	<u>402,569,065.33</u>
31 December 2020	<u>284,237,708.94</u>	<u>121,580,549.93</u>	<u>405,818,258.87</u>

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

(18) Right-of-use assets

	Buildings	Machinery and equipment	Other equipment	Total
<b>Cost</b>				
31 December 2020	3,997,313,433.06	39,991,610.38	778,298.85	4,038,083,342.29
Increase in the current year				
New lease contracts	669,279,241.81	10,980,486.73	-	680,259,728.54
Decrease in the current year				
Changes in leases	(519,918,534.10)	(12,673,077.32)	(778,298.85)	(533,369,910.27)
Translation difference	(14,480,042.86)	-	-	(14,480,042.86)
31 December 2021	4,132,194,097.91	38,299,019.79	-	4,170,493,117.70
<b>Accumulated amortisation</b>				
31 December 2020	(2,009,622,530.44)	(23,793,317.63)	(695,278.66)	(2,034,111,126.73)
Increase in the current year				
Amortisation charge	(625,933,762.93)	(7,027,897.72)	(83,020.19)	(633,044,680.84)
Decrease in the current year				
Changes in leases	483,161,917.74	12,673,077.32	778,298.85	496,613,293.91
Translation difference	1,269,305.39	-	-	1,269,305.39
31 December 2021	(2,151,125,070.24)	(18,148,138.03)	-	(2,169,273,208.27)
<b>Accumulated impairment</b>				
31 December 2020	(11,321,296.37)	-	-	(11,321,296.37)
Changes in leases	2,535,089.79	-	-	2,535,089.79
31 December 2021	(8,786,206.58)	-	-	(8,786,206.58)
<b>Carrying amount</b>				
31 December 2021	1,972,282,821.09	20,150,881.76	-	1,992,433,702.85
31 December 2020	1,976,369,606.25	16,198,292.75	83,020.19	1,992,650,919.19

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

(19) Intangible assets

	Land use rights	Business network	Trademarks and brands	Proprietary technology and patents	License	Software and Others	Total
<b>Cost</b>							
31 December 2020	2,960,028,526.89	2,412,388,097.17	698,978,767.55	827,323,683.66	55,847,188.55	644,187,349.52	7,598,753,613.34
Increase in the current year							
Purchase	1,250,075,874.15	-	-	88,796,128.61	-	39,256,048.57	1,378,128,051.33
Transfer from R&D expenditures	-	-	-	86,352,375.95	-	-	86,352,375.95
Business combinations involving enterprises not under common control	14,656,159.15	-	-	23,368,983.15	-	186,266.50	38,211,408.80
Transfer from construction in progress	-	-	-	-	-	87,439,533.00	87,439,533.00
Translation difference	-	(1,726,884.66)	(43,866,697.61)	(1,469,817.57)	-	(382,260.35)	(47,445,660.19)
Decrease in the current year							
Disposals	(14,548,506.37)	-	-	-	-	(1,206,993.37)	(15,755,499.74)
Disposals of subsidiaries	(8,415,589.00)	(78,187,578.35)	(31,002,421.65)	(32,579,401.47)	-	(71,207,775.85)	(221,392,766.32)
Transfer to R&D expenditures	-	-	-	-	(55,847,188.55)	-	(55,847,188.55)
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
<b>Accumulated amortisation</b>							
31 December 2020	(414,764,492.33)	(1,089,357,833.15)	(40,261,843.81)	(323,258,318.48)	-	(410,312,250.90)	(2,277,954,738.67)
Increase in the current year							
Amortization charge	(74,677,267.40)	(200,794,953.96)	(6,858,111.58)	(80,605,463.86)	-	(94,171,790.25)	(457,107,587.05)
Decrease in the current year							
Disposals	4,953,927.43	-	-	-	-	370,018.14	5,323,945.57
Disposals of subsidiaries	3,771,851.94	35,136,549.92	10,334,116.75	6,878,290.50	-	61,502,454.15	117,623,263.26
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)
<b>Accumulated impairment</b>							
31 December 2020	(7,684,303.04)	(2,854,166.67)	(31,402,038.00)	(81,867,731.04)	-	(1,736,859.89)	(125,545,098.64)
Increase in the current year							
Impairment charge	-	-	-	(64,597,533.00)	-	-	(64,597,533.00)
Translation difference	-	-	2,468,318.00	776,776.00	-	-	3,245,094.00
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)
<b>Carrying amount</b>							
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
31 December 2020	2,537,579,731.52	1,320,176,097.35	627,314,885.74	422,197,634.14	55,847,188.55	232,138,238.73	5,195,253,776.03

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

**(19) Intangible assets (Cont'd)**

For the year ended 31 December 2021, the amortization of intangible assets amounted to RMB457,107,587.05 (for year ended 31 December 2020: RMB479,889,157.76).

As at 31 December 2021, certificates of ownership for land use rights with a carrying amount of RMB40,201,262.25 (a cost of RMB44,383,212.08) (31 December 2020: a carrying amount of RMB949,849,119.61 (a cost of RMB969,366,004.08)) were still in progress.

As at 31 December 2021, 295,477.63 square meters 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(15)) were pledged as collateral for short-term borrowings of RMB368,430,000.00 (Note 4(25)(a)), long-term borrowings of RMB75,109,483.49 (Note 4(35)(a)) and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(33)).

As at 31 December 2020, 88,663.39 square meters of land use rights (a cost of RMB23,877,141.23, a carrying amount of RMB19,036,227.92) and buildings, machinery and equipment with a carrying amount of RMB203,620,909.75 (a cost of RMB397,171,870.97) (Note 4(15)) were pledged as collateral for short-term borrowings of RMB413,452,248.96 (Note 4(25)(a)), long-term borrowings of RMB49,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB2,000,000.00 (Note 4(33)).

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

	31 December 2020	Increase in the current year	Reclassification of intangible assets	Decrease in the current year		31 December 2021
				Amount recognised in profit or loss	Amount recognised as intangible assets	
R&D project	<u>223,825,636.29</u>	<u>2,053,185,116.52</u>	<u>55,847,188.55</u>	<u>(1,987,277,619.33)</u>	<u>(86,352,375.95)</u>	<u>259,227,946.08</u>

For the year ended 31 December 2021, the R&D expenditures of the Group were RMB2,053,185,116.52 (for the year ended 31 December 2020: RMB1,698,566,603.65) in total, of which, RMB1,987,277,619.33 (for the year ended 31 December 2020: RMB1,656,670,833.68) was recognised in profit or loss, RMB11,405,322.60 (for the year ended 31 December 2020: RMB3,567,574.27) was recognised as intangible assets, and RMB54,502,174.59 (for the year ended 31 December 2020: RMB38,328,195.70) was included in the ending balance of the development costs.

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

**(20) Goodwill**

	31 December 2020	Increase in the current year	Decrease in the current year	Others	31 December 2021
Goodwill -					
Shanghai Pharmaceutical Co., Ltd.'s subsidiaries	3,754,638,537.91	11,300,988.43	(93,977,478.05)	-	3,671,962,048.29
China Health System Ltd. and its subsidiaries	2,869,625,915.41	-	(29,791.35)	-	2,869,596,124.06
Shanghai Pharmaceuticals (HK) Investment Limited's subsidiaries	2,676,288,350.76	-	(132,392,411.23)	-	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	1,045,483,983.21	-	-	(80,739,453.80)	964,744,529.41
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(i)	-	138,131,837.94	-	-	138,131,837.94
SPH Kony (Changzhou) Co., Ltd.	107,285,726.91	-	-	-	107,285,726.91
Others	158,425,128.21	-	(1,330,164.91)	-	157,094,963.30
	<u>13,356,842,316.05</u>	<u>149,432,826.37</u>	<u>(227,729,845.54)</u>	<u>(80,739,453.80)</u>	<u>13,197,805,843.08</u>
Less: Provision for impairment (a) -					
Zeus Investment Limited and its subsidiaries	(953,540,201.73)	-	-	74,951,838.17	(878,588,363.56)
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)	-	-	-	(142,240,678.55)
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.'s subsidiaries	(115,631,808.72)	(7,176,425.25)	-	-	(122,808,233.97)
Shanghai Traditional Chinese Medicine Co., Ltd.'s subsidiaries	(60,074,523.57)	(12,034,737.74)	-	-	(72,109,261.31)
China Health System Ltd. and its subsidiaries	(1,038,013.89)	-	-	-	(1,038,013.89)
Others	(108,881,749.87)	-	-	-	(108,881,749.87)
	<u>(2,014,574,157.50)</u>	<u>(19,211,162.99)</u>	<u>-</u>	<u>74,951,838.17</u>	<u>(1,958,833,482.32)</u>
	<u>11,342,268,158.55</u>	<u>130,221,663.38</u>	<u>(227,729,845.54)</u>	<u>(5,787,615.63)</u>	<u>11,238,972,360.76</u>

(i) Goodwill recognised in the current year arose from the purchase of Fimet Invest OY. (Note 5(1))

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

**(20) Goodwill (Cont'd)**

(a) Impairment

The Group's goodwill was allocated to the asset groups and groups of asset groups at acquisition date. For the year ended 31 December 2021, the goodwill allocated to the asset groups or groups of asset groups are summarised by operating segments (Note 7) as follows:

	31 December 2021	31 December 2020
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	964,744,529.41	1,045,483,983.21
Big Global Limited and its subsidiary	445,109,447.21	445,109,447.21
Star Fountain Global Ltd. and its subsidiaries	188,057,733.96	188,057,733.96
Chongqing SPH Huiyuan Pharmaceutical Co., Ltd. and its subsidiaries	164,543,389.88	164,543,389.88
Shanghai Medical Instruments Co., Ltd.'s subsidiaries	138,131,837.94	-
Others	480,983,128.32	482,313,293.23
Distribution-		
Distribution business of Shanghai Pharmaceutical Co., Ltd and Cardinal Health (L) Co., Ltd.	5,867,386,339.71	5,998,616,053.62
Distribution business of China Health System Ltd. and Liaoning International Pharmaceutical Trading Co., Ltd.	3,100,028,077.00	3,100,057,868.35
Others	212,028,603.13	212,028,603.13
Retail and others	<u>236,904,048.88</u>	<u>320,743,235.82</u>
	<u>13,197,805,843.08</u>	<u>13,356,842,316.05</u>

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

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

**(20) Goodwill (Cont'd)**

**(a) Impairment (Cont'd)**

The Group determines the growth rate and gross margin rates based on historical experience and forecasts of market development. The growth rates during the budget period are based on the five-year budget approved by the management, together with the constant growth rates thereafter. The constant growth rates are in accordance with the estimated data in 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.

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%

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

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

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

**(21) Long-term prepaid expenses**

	31 December 2020	Increase in the current year	Amortisation in the current year	Others	31 December 2021
Improvement and maintenance expenditures of right-of-use assets	356,656,223.57	54,978,318.21	(64,365,058.15)	(15,043,691.05)	332,225,792.58
Others	58,664,252.02	182,001,964.86	(122,527,962.51)	(21,246,573.09)	96,891,681.28
	<u>415,320,475.59</u>	<u>236,980,283.07</u>	<u>(186,893,020.66)</u>	<u>(36,290,264.14)</u>	<u>429,117,473.86</u>

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

(22) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offset

	31 December 2021		31 December 2020	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment	2,903,493,071.23	679,184,106.05	2,874,224,589.99	675,603,294.23
Accrued expenses	1,345,179,683.81	313,275,444.19	1,363,227,688.89	303,906,227.12
Lease Liabilities	1,979,319,007.98	493,387,218.68	2,069,014,470.82	516,361,136.59
Elimination of intra-group unrealised profit	767,235,816.58	144,431,890.03	1,054,089,451.57	190,908,341.71
Changes in fair value of other non-current financial assets	106,059,887.52	26,514,971.88	-	-
Deferred income	161,718,452.56	24,580,442.26	156,886,490.91	28,708,625.34
Others	778,275,847.46	172,432,870.42	626,283,559.44	139,511,983.51
	<u>8,041,281,767.14</u>	<u>1,853,806,943.51</u>	<u>8,143,726,251.62</u>	<u>1,854,999,608.50</u>
Including:				
Expected to be recovered within one year (inclusive)		1,165,867,148.79		1,207,464,229.17
Expected to be recovered after one year		<u>687,939,794.72</u>		<u>647,535,379.33</u>
		<u>1,853,806,943.51</u>		<u>1,854,999,608.50</u>

(b) Deferred tax liabilities before offset

	31 December 2021		31 December 2020	
	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	2,823,276,434.74	705,819,108.69	3,119,044,304.88	779,761,076.22
Right-of-use assets	1,868,172,802.17	465,036,380.80	1,992,650,919.19	497,128,589.78
Investment income arising from disposal of subsidiaries	1,014,545,195.32	253,636,298.82	-	-
Changes in fair value of other non-current financial assets	150,512,434.63	37,628,108.66	76,458,829.60	19,114,707.40
Others	91,643,727.63	22,910,931.90	128,029,281.04	32,007,320.26
	<u>5,948,150,594.49</u>	<u>1,485,030,828.87</u>	<u>5,316,183,334.71</u>	<u>1,328,011,693.66</u>
Including:				
Expected to be recovered within one year (inclusive)		200,729,218.69		174,045,349.30
Expected to be recovered after one year		<u>1,284,301,610.18</u>		<u>1,153,966,344.36</u>
		<u>1,485,030,828.87</u>		<u>1,328,011,693.66</u>

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

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

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

	31 December 2021	31 December 2020
Deductible losses	<u>5,354,243,182.35</u>	<u>3,847,127,116.56</u>

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

	31 December 2021	31 December 2020
2021	Not applicable	212,297,163.74
2022	615,926,129.80	691,772,644.81
2023	688,068,406.76	750,316,171.42
2024	924,286,263.03	924,479,874.03
2025	1,196,378,740.88	1,202,513,258.69
2026	1,840,020,940.38	34,733,551.03
2027	10,389,615.76	10,389,615.76
2028	15,412,492.98	15,412,492.98
2029	679,254.21	679,254.21
2030	4,533,089.89	4,533,089.89
2031	<u>58,548,248.66</u>	Not applicable
	<u>5,354,243,182.35</u>	<u>3,847,127,116.56</u>

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

	31 December 2021		31 December 2020	
	Offsetting amount	Amount after offset	Offsetting amount	Amount after offset
Deferred tax assets	(486,262,008.09)	1,367,544,935.42	(495,636,237.83)	1,359,363,370.67
Deferred tax liabilities	486,262,008.09	998,768,820.78	495,636,237.83	832,375,455.83

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

(23) Asset impairment

	31 December 2020	Increase in the current year	Reverse in the current year	Others	31 December 2021
Provision for bad debts of notes receivables	4,439,388.73	6,998,935.17	(4,439,388.73)	-	6,998,935.17
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	4,439,388.73	6,998,935.17	(4,439,388.73)	-	6,998,935.17
Provision for bad debts of accounts receivables	1,965,639,609.76	43,844,780.66	(99,106,403.96)	(16,203,730.01)	1,894,174,256.45
Including: Provision for bad debts on individual basis	561,124,676.97	43,844,780.66	(5,578,269.60)	(4,752,954.74)	594,638,233.29
Provision for bad debts on grouping basis	1,404,514,932.79	-	(93,528,134.36)	(11,450,775.27)	1,299,536,023.16
Provisions for bad debts of receivables financing	6,099,046.32	4,824,701.57	(6,099,046.32)	-	4,824,701.57
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	6,099,046.32	4,824,701.57	(6,099,046.32)	-	4,824,701.57
Provision for bad debts of other receivables	741,764,407.33	55,086,775.42	(2,763,709.35)	(14,731,761.31)	779,355,712.09
Provision for impairment of long-term receivables	1,405,582.14	975,463.98	-	-	2,381,046.12
Subtotal	<u>2,719,348,034.28</u>	<u>111,730,656.80</u>	<u>(112,408,548.36)</u>	<u>(30,935,491.32)</u>	<u>2,687,734,651.40</u>
Provision for decline in the value of inventories	1,162,786,949.09	51,458,914.30	-	(62,636,731.74)	1,151,609,131.65
Provision for impairment of long-term equity investment	81,050,360.68	-	-	(3,675,257.60)	77,375,103.08
Provision for impairment of fixed assets	141,041,736.75	5,173,510.08	-	(20,379,519.57)	125,835,727.26
Provision for impairment of construction in progress	3,235,084.91	-	-	(137,336.07)	3,097,748.84
Provision for impairment of intangible assets	125,545,098.64	64,597,533.00	-	(3,245,094.00)	186,897,537.64
Provision for impairment of goodwill	2,014,574,157.50	19,211,162.99	-	(74,951,838.17)	1,958,833,482.32
Provision for impairment of right-of-use assets	11,321,296.37	-	-	(2,535,089.79)	8,786,206.58
Subtotal	<u>3,539,554,683.94</u>	<u>140,441,120.37</u>	<u>-</u>	<u>(167,560,866.94)</u>	<u>3,512,434,937.37</u>
	<u>6,258,902,718.22</u>	<u>252,171,777.17</u>	<u>(112,408,548.36)</u>	<u>(198,496,358.26)</u>	<u>6,200,169,588.77</u>

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

(24) Other non-current assets

	31 December 2021	31 December 2020
Prepayment for construction costs	335,075,242.69	229,243,839.71
Fixed deposit	300,000,000.00	-
Others	221,822,690.93	163,257,411.71
	<u>856,897,933.62</u>	<u>392,501,251.42</u>

(25) Short-term borrowings

	31 December 2021	31 December 2020
Mortgaged (a)	368,430,000.00	413,452,248.96
Pledged (b)	940,780,920.43	788,672,761.86
Guaranteed (c)	313,897,125.20	515,374,649.00
Credit	20,824,242,255.84	18,347,191,403.34
Interest accrued	67,223,725.88	74,494,793.75
	<u>22,514,574,027.35</u>	<u>20,139,185,856.91</u>

- (a) As at 31 December 2021, short-term borrowings of RMB368,430,000.00 and long-term borrowings of RMB75,109,483.49 (Note 4(35)(a)) and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(33)) were secured by buildings, and machinery and equipment (Note 4(15)) 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(19));

As at 31 December 2020, short-term borrowings of RMB413,452,248.96 and long-term borrowings of RMB49,122,651.00 (Note 4(35)(a)) and current portion of long-term borrowings of RMB2,000,000.00 (Note 4(33)) were secured by buildings, and machinery and equipment (Note 4(15)) with a carrying amount of RMB203,620,909.75 (a cost of RMB397,171,870.97), and 88,663.39 square metres of land use rights (a cost of RMB23,877,141.23, a carrying amount of RMB19,036,227.92) (Note 4(19));

- (b) 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 (Note 4(4)(c)) and receivables financing with a carrying amount of RMB163,392,033.42 (Note 4(3)) and notes receivables with a carrying amount of RMB112,397,862.34 (Note 4(3));

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

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

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

- (c) As at 31 December 2021, guaranteed borrowings of RMB313,897,125.20 (31 December 2020: RMB263,424,649.00) were mainly secured by the minority shareholders of subsidiaries of the Group.

As at 31 December 2021, none of guaranteed borrowings (31 December 2020: RMB251,950,000.00) were secured by the Group together with the minority shareholders of subsidiaries of the Group.

- (d) As at 31 December 2021, the range of interest rate of short-term borrowings was 1.00% to 5.50% (31 December 2020: 1.39% to 5.44%).

**(26) Notes payables**

	31 December 2021	31 December 2020
Trade acceptance	981,727,895.37	1,350,669,048.51
Bank acceptance	<u>3,783,020,106.30</u>	<u>3,580,057,290.67</u>
	<u>4,764,748,001.67</u>	<u>4,930,726,339.18</u>

**(27) Accounts payables**

	31 December 2021	31 December 2020
Purchase payable	<u>37,230,666,373.90</u>	<u>32,861,440,182.89</u>

- (i) As at 31 December 2021, accounts payables aged over one year were RMB3,116,581,413.66 (31 December 2020: RMB3,047,578,404.20).

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

	31 December 2021	31 December 2020
Within 1 year	34,114,084,960.24	29,813,861,778.69
1-2 years	1,659,616,581.51	1,979,227,176.14
Above 2 years	<u>1,456,964,832.15</u>	<u>1,068,351,228.06</u>
	<u>37,230,666,373.90</u>	<u>32,861,440,182.89</u>

**(28) Contract liabilities**

	31 December 2021	31 December 2020
Advance received from customers	<u>1,310,920,870.47</u>	<u>1,310,837,272.06</u>

For the year ended 31 December 2021, contract liabilities included in the period beginning with carrying amount of RMB1,228,431,762.15 (31 December 2020: RMB1,481,596,921.61) were transferred to revenue, all of which were income from sales of goods.

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

(29) Employee benefits payable

	31 December 2021	31 December 2020
Short-term employee benefits payable(a)	1,402,813,681.33	1,251,034,314.90
Defined contribution plans payable(b)	23,410,191.95	18,277,864.13
Termination benefits payable(c)	6,804,254.50	4,653,689.80
	<u>1,433,028,127.78</u>	<u>1,273,965,868.83</u>

(a) Short-term employee benefits payable

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Wages and salaries, bonus, allowances and subsidies	1,058,659,632.98	6,730,533,955.14	(6,557,621,205.34)	1,231,572,382.78
Staff welfare	-	294,187,333.32	(294,187,333.32)	-
Social security contributions	14,043,003.91	374,153,531.26	(376,636,086.57)	11,560,448.60
Including: Medical insurance	12,868,837.56	347,897,139.74	(350,002,048.53)	10,763,928.77
Work injury insurance	333,250.12	15,528,574.78	(15,572,180.44)	289,644.46
Maternity insurance	840,916.23	10,727,816.74	(11,061,857.60)	506,875.37
Housing funds	4,435,879.05	362,442,234.89	(363,672,518.70)	3,205,595.24
Labor union funds and employee education funds	43,132,507.89	127,793,285.86	(126,399,303.25)	44,526,490.50
Others	130,763,291.07	114,788,684.31	(133,603,211.17)	111,948,764.21
	<u>1,251,034,314.90</u>	<u>8,003,899,024.78</u>	<u>(7,852,119,658.35)</u>	<u>1,402,813,681.33</u>

(b) Defined contribution plans payable

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Basic pensions	17,236,932.48	628,602,228.32	(623,267,794.20)	22,571,366.60
Unemployment insurance	1,040,931.65	19,443,910.46	(19,646,016.76)	838,825.35
	<u>18,277,864.13</u>	<u>648,046,138.78</u>	<u>(642,913,810.96)</u>	<u>23,410,191.95</u>

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 2021	31 December 2020
Termination benefits payable (current portion)	<u>6,804,254.50</u>	<u>4,653,689.80</u>

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

(30) Taxes payable

	31 December 2021	31 December 2020
Unpaid VAT	781,897,403.65	631,845,484.87
Enterprise income tax payable	721,161,742.64	682,453,006.19
City maintenance and construction tax payable	50,576,616.04	43,180,466.80
Educational surcharge payable	37,371,537.53	31,642,637.91
Withholding of personal income tax for employees	26,364,731.25	35,311,481.39
Property tax payable	17,156,565.39	15,257,843.09
Land appreciation tax payable	2,610.65	672,477.18
Others	58,128,873.88	37,704,072.10
	<u>1,692,660,081.03</u>	<u>1,478,067,469.53</u>

(31) Other payables

	31 December 2021	31 December 2020
Accrued expenses	5,606,644,384.21	4,781,905,479.29
Deposits and guarantees payable	2,904,880,319.59	2,664,660,271.79
Accounts received from other companies	2,404,657,604.79	2,421,207,763.18
Payables for equity acquisition	272,803,407.52	571,919,011.10
Engineering equipment expenses payable	246,824,826.92	315,703,915.67
Dividends payable to minority shareholders	341,551,604.87	186,122,799.07
Others	1,285,165,665.07	1,201,278,299.50
	<u>13,062,527,812.97</u>	<u>12,142,797,539.60</u>

(a) As at 31 December 2021, other payables aged over one year were RMB4,102,657,998.18 (31 December 2020: RMB2,423,073,182.52).

(32) Provisions

	31 December 2020	Increase in the current year	Decrease in the current year	31 December 2021
Pending litigations	20,017,457.93	1,439,277.76	(3,956,034.76)	17,500,700.93
Others	5,743,197.09	-	-	5,743,197.09
	<u>25,760,655.02</u>	<u>1,439,277.76</u>	<u>(3,956,034.76)</u>	<u>23,243,898.02</u>

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

(33) Current portion of non-current liabilities

	31 December 2021	31 December 2020
Current portion of long-term borrowings (Note 4(35))	33,443,394.84	5,293,115,880.39
Current portion of debentures payable (a)	-	3,017,668,077.27
Current portion of lease liabilities (Note 4(36))	545,044,859.04	574,568,034.23
Current portion of long-term payables (Note 4(37))	3,554,312.67	82,685,793.84
	<u>582,042,566.55</u>	<u>8,968,037,785.73</u>

(a) Details of debentures are as follows:

	31 December 2020	Interest accrued	Amortisation of discount	Repayment for the year	31 December 2021
Corporate debentures in 2018 (Stage 1)	<u>3,017,668,077.27</u>	<u>104,516,393.44</u>	<u>815,529.29</u>	<u>(3,123,000,000.00)</u>	-

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

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

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(34) Other current liabilities

	31 December 2021	31 December 2020
Super & Short-term Commercial Paper ("SCP") (a)	9,077,033,424.66	5,018,616,438.36
Others	155,348,176.96	-
	<u>9,232,381,601.62</u>	<u>5,018,616,438.36</u>

(a) Details of the SCP are as follows:

	31 December 2020	Issue for the year	Interest accrued	Amortisation of discount	Repayment for the year	31 December 2021
2020 SCP stage 4	2,512,000,000.00	-	2,794,520.55	-	(2,514,794,520.55)	-
2020 SCP stage 5	2,506,616,438.36	-	3,308,219.17	-	(2,509,924,657.53)	-
2021 SCP stage 1	-	2,499,368,056.00	15,582,191.78	631,944.00	(2,515,582,191.78)	-
2021 SCP stage 2	-	2,499,166,666.67	21,369,863.01	833,333.33	(2,521,369,863.01)	-
2021 SCP stage 3	-	2,499,354,200.00	15,924,657.53	645,800.00	(2,515,924,657.53)	-
2021 SCP stage 4	-	2,499,363,013.70	15,606,164.38	636,986.30	(2,515,606,164.38)	-
2021 SCP stage 5	-	2,998,466,666.67	36,756,164.38	1,533,333.33	-	3,036,756,164.38
2021 SCP stage 6	-	2,998,408,333.33	27,475,068.49	1,591,666.67	-	3,027,475,068.49
2021 SCP stage 7	-	2,998,533,333.34	12,802,191.79	1,466,666.66	-	3,012,802,191.79
	<u>5,018,616,438.36</u>	<u>18,992,660,269.71</u>	<u>151,619,041.08</u>	<u>7,339,730.29</u>	<u>(15,093,202,054.78)</u>	<u>9,077,033,424.66</u>
	Face value	Issuing date	Debenture maturity	Issuing amount	Coupon rate	
2021 SCP stage 1	2,500,000,000.00	13 January 2021	91 days	2,499,368,056.00	2.50%	
2021 SCP stage 2	2,500,000,000.00	19 January 2021	120 days	2,499,166,666.67	2.60%	
2021 SCP stage 3	2,500,000,000.00	12 April 2021	93 days	2,499,354,200.00	2.50%	
2021 SCP stage 4	2,500,000,000.00	17 May 2021	93 days	2,499,363,013.70	2.45%	
2021 SCP stage 5	3,000,000,000.00	12 July 2021	184 days	2,998,466,666.67	2.60%	
2021 SCP stage 6	3,000,000,000.00	16 August 2021	191 days	2,998,408,333.33	2.44%	
2021 SCP stage 7	3,000,000,000.00	2 November 2021	176 days	2,998,533,333.34	2.64%	

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

(35) Long-term borrowings

	31 December 2021	31 December 2020
Mortgaged (a)	101,483,268.49	51,122,651.00
Credit	6,878,967,857.69	6,330,070,917.27
Pledged (b)	207,112,457.80	91,800,394.36
Interest accrued	3,631,514.34	4,200,229.12
	<u>7,191,195,098.32</u>	<u>6,477,194,191.75</u>
Less: Current portion of long-term borrowings		
Mortgaged (a)	(26,373,785.00)	(2,000,000.00)
Credit	-	(5,282,246,433.91)
Pledged (b)	(3,438,095.50)	(4,669,217.36)
Interest accrued	(3,631,514.34)	(4,200,229.12)
	<u>(33,443,394.84)</u>	<u>(5,293,115,880.39)</u>
	<u>7,157,751,703.48</u>	<u>1,184,078,311.36</u>

- (a) As at 31 December 2021, short-term borrowings of RMB368,430,000.00 (Note 4(25)(a)) and long-term borrowings of RMB75,109,483.49 and current portion of long-term borrowings of RMB26,373,785.00 (Note 4(33)) 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(15)), 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(19)).

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

- (b) 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(33)) were secured by account receivables with a carrying amount of RMB190,916,984.00 (Note 4(4)). Pledged bank borrowings of RMB84,000,000.00 were secured by 100% share of a subsidiary of the group named Shanghai Fimet Medical Instrument Co., Ltd. Pledged bank borrowings of RMB1,255,951.94 and current portion of long-term borrowings of RMB389,863.80 (Note 4(33)) were secured by 100% share of a subsidiary of the group named Fimet Invest Oy. Pledged bank borrowings of RMB2,401,426.36 and current portion of long-term borrowings of RMB1,425,855.23 (Note 4(33)) were secured by 50% equity of a subsidiary of the group named Shanghai Fimet Medical Instrument Co., Ltd.

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

- (c) As at 31 December 2021, the range of interest rate of long-term borrowings was 1.12% to 5.70% (31 December 2020: 1.40% to 5.70%).

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

(36) Lease liabilities

	31 December 2021	31 December 2020
Lease liabilities	1,979,319,007.98	2,075,589,834.42
Less: Current portion of non-current liabilities (Note4(33))	<u>(545,044,859.04)</u>	<u>(574,568,034.23)</u>
	<u>1,434,274,148.94</u>	<u>1,501,021,800.19</u>

(a) As at 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 2021, payments for leases not yet commenced to which the Group was committed amounted to RMB5,486,628.20(31 December 2020: RMB16,830,377.16).

(ii) As at 31 December 2021, 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 RMB107,557,690.66 and RMB6,189,399.04 respectively, which would be due within one year.

(37) Long-term payables

	31 December 2021	31 December 2020
Long-term payables for acquisition of subsidiaries	278,165,684.01	396,789,264.74
Payables for forest use rights	40,550,123.37	39,471,203.06
	<u>318,715,807.38</u>	<u>436,260,467.80</u>
Less: Current portion of long-term payables(Note4(33))	<u>(3,554,312.67)</u>	<u>(82,685,793.84)</u>
	<u>315,161,494.71</u>	<u>353,574,673.96</u>

(38) Deferred income

	31 December 2020	Increase in the current period	Decrease in the current period	31 December 2021	Reasons
Compensation for demolition and construction	1,828,044,586.07	107,212,078.85	(24,446,361.09)	1,910,810,303.83	Relocation and demolition
Scientific research funds and specific funds (a)	<u>396,024,482.66</u>	<u>156,925,400.90</u>	<u>(114,680,038.85)</u>	<u>438,269,844.71</u>	Others
Total	<u>2,224,069,068.73</u>	<u>264,137,479.75</u>	<u>(139,126,399.94)</u>	<u>2,349,080,148.54</u>	

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

(38) Deferred income (Cont'd)

(a) Government grants

	31 December 2020	Increase in the current year	Amount included in other income	Amount deducted against administrative expenses and financial expenses	31 December 2021	Asset related/ Income related
Scientific research funds and other allowance	396,024,482.66	156,925,400.90	(62,787,353.67)	(51,892,685.18)	438,269,844.71	Asset related/ Income related

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

	Amount recognised in profit or loss for the year	Items reported in profit or loss for the year
Government grants		
Scientific research funds	62,787,353.67	Other income General and administrative expenses/Financial expenses
Other allowance	51,892,685.18	
	<u>114,680,038.85</u>	

(39) Long-term employee benefits payable

	31 December 2021	31 December 2020
Termination benefits payable	45,811,438.86	51,064,812.41
Less: To be paid within one year (Note 4(29)(c))	(6,804,254.50)	(4,653,689.80)
	<u>39,007,184.36</u>	<u>46,411,122.61</u>

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

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

(40) Other non-current liabilities

	31 December 2021	31 December 2020
Medical reserve funds	104,152,918.64	100,317,717.82
Share repurchase payable(i)	85,752,514.64	-
Others	37,782,631.38	44,327,294.41
	<u>227,688,064.66</u>	<u>144,645,012.23</u>

- (i) On 5 February 2021, the Group's subsidiary, Shanghai Pharma Health Commerce Co., Ltd. (hereinafter referred to as "SPH Health Commerce") completed the B round financing and introduced seven new investors (including the Group's related parties, Shanghai Huadong Industrial Co., Ltd. and Shanghai Biomedical Industry Equity Investment Fund Partnership (L.P.) (hereinafter referred to as "Biomedical Industry Equity Investment Fund")(Note 8(5)(l))) in the form of capital increase. The Group's shareholding ratio in SPH Health Commerce decreased from 72.7478% to 47.974%, and it will no longer merge with SPH Health Commerce. The Group granted part of the Round B investors (including Biomedical Industry Equity Investment Fund ) with put option. If certain events happen, these investors may request the Group to repurchase their shares in SPH Health Commerce at the agreed price. The Group deemed the put option as an other non-current liability. As at 31 December 2021, the fair value of the put option is RMB85,752,514.64 (31 December 2020: Nil). The Group adapts recent financing price method to determine the present value of equity at base date and adapts the Black-Scholes option pricing model and equity distribution value model to determine the fair value of put option.

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

(41) Share capital

	31 December 2020	Change in the current year			Subtotal	31 December 2021
		Issue new shares	Unlock non-tradable shares	Others		
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
	<u>2,842,007,722.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,842,007,722.00</u>
	<u>2,842,089,322.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,842,089,322.00</u>

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

(41) Share capital (Cont'd)

	31 December 2019	Change in the current year			Subtotal	31 December 2020
		Issue new shares	Unlock non-tradable shares	Others		
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
	<u>2,842,007,722.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,842,007,722.00</u>
	<u>2,842,089,322.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,842,089,322.00</u>

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

(42) Capital surplus

	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	<u>(630,424,030.95)</u>	<u>-</u>	<u>-</u>	<u>(630,424,030.95)</u>
	<b>15,897,587,875.18</b>	<b>173,135,177.31</b>	<b>-</b>	<b>16,070,723,052.49</b>
	31 December 2019	Increase in the current year	Decrease in the current year	31 December 2020
Share premium(a)	16,314,977,783.96	-	(8,822,150.14)	16,306,155,633.82
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method(b)	34,816,670.59	151,065,771.02	-	185,882,441.61
Share-based payment(c)	1,231,412.28	34,742,418.42	-	35,973,830.70
Others	<u>(630,424,030.95)</u>	<u>-</u>	<u>-</u>	<u>(630,424,030.95)</u>
	<b>15,720,601,835.88</b>	<b>185,808,189.44</b>	<b>(8,822,150.14)</b>	<b>15,897,587,875.18</b>

- (a) For the year ended 31 December 2021 and 2020, the increase/(decrease) of the capital surplus was mainly the difference between the consideration paid in transaction of the Group and its minority shareholders and identifiable net assets of the subsidiaries based on continuous calculation from the acquisition date at proportion of shareholding after transaction.
- (b) For the year ended 31 December 2021 and 2020, the increase of the capital surplus was mainly the share of changes in equity other than comprehensive income and profit distribution of investees under the equity method and amount recorded in owners' equity arising from equity-settled share-based payment arrangements.
- (c) Share-based payment
- (i) Summary

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

Pursuant to the Proposal of Granting Reserved Stock Options to Incentive Recipients approved by resolutions of the 15th meeting of the 7th Board of Directors and the 12th

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meeting of the 7th Board of Supervisors held on 15 December 2020, the Company granted a total of 2.73 million stock options to incentive recipients ("Granting in 2020").

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

**(42) Capital surplus (Cont'd)**

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

(i) Summary (Cont'd)

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

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

	2021	2020
Number of outstanding stock options issued at the beginning of the year	28,330,000.00	25,680,000.00
Number of stock options granted in the current year	-	2,730,000.00
Number of stock options exercised in the current year	-	-
Number of stock options expired in the current year	-	(80,000.00)
Number of outstanding stock options issued at the end of the year	<u>28,330,000.00</u>	<u>28,330,000.00</u>
Share-based payment expenses in the current year	31,332,721.62	34,742,418.42
Accumulated share-based payment expenses	67,306,552.32	35,973,830.70

(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%

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

Validity period of options

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

(43) Other comprehensive income

	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)

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

(43) Other comprehensive income (Cont'd)

	Other comprehensive income in the balance sheet		Other comprehensive income for the year ended 31 December 2020 income statement					
	31 December 2019	Converted from OCI into retained earnings	31 December 2020	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Attributable to the Company after tax	Attributable to minority shareholders
Other comprehensive income items which will not be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will not be reclassified to profit and loss								
Changes in fair value of other equity instrument investments	(44,899,472.37)	(9,030,916.37)	(54,800,132.53)	(869,743.79)	-	-	(869,743.79)	-
Other comprehensive income items which will be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(2,370,211.78)	-	324,040.09	2,694,251.87	-	-	2,694,251.87	-
Provision for impairment of receivables financing	4,024,979.47	-	4,362,149.27	753,930.85	-	(132,343.07)	337,169.80	284,417.98
Differences arising from translation of foreign currency financial statements	(498,984,362.44)	-	(215,296,816.41)	278,415,725.96	-	-	283,687,546.03	(5,271,820.07)
	<u>(542,229,067.12)</u>	<u>(9,030,916.37)</u>	<u>(265,410,759.58)</u>	<u>280,994,164.89</u>	<u>-</u>	<u>(132,343.07)</u>	<u>285,849,223.91</u>	<u>(4,987,402.09)</u>

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

(44) Surplus reserve

	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
	<u>1,826,058,272.88</u>	<u>166,405,435.51</u>	<u>-</u>	<u>1,992,463,708.39</u>
	31 December 2019	Increase in the current year (a)	Decrease in the current year	31 December 2020
Statutory surplus reserve	1,549,921,408.26	158,373,737.06	-	1,708,295,145.32
Discretionary surplus reserve	117,763,127.56	-	-	117,763,127.56
	<u>1,667,684,535.82</u>	<u>158,373,737.06</u>	<u>-</u>	<u>1,826,058,272.88</u>

- (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 RMB166,405,435.51 at 10% of net profit of 2021 (for the year ended 31 December 2020: 10% of net profit, RMB158,373,737.06 in total)

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

**(45) Undistributed profits**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Undistributed profits at the beginning of the year	25,054,352,978.09	21,970,908,120.34
Add: net profit attributable to shareholders of the Company	5,093,467,260.97	4,496,216,958.55
Converted from other comprehensive income(a)	-	9,030,916.37
Less: appropriation to statutory surplus reserve	(166,405,435.51)	(158,373,737.06)
Dividends declared(b)	(1,364,202,874.56)	(1,250,519,301.68)
Others	(18,613,894.32)	(12,909,978.43)
Undistributed profits at the end of the year	<u>28,598,598,034.67</u>	<u>25,054,352,978.09</u>

(a) For the year ended 31 December 2020, the Group disposed of the equity instrument investment of CIRC at the price of RMB162,898,349.07, due to strategy change and dividends income of RMB237,255.42 was recognised. The accumulated other comprehensive income of RMB9,030,916.37 was converted into undistributed profits.

(b) On 29 June 2021, through consideration and approval at the Company's annual general meeting of year 2020, with total of 2,842,089,322 shares as base, cash dividends of RMB1,364,202,874.56 were distributed to all shareholders at RMB4.80 (including tax) per 10 shares.

In accordance with the resolution of the Board of Directors dated on 29 March 2022, the Company proposed a cash dividend to the shareholders at RMB4.20 per 10 shares (including tax). The resolution is pending for approval of the shareholders' meeting (Note 11).

**(46) Revenue and cost of sales**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Main operations revenue	215,041,596,781.87	191,423,197,507.70
Other operations revenue	782,662,253.44	485,958,653.18
	<u>215,824,259,035.31</u>	<u>191,909,156,160.88</u>
	For the year ended 31 December 2021	For the year ended 31 December 2020
Main operations cost	186,846,086,971.31	164,929,191,937.66
Other operations cost	435,062,313.40	250,911,835.93
	<u>187,281,149,284.71</u>	<u>165,180,103,773.59</u>

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

**(46) Revenue and cost of sales (Cont'd)**

(a) Main operations revenue and main operations cost

	For the year ended 31 December 2021		For the year ended 31 December 2020	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Domestic sales	212,661,571,357.24	185,325,256,416.78	188,369,663,807.76	162,796,410,359.39
Foreign sales	2,380,025,424.63	1,520,830,554.53	3,053,533,699.94	2,132,781,578.27
	<u>215,041,596,781.87</u>	<u>186,846,086,971.31</u>	<u>191,423,197,507.70</u>	<u>164,929,191,937.66</u>

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

	For the year ended 31 December 2021		For the year ended 31 December 2020	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Production	25,098,476,790.99	10,354,008,295.83	23,743,175,872.04	10,029,538,415.85
Distribution	190,616,665,788.73	178,186,243,062.20	167,650,205,994.46	156,010,138,498.63
Retail	7,767,597,326.70	6,745,120,844.14	8,519,004,157.66	7,362,872,500.09
Others	241,990,210.72	145,630,179.19	336,926,182.01	232,933,626.70
Elimination	<u>(8,683,133,335.27)</u>	<u>(8,584,915,410.05)</u>	<u>(8,826,114,698.47)</u>	<u>(8,706,291,103.61)</u>
	<u>215,041,596,781.87</u>	<u>186,846,086,971.31</u>	<u>191,423,197,507.70</u>	<u>164,929,191,937.66</u>

The Group and its subsidiaries are mainly engaged in sale of products and recognise revenue when control of goods has been transferred to customers.

**(47) Taxes and surcharges**

	For the year ended 31 December 2021	For the year ended 31 December 2020	Tax base
City maintenance and construction tax	264,469,645.51	229,841,271.33	Please refer to Note 3(1)
Education surcharges	209,502,375.37	184,220,004.98	
Stamp duty	97,575,367.63	87,799,866.01	
Real estate tax	61,961,705.34	59,734,532.45	
Land use tax	21,028,957.98	21,063,738.36	
Others	11,689,574.58	10,334,939.31	
	<u>666,227,626.41</u>	<u>592,994,352.44</u>	

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

(48) Selling expenses

	For the year ended 31 December 2021	For the year ended 31 December 2020
Employee benefits expenses	3,757,694,099.73	3,473,775,548.66
Promotion and advertising costs	6,204,158,124.23	5,486,742,941.53
Travelling and meeting expenses	1,194,000,182.64	1,272,620,143.02
Amortisation of right-of-use assets	311,413,203.97	319,233,815.71
Office expenses	222,005,437.92	152,698,179.52
Amortisation of intangible assets	209,468,198.04	260,896,617.03
Depreciation of fixed assets	202,125,501.76	214,032,664.02
Storage costs	189,539,026.13	159,555,071.02
Rental fees	177,922,471.51	83,479,003.88
Others	849,707,206.50	735,667,319.18
	<u>13,318,033,452.43</u>	<u>12,158,701,303.57</u>

(49) General and administrative expenses

	For the year ended 31 December 2021	For the year ended 31 December 2020
Employee benefits expenses	2,905,438,651.68	2,610,073,419.92
Depreciation of fixed assets	318,909,654.00	300,786,505.97
Travelling and meeting expenses	207,637,607.25	187,551,787.29
Amortisation of right-of-use assets	188,050,951.85	215,957,106.67
Amortisation of intangible assets	145,085,040.30	142,930,014.32
Office expenses	104,203,045.68	88,758,270.93
Rental fees	91,428,272.07	48,201,497.70
Maintenance expenses	85,048,500.19	93,357,526.26
Others	1,097,616,007.82	1,044,178,164.31
	<u>5,143,417,730.84</u>	<u>4,731,794,293.37</u>

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

**(50) Research and development expenses**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Employee benefits expenses	658,978,308.87	517,059,998.54
Technical development expenses	503,863,173.74	494,783,349.85
Materials consumption fee	255,301,227.44	217,342,109.81
Depreciation and amortisation	122,452,471.13	99,314,121.44
Test fees	113,017,005.13	96,060,837.82
Amortisation of right-of-use assets	37,317,669.70	17,760,297.95
Others	296,347,763.32	214,350,118.27
	<u>1,987,277,619.33</u>	<u>1,656,670,833.68</u>

**(51) Finance expenses-net**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Loan interest expenses(i)	1,137,606,555.88	1,131,366,024.63
Debenture interest expenses	264,131,576.51	186,272,573.33
Lease liabilities interest expenses	116,490,330.14	94,253,918.36
	<u>1,518,228,462.53</u>	<u>1,411,892,516.32</u>
Less: Interest income	(338,179,842.70)	(288,327,323.99)
Exchange gains or losses	(10,095,953.13)	41,427,431.27
Others	75,416,348.13	74,591,786.98
	<u>1,245,369,014.83</u>	<u>1,239,584,410.58</u>

- (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(25)), calculated the interest expense according to the effective interest rate method and included it in the loan interest expenses.

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

**(52) 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 2021	For the year ended 31 December 2020
Raw materials, merchandise and consumables used	186,134,980,233.15	160,423,710,090.83
Changes in inventories of finished goods and work in progress	(2,949,250,249.27)	905,144,927.94
Employee benefits expenses	8,688,472,384.73	7,793,040,415.93
Promotion and advertising costs	6,204,158,124.22	5,486,742,941.53
Travelling and meeting expenses	1,438,156,512.78	1,495,705,439.80
Transportation costs	1,240,625,220.17	1,015,189,433.36
Depreciation of fixed assets	1,059,391,824.83	1,013,851,364.15
Amortisation of right-of-use assets	633,044,680.84	641,295,646.75
Amortisation of intangible assets	425,927,091.89	463,904,324.43
Auditor's remuneration - Audit services	24,349,000.00	24,349,000.00
Auditor's remuneration - Non-audit services	812,177.00	2,300,000.00
Energy and utilities	483,367,266.20	432,410,967.32
Regular maintenance expenses of fixed assets (i)	370,785,753.12	356,419,819.50
Office expenses	338,027,261.67	253,998,587.05
Rental fees (ii)	300,066,463.10	174,802,821.64
Others	3,336,964,342.88	3,244,404,423.98
	<u>207,729,878,087.31</u>	<u>183,727,270,204.21</u>

- (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 2021, the amount was RMB300,066,463.10 (for the year ended 31 December 2020: RMB174,802,821.64).

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

(53) Asset impairment losses

	For the year ended 31 December 2021	For the year ended 31 December 2020
Impairment loss for Intangible assets	64,597,533.00	-
Impairment loss for inventory	51,458,914.30	396,572,395.22
Impairment loss for goodwill	19,211,162.99	486,269,529.79
Impairment loss for fixed assets	5,173,510.08	15,774,393.24
	<u>140,441,120.37</u>	<u>898,616,318.25</u>

(54) Credit impairment reversals

	For the year ended 31 December 2021	For the year ended 31 December 2020
Impairment loss/(reversal) of notes receivables	2,559,546.44	(71,411.16)
Impairment reversal of accounts receivables	(55,261,623.30)	(84,778,742.12)
Impairment (reversal)/loss of receivables financing	(1,274,344.75)	753,930.85
Impairment loss of other receivables	52,323,066.07	44,491,523.55
Impairment loss/(reversal) of long-term receivables	975,463.98	(52,979.79)
	<u>(677,891.56)</u>	<u>(39,657,678.67)</u>

(55) Other income

	For the year ended 31 December 2021	For the year ended 31 December 2020	Asset related/ Income related
Government grants and tax refunds	351,351,611.90	323,746,065.81	Income related
R&D project subsidies	90,059,490.90	135,516,193.12	Asset/ Income related
Support funds	49,946,707.52	27,763,120.19	Asset/ Income related
Others	7,427,977.64	61,872,683.34	Income related
	<u>498,785,787.96</u>	<u>548,898,062.46</u>	Income related

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

**(56) Investment income**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Long-term equity investment income calculated by equity method	789,596,389.32	1,009,547,230.32
Gain on disposal of joint venture and associate investments	41,924,656.25	3,104,697.07
Dividend income gained when other non-current financial assets are held	6,444,036.56	2,374,389.35
Gain on disposal of long-term equity investments	1,149,472,419.77	53,595,993.29
Gain on disposal of other non-current financial assets	(14,393.28)	7,369,607.01
Dividend income gained when other equity instrument investments are held	605,867.80	560,064.00
Loss on discount of financing receivables	(107,706,032.88)	(89,456,206.14)
Loss on factoring of accounts receivables (i)	(78,213,297.37)	(43,904,615.06)
Others	9,284,252.53	33,003,342.18
	<u>1,811,393,898.70</u>	<u>976,194,502.02</u>

(i) For the year ended 31 December 2021, the Group factored and derecognised a few accounts receivable. The loss included in investment income was RMB78,213,297.37 (for the year ended 31 December 2020: RMB43,904,615.06).

**(57) (Losses)/gains arising from changes in fair value**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Other non-current financial assets	(204,414,696.63)	126,501,411.69
Other non-current liabilities	(1,589,069.66)	-
Derivative instruments	-	(9,703,618.49)
	<u>(206,003,766.29)</u>	<u>116,797,793.20</u>

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

(58) Gains on disposals of assets

	For the year ended 31 December 2021	For the year ended 31 December 2020	Amount classified to non-recurring profit or loss for the year ended 31 December 2021
Gain on disposal of fixed assets	51,337,127.34	36,241,814.79	51,337,127.34
Gain on disposal of intangible assets	4,416,032.73	13,530,637.78	4,416,032.73
Others	2,536,146.76	2,376,778.24	2,536,146.76
	<u>58,289,306.83</u>	<u>52,149,230.81</u>	<u>58,289,306.83</u>

(59) Non-operating income

	For the year ended 31 December 2021	For the year ended 31 December 2020	Amount classified to non-recurring profit or loss for the year ended 31 December 2021
Penalty and compensation from suppliers	25,832,910.99	83,304,253.67	25,832,910.99
Income from demolition compensation	14,692,577.21	70,853,787.72	14,692,577.21
Others	41,431,474.66	38,567,657.92	41,431,474.66
	<u>81,956,962.86</u>	<u>192,725,699.31</u>	<u>81,956,962.86</u>

(60) Non-operating expenses

	For the year ended 31 December 2021	For the year ended 31 December 2020	Amount classified to non-recurring profit or loss for the year ended 31 December 2021
Donation	94,664,349.56	84,819,127.51	94,664,349.56
Litigation compensation	8,101,520.99	34,819,389.96	8,101,520.99
Liquidation loss	-	28,744,742.08	-
Others	40,862,505.10	53,248,018.69	40,862,505.10
	<u>143,628,375.65</u>	<u>201,631,278.24</u>	<u>143,628,375.65</u>

(61) Income tax expenses

	For the year ended 31 December 2021	For the year ended 31 December 2020
Current income tax calculated according to tax law and related regulations	1,704,955,173.49	1,804,227,290.64
Deferred income tax	164,290,274.75	(234,008,764.25)
	<u>1,869,245,448.24</u>	<u>1,570,218,526.39</u>

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

**(61) Income tax expenses (Cont'd)**

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	For the year ended 31 December 2021	For the year ended 31 December 2020
Total profit	8,143,814,892.36	7,175,482,563.63
Income tax expenses calculated at applicable tax rate	2,035,953,723.08	1,793,870,640.91
Effect of favourable tax rates	(329,505,471.09)	(333,341,584.90)
Income not subject to tax	(235,652,176.36)	(291,757,715.56)
Costs, expenses and losses not deductible for tax purposes	187,843,915.51	278,492,057.29
Additional deduction on research and development expenses	(209,622,347.26)	(155,478,223.05)
Utilisation of previously tax losses not recognised as deferred tax assets	(45,731,105.14)	(21,324,547.21)
Tax losses for which no deferred income tax asset was recognised	465,958,909.50	299,757,898.91
Income tax expenses	<u>1,869,245,448.24</u>	<u>1,570,218,526.39</u>

**(62) 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 2021	For the year ended 31 December 2020
Consolidated net profit attributable to ordinary shareholders of the Company	5,093,467,260.97	4,496,216,958.55
Weighted average numbers of ordinary shares outstanding	<u>2,842,089,322.00</u>	<u>2,842,089,322.00</u>
Basic earnings per share	<u>1.79</u>	<u>1.58</u>

**(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 2021, the potentially diluted common stock of the Company is the stock option granted in 2019 (for the year ended 31 December 2020: Nil).

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

**(63) Notes to the consolidated cash flow statement**

(a) Cash received relating to other operating activities

	For the year ended 31 December 2021	For the year ended 31 December 2020
Deposits, guarantees, current accounts and advances	995,205,883.52	647,525,603.22
Specific funds and government grants	571,009,623.34	664,709,472.48
Interest income	323,367,115.98	280,337,196.62
Other non-operating income	54,160,563.70	168,117,239.54
Others	38,193,440.48	149,908,983.18
	<u>1,981,936,627.02</u>	<u>1,910,598,495.04</u>

(b) Cash paid relating to other operating activities

	For the year ended 31 December 2021	For the year ended 31 December 2020
Daily expenses	10,536,231,450.48	10,224,276,456.81
Payments for current accounts and advances	861,497,373.60	746,529,575.90
Non-operating expenses	132,023,314.74	193,539,048.18
Bank charge	68,237,132.31	67,701,253.12
Others	76,859,468.58	70,991,419.13
	<u>11,674,848,739.71</u>	<u>11,303,037,753.14</u>

(c) Cash received relating to other investing activities

	For the year ended 31 December 2021	For the year ended 31 December 2020
Withdrawal of time deposits due over three months	876,502,659.58	1,010,000,000.00
Related party loan recovery	241,195,770.32	-
Notes pledge recovery	209,115,807.27	-
Advance receipts of demolition compensation	119,422,799.00	905,921,285.00
Cash generated from business combinations	-	2,211,983,843.40
Others	28,742,000.00	25,460,307.16
	<u>1,474,979,036.17</u>	<u>4,153,365,435.56</u>

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

**(63) Notes to the consolidated cash flow statement (Cont'd)**

(d) Cash paid relating to other investing activities

	For the year ended 31 December 2021	For the year ended 31 December 2020
Net cash outflow from disposal of subsidiaries	1,568,015,663.66	-
Notes pledge	430,464,065.35	-
Increase of time deposits due over three months	330,000,000.00	1,410,000,000.00
Loans to related parties	238,975,770.32	-
Capital increase in associates	21,209,900.00	90,234,391.50
Others	75,052,506.40	2,182,628.04
	<u>2,663,717,905.73</u>	<u>1,502,417,019.54</u>

(e) Cash received relating to other financing activities

	For the year ended 31 December 2021	For the year ended 31 December 2020
Capital injection received by subsidiaries	1,166,118,435.83	-
Non-public issuance pledge	130,000,000.00	-
Related party transactions	-	1,291,153,580.00
Subsidiaries borrowed from their minority shareholders	29,263,841.23	174,659,999.90
Others	293,851,138.86	207,000,000.00
	<u>1,619,233,415.92</u>	<u>1,672,813,579.90</u>

(f) Cash paid relating to other financing activities

	For the year ended 31 December 2021	For the year ended 31 December 2020
Repayment for lease liabilities	788,804,481.69	730,936,588.15
Refund from subsidiaries to their minority shareholders	329,577,541.61	267,970,812.52
Acquisition of minority shares in a subsidiary	101,853,934.97	51,988,443.43
Others	11,738,000.00	196,567,817.10
	<u>1,231,973,958.27</u>	<u>1,247,463,661.20</u>

For the year ended 31 December 2021, total cash outflows for leases paid by the Group amounted to 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.

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

**(64) 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 2021	For the year ended 31 December 2020
Net profit	6,274,569,444.12	5,605,264,037.24
Add: Provisions for asset impairment	140,441,120.37	898,616,318.25
Credit impairment provision	(677,891.56)	(39,657,678.67)
Amortisation of right-of-use assets	633,044,680.84	641,295,646.75
Depreciation of fixed assets and investment properties	1,072,544,130.33	1,025,097,787.01
Amortisation of intangible assets	425,927,091.89	463,904,324.43
Amortisation of long-term prepaid expenses	186,893,020.66	160,659,274.10
Depreciation of bearer biological assets	8,288,463.32	7,495,646.17
Gain on disposal of fixed assets, intangible assets and other long-term assets	(58,289,306.83)	(52,149,230.81)
Profit arising from changes in fair value	206,003,766.29	(116,797,793.20)
Finance expenses	1,568,551,907.08	1,394,264,998.83
Investment income	(1,997,313,228.95)	(1,129,555,323.22)
Decrease/(Increase) in deferred tax assets	5,346,425.57	(133,321,668.77)
Decrease/(Increase) in deferred tax liabilities	159,631,487.01	(100,554,752.41)
(Increase)/Decrease in inventories	(3,200,960,803.76)	932,602,524.66
Increase in operating receivables	(6,155,510,038.27)	(4,072,168,463.70)
Increase in operating payables	5,792,836,008.24	1,359,724,978.40
Net cash flows from operating activities	<u>5,061,326,276.35</u>	<u>6,844,720,625.06</u>

Net increase in cash and cash equivalents

	For the year ended 31 December 2021	For the year ended 31 December 2020
Cash and cash equivalents at the end of the year	20,137,500,219.76	19,576,444,789.85
Less: Cash and cash equivalents at the beginning of the year	<u>(19,576,444,789.85)</u>	<u>(15,716,257,907.41)</u>
Net increase in cash and cash equivalents	<u>561,055,429.91</u>	<u>3,860,186,882.44</u>

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

(64) Notes to the consolidated cash flow statement (Cont'd)

- (b) Acquisition or disposal of subsidiaries  
(i) Acquisition of subsidiaries

For the year ended  
31 December 2021

Cash and cash equivalents paid for company combination this year	197,664,361.43
Including: Fimet Invest OY	141,063,961.43

Less: Cash and cash equivalents held by the subsidiaries on the date of purchase	(73,309,861.16)
Including: Fimet Invest OY	(48,167,973.55)

Add: Cash and cash equivalents paid for company combination in the earlier stage	299,115,603.60
Including: Jiangsu Runtian Biochemical Medicine Co., Ltd.	72,000,000.00

Net cash outflow for acquiring the subsidiaries	423,470,103.87
Including: Cash paid for acquiring the subsidiaries	423,470,103.87

Price of acquiring the subsidiaries for the year ended 31 December 2021	
Fimet Invest OY	203,496,575.94
Other subsidiaries	56,600,400.00
	<u>260,096,975.94</u>

Price of acquiring the subsidiaries in the earlier stage

Jiangsu Runtian Biochemical Medicine Co., Ltd.	360,000,000.00
Other subsidiaries	1,668,530,286.90
	<u>2,028,530,286.90</u>

Net assets of subsidiaries at acquisition date

	For the year ended 31 December 2021	For the year ended 31 December 2020
Current assets	318,932,654.61	4,555,693,589.63
Non - current assets	83,474,113.60	631,121,800.27
Current liabilities	(239,484,088.30)	(2,629,318,271.36)
Non - current liabilities	(14,388,477.22)	(118,695,564.20)
	<u>148,534,202.69</u>	<u>2,438,801,554.34</u>

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

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

**(64) Notes to the consolidated cash flow statement (Cont'd)**

(b) Acquisition or disposal of subsidiaries (Cont'd)

(ii) Disposal of subsidiaries

For the year ended  
31 December 2021

Cash and cash equivalents generated from disposal of subsidiaries this year	114,770,369.91
Less: Cash and cash equivalents held by the subsidiaries on the date of disposal	<u>(1,569,085,581.41)</u>
Net cash inflow for disposal of the subsidiaries	113,700,452.16
Cash paid relating to other investing activities	<u>(1,568,015,663.66)</u>

Price for disposal of the subsidiaries for the year ended 31 December 2021

Shanghai Pharma Health Commerce Co., Ltd.	Not applicable
Shanghai Huiyong Pharmaceutical Research Co., Ltd.	Not applicable
Shanghai Huashi Pharmaceutical Storage & Transportation Co., Ltd.	Not applicable
Other subsidiaries	<u>114,770,369.91</u>
	<u>114,770,369.91</u>

Net assets of subsidiaries at disposal date in 2021

For the year ended  
31 December 2021

Current assets	2,086,957,375.46
Non - current assets	458,453,636.12
Current liabilities	(1,945,901,219.91)
Non - current liabilities	<u>(55,837,133.47)</u>
	<u>543,672,658.20</u>

(c) Cash and cash equivalents

	31 December 2021	31 December 2020
Cash	20,137,500,219.76	19,576,444,789.85
Including: Cash on hand	5,022,850.35	8,093,286.77
Cash at bank that can be readily drawn on demand	20,132,477,369.41	19,568,351,503.08
Other cash balances that can be readily drawn on demand	-	-
Cash and cash equivalents at the end of the year	<u>20,137,500,219.76</u>	<u>19,576,444,789.85</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(65) Foreign currency items

	31 December 2021		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand —			
USD	47,295,173.75	6.3757	301,539,839.30
HKD	16,802,271.64	0.8176	13,737,537.29
AUD	9,438,085.55	4.6220	43,622,831.39
EUR	2,578,192.71	7.2197	18,613,777.91
Others	447,424,332.24	—	8,921,728.33
			<u>386,435,714.22</u>
Accounts receivables—			
USD	5,595,081.55	6.3757	35,672,561.47
HKD	221.73	0.8176	181.29
AUD	4,838,659.57	4.6220	22,364,284.55
NZD	11,668,263.79	4.3553	50,818,789.27
EUR	755,922.77	7.2197	5,457,535.62
Others	572,601,141.41	—	8,041,649.21
			<u>122,355,001.41</u>
Other receivables—			
USD	402,050.68	6.3757	2,563,354.52
HKD	3,584,598.16	0.8176	2,930,767.46
AUD	3,237.10	4.6220	14,961.86
EUR	57,743.33	7.2197	416,889.54
Others	73,919,955.17	—	1,169,607.70
			<u>7,095,581.08</u>
Short-term borrowings—			
USD	850,000.00	6.3757	5,419,345.00
NZD	2,120,500.52	4.3553	9,235,415.91
EUR	240,514.32	7.2197	1,736,441.24
			<u>16,391,202.15</u>
Accounts payables—			
USD	18,925,825.09	6.3757	120,665,383.04
HKD	16,054,495.50	0.8176	13,126,155.52
AUD	2,772,096.95	4.6220	12,812,632.09
NZD	9,133,539.63	4.3553	39,779,305.13
EUR	2,446,499.46	7.2197	17,662,992.17
Others	500,417,770.40	—	23,778,233.02
			<u>227,824,700.97</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in RMB Yuan unless otherwise stated)

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

(65) Foreign currency items (Cont'd)

	31 December 2021		
	Foreign currency balance	Exchange rate	RMB balance
Other payables—			
USD	167,077,539.04	6.3757	1,065,236,265.65
HKD	40,603,804.44	0.8176	33,197,670.51
AUD	3,819,368.67	4.6220	17,653,121.99
NZD	10,993,755.14	4.3553	47,881,101.76
EUR	144,564.11	7.2197	1,043,709.52
Others	333,386,995.01	—	5,614,796.47
			<u>1,170,626,665.90</u>
Current portion of long-term borrowings—			
EUR	251,495.08	7.2197	<u>1,815,719.03</u>
Current portion of lease liabilities—			
USD	991,428.86	6.3757	6,321,052.98
HKD	6,225,637.47	0.8176	5,090,081.19
AUD	135,871.20	4.6220	627,996.68
NZD	3,865,033.28	4.3553	16,833,379.45
			<u>28,872,510.30</u>
Long-term borrowings—			
USD	470,750,000.00	6.3757	3,001,360,775.00
NZD	61,495,554.58	4.3553	267,831,588.87
EUR	506,583.14	7.2197	3,657,378.30
			<u>3,272,849,742.17</u>
Long-term payables—			
AUD	55,955,239.35	4.6220	<u>258,625,116.28</u>
Lease liabilities—			
USD	991,064.20	6.3757	6,318,728.02
HKD	11,127,326.55	0.8176	9,097,702.19
AUD	94,692.60	4.6220	437,669.18
NZD	36,759,769.12	4.3553	160,099,822.43
			<u>175,953,921.82</u>

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)).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

(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
Fimet Invest OY	28 June 2021	<u>203,496,575.94</u>	100%	Acquisition of equity of the target company by capital injection	28 June 2021	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	<u>54,919,598.61</u>	<u>3,143,883.75</u>	<u>12,310,162.42</u>	<u>12,280,785.66</u>

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

**5 Changes in scope of business combinations (Cont'd)**

**(1) Main business combination involving enterprise not under common control (Cont'd)**

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

Fimet Invest OY	
Costs of combination -	
Cash paid	141,063,961.43
The fair value of the 50% equity originally held on the purchase date	<u>62,432,614.51</u>
	203,496,575.94
Less: The fair value of net assets obtained	<u>(65,364,738.00)</u>
Goodwill	<u>138,131,837.94</u>

(c) Gains arising from re-measurement at fair value of the 50% equity originally held before the purchase date:

The fair value of the 50% equity originally held	62,432,614.51
Less: Carrying amount of the 50% equity originally held	<u>(20,507,958.26)</u>
Gains from re-measurement	<u>41,924,656.25</u>

(d) The assets and liabilities of Fimet Invest OY at the acquisition date and 31 December 2020 are as follows:

(i) Fimet Invest OY

	Acquisition date Fair value	Acquisition date Carrying amount	31 December 2020 Carrying amount
Cash at bank and on hand	48,167,973.55	48,167,973.55	46,394,012.11
Accounts receivables	9,719,609.96	9,719,609.96	4,637,802.70
Advances to suppliers	1,710,911.23	1,710,911.23	85,070.78
Other receivables	1,122,857.05	1,122,857.05	862,087.55
Inventories	27,203,334.68	27,203,334.68	33,938,229.69
Long-term investment	8,185.80	8,185.80	8,548.55
Fixed assets	3,851,790.03	1,595,477.70	4,593,933.56
Intangible assets	23,368,983.15	4,361,483.15	5,453,621.96
Long-term prepaid expenses	1,249,248.31	1,249,248.31	1,681,372.40
Less: Short-term borrowings	(1,222,771.19)	(1,222,771.19)	(2,403,772.71)
Accounts payables	(7,208,381.84)	(7,208,381.84)	(7,745,103.33)
Contract liabilities	(19,596,826.52)	(19,596,826.52)	(25,890,825.74)
Employee benefits payable	(3,934,997.74)	(3,934,997.74)	(4,501,427.86)
Taxes payable	(1,226,566.39)	(1,226,566.39)	(1,600,083.20)
Other payables	(5,529,015.48)	(5,529,015.48)	(1,120,124.81)
Current portion of non-current liabilities	(1,131,847.98)	(1,131,847.98)	(2,363,477.42)
Long-term borrowings	(6,157,395.30)	(6,157,395.30)	(6,428,450.41)
Deferred tax liabilities	<u>(5,030,353.32)</u>	<u>(728,820.86)</u>	<u>(760,946.55)</u>
Net assets	<u>65,364,738.00</u>	<u>48,402,458.13</u>	<u>44,840,467.27</u>
Less: Minority interests	-	-	-
Net assets obtained	<u>65,364,738.00</u>	<u>48,402,458.13</u>	<u>44,840,467.27</u>

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(All amounts in RMB Yuan unless otherwise stated)

**5 Changes in scope of business combinations (Cont'd)**

**(1) Main business combination involving enterprise not under common control (Cont'd)**

(d) The assets and liabilities of Fimet Invest OY at the acquisition date and 31 December 2020 are as follows: (Cont'd)

(i) Fimet Invest OY (Cont'd)

The fair value of the assets and liabilities acquired above at the acquisition date are determined by the Group using valuation techniques. The valuation method and critical assumptions applied are as follows:

- Evaluation methods of fixed assets, construction in progress and intangible assets include income method, cost method and market method;
- Evaluation is based on a basic assumption that the results will be used in accounting and report of enterprise assets acquisition;
- All assets evaluated are based on the actual stock on the assessment base date, and the current market price of the relevant asset is based on the effective domestic price on the assessment base date;
- There will be no major unforeseeable changes in the external economic environment after the assessment date;

There will be no unforeseeable factors leading to its unsustainable operation, and the existing use of the assessed assets will remain unchanged and continue to be used on-site.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

(All amounts in RMB Yuan unless otherwise stated)

5 Changes in scope of business combinations (Cont'd)

(2) Disposal of subsidiary

(a) The relevant information on the disposal of subsidiary is summarised as follows:

Name of subsidiary	Disposal price	Disposal ratio	Disposal method	Time of loss of control	Judgment basis at the point of loss of control	The difference between the disposal price and the disposal investment corresponding to the consolidated financial statement level of the subsidiary's net asset share and the fair value of the put option granted	The amount of other comprehensive income related to the equity investment of the atomic company transferred to the investment profit and loss
SPH Health Commerce	Not applicable	24.77%	Passive dilution	5 February 2021	Finance and operation of the investee are no longer controlled.	1,002,043,447.61	-

On 5 February, 2021, the Group's subsidiary, SPH Health Commerce completed the B round financing and introduced seven new investors in the form of capital increase. The seven new shareholders subscribed for a total of RMB688,562,500.00 for the newly-increased registered capital of SPH Health Commerce at a consideration of RMB1,032,843,750.00 in cash (hereinafter referred to as "the transaction"). After the transaction, the Group's direct/indirect shareholding in SPH Health Commerce has been diluted from 72.7478% to 47.974%, does not have a majority of voting rights in shareholder meetings, and SPH Health Commerce is no longer included in the Group's consolidation scope. The disposal income is RMB1,002,043,447.61 (Note 4(40)).

(b) The disposal profit and loss information is as follows

(i) SPH Health Commerce

The disposal gains and losses are calculated as follows:

	Amount
The fair value of the remaining 47.97% of the equity at the disposal date	1,454,970,410.10
Less: SPH Health Commerce's share of net assets at the level of consolidated financial statements	(368,763,517.51)
Less: The fair value of put option granted	(84,163,444.98)
	<hr/>
Other comprehensive income transferred to current profit and loss	-
Investment income from disposal	<hr/> <u>1,002,043,447.61</u>

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(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
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. (上海中西三維藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	545,800,000	65.13%	34.87%	Subsidiaries established through establishment or investment
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd. (上海上藥新亞藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	1,052,429,000	96.90%	-	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司)	Changzhou	Changzhou	Pharmaceutical products manufacture and trading	157,580,506	57.36%	18.53%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd. (上藥東英(江蘇)藥業有限公司)	Nantong	Nantong	Pharmaceutical products manufacture and trading	141,322,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Traditional Chinese Medicine Co., Ltd. (上海市藥材有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	1,476,070,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Zhonghua Pharmaceutical Co., Ltd. (上海中華藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	93,642,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

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

**6 Equity in other subjects (Cont'd)**

**(1) Equity in significant subsidiaries (Cont'd)**

**(a) The structure of the Group (Cont'd)**

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
SPH Qingdao Growful Pharmaceutical Co., Ltd. (上海醫藥集團青島國風藥業股份有限公司)	Qingdao	Qingdao	Pharmaceutical products manufacture and trading	93,000,000	67.52%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)	Hangzhou	Hangzhou	Pharmaceutical products manufacture and trading	128,500,000	20.00%	55.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)	Hangzhou	Hangzhou	Pharmaceutical products manufacture and trading	135,000,000	-	51.01%	Subsidiaries obtained through business combinations involving enterprises under common control
Xiamen Traditional Chinese Medicine Co., Ltd. (廈門中藥廠有限公司)	Xiamen	Xiamen	Pharmaceutical products manufacture and trading	200,000,000	-	61.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限責任公司)	Benxi	Benxi	Pharmaceutical products manufacture and trading	102,000,000	-	55.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SHANGHAI SUNVE BIO-TECH CO LTD. (上海三維生物技術有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	USD 15,343,300	-	100.00%	Subsidiaries established through establishment or investment
TECHPOOL Bio-Pharma Co., Ltd. (廣東天普生化醫藥股份有限公司)	Guangzhou	Guangzhou	Pharmaceutical products manufacture and trading	100,000,000	39.28%	27.86%	Subsidiaries obtained through business combinations involving enterprises not under common control
Zeus Investment Limited	Hong Kong	Hong Kong	Investment holding practices	AUD 319,208,250	-	59.61%	Subsidiaries established through establishment or investment
Shanghai Medical Instruments Co., Ltd. (上海醫療器械股份有限公司)	Shanghai	Shanghai	Medical instruments manufacture and trading	127,000,000	99.21%	0.79%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd. (上海醫藥物資供銷有限公司)	Shanghai	Shanghai	Wholesale of chemical raw materials	101,390,000	100.00%	-	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Sine Tianping Pharmaceutical Company Ltd. (上海信誼天平藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	154,700,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control

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(All amounts in RMB Yuan unless otherwise stated)

**6 Equity in other subjects (Cont'd)**

**(1) Equity in significant subsidiaries (Cont'd)**

**(a) The structure of the Group (Cont'd)**

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
Shanghai Sine Jinzhu Pharmacy Co., Ltd. (上海信誼金朱藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	9,072,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Sine Wanxiang Pharmaceutical Co., Ltd. (上海信誼萬象藥業股份有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	100,000,000	-	89.92%	Subsidiaries obtained through business combinations involving enterprises under common control
SHANDONG SINE PHARMACEUTICAL CO LTD (山東信誼製藥有限公司)	Dezhou	Dezhou	Pharmaceutical products manufacture and trading	177,406,159	-	67.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai New Asiatic Medicine Industry Minhang Co., Ltd. (上海新亞藥業閔行有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	57,500,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Liaoning Meiya Pharmaceutical Co., Ltd. (遼寧美亞製藥有限公司)	Fushun	Fushun	Pharmaceutical products manufacture and trading	130,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	148,200,000	-	90.00%	Subsidiaries established through establishment or investment
Shanghai Huayu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	270,060,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Lei Yun Shang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	465,070,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Shenxiang Health Pharmaceutical Co., Ltd. (上海上藥神象健康藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	150,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Xing Ling Sci.&Tech. Pharmaceutical Co., Ltd. (上海上藥杏靈科技藥業股份有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	80,000,000	-	86.31%	Subsidiaries obtained through business combinations involving enterprises under common control
Zhejiang Jiuxu Pharmaceutical Co., Ltd. (浙江九旭藥業有限公司)	Jinhua	Jinhua	Pharmaceutical products manufacture and trading	25,000,000	-	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control

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(All amounts in RMB Yuan unless otherwise stated)

**6 Equity in other subjects (Cont'd)**

**(1) Equity in significant subsidiaries (Cont'd)**

**(a) The structure of the Group (Cont'd)**

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
Changzhou Pharmaceutical Factory Co., Ltd. (常州製藥廠有限公司)	Changzhou	Changzhou	Pharmaceutical products manufacture and trading	108,000,000	-	77.78%	Subsidiaries obtained through business combinations involving enterprises under common control
Chifeng Aike Pharmaceutical Technology Co., Ltd. (赤峰艾克製藥科技股份有限公司)	Chifeng	Chifeng	Pharmaceutical products manufacture and trading	40,900,000	-	58.19%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH (benxi) North Pharmaceutical Co., Ltd. (上海醫藥集團(本溪)北方藥業有限公司)	Benxi	Benxi	Development, manufacture and distribution of medicine	380,000,000	100.00%	-	Subsidiaries established through establishment or investment
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
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

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**6 Equity in other subjects (Cont'd)**

**(1) Equity in significant subsidiaries (Cont'd)**

**(a) The structure of the Group (Cont'd)**

Name of significant subsidiaries	Place of operation	Place of registration	Principal activities	Issued and paid up capital/ registered capital	Share proportion		Acquisition method
					Direct	Indirect	
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
SPH Keyuan Xinhai Pharmaceutical Hubei Co. Ltd. (上藥科園信海醫藥湖北有限公司)	Wuhan	Wuhan	Distribution of pharmaceutical products	100,000,000	-	60.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
SPH Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd. (上藥科園信海陝西醫藥有限公司)	Xi'an	Xi'an	Distribution of pharmaceutical products	100,000,000	-	85.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Henan Kangxin Pharmaceutzcal Co., Ltd. (河南省康信醫藥有限公司)	Zhengzhou	Zhengzhou	Distribution of pharmaceutical products	100,000,000	-	70.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
China Medical Foreign Trading Liao Ning Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Shenyang	Shenyang	Distribution of pharmaceutical products	282,012,500	51.74%	-	Subsidiaries obtained through business combinations involving enterprises not under common control
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

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.

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**6 Equity in other subjects (Cont'd)**

**(1) Equity in significant subsidiaries (Cont'd)**

**(b) Subsidiaries with significant minority interests**

Name of significant subsidiaries	Shareholding proportion of minority interests	Net profit attributable to minority interests for the year ended 31 December 2021	Dividends distributed to minority interests for the year ended 31 December 2021(i)	Minority interests for the year ended 31 December 2021
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	24.11%	132,471,696.73	37,107,798.00	992,381,886.90
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	49.00%	48,757,795.66	55,870,970.53	1,093,048,323.23
(i) All dividends declared to minority shareholders in fiscal 2021 were paid in the year.				

	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 2021, the equity and net comprehensive income of SPH Changzhou Pharmaceutical Co., Ltd. to minority interests presented in the consolidated balance sheets were approximately RMB475,158,370.22 and RMB74,214,193.41.

*Note 2:* As for the year 2021, the equity and net comprehensive income of SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. to minority interests presented in the consolidated balance sheets were approximately RMB671,125.03 and RMB286,641.71.

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**6 Equity in other subjects (Cont'd)**

**(1) Equity in significant subsidiaries (Cont'd)**

**(b) Subsidiaries with significant minority interests (Cont'd)**

	31 December 2020					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	2,960,943,241.60	1,196,743,387.30	4,157,686,628.90	(1,738,435,806.81)	(41,689,090.92)	(1,780,124,897.73)
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	2,295,173,401.98	484,886,424.22	2,780,059,826.20	(449,748,341.61)	(85,083,937.45)	(534,832,279.06)
	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		
	For the year ended 31 December 2020					
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities		
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	5,405,247,191.52	282,415,149.99	282,415,149.99	238,882,112.17		
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	3,065,972,450.79	133,928,532.78	133,928,532.78	152,757,266.69		

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**6 Equity in other subjects (Cont'd)**

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

**(a) Summarised financial information of significant joint ventures and associates**

	Place of operation	Place of incorporate	Principal activities	If strategic for group activities	Share proportion	
					Direct	Indirect
Associates—						
Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	Yes	-	30.00%
Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	Yes	30.00%	-
Joint ventures –						
Shanghai Hutchison Pharmaceutical Co., Ltd. (上海和黃藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	Yes	-	50.00%

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

	31 December 2021 RMB'000	31 December 2020 RMB'000
	Shanghai Hutchison Pharmaceutical Co., Ltd.	Shanghai Hutchison Pharmaceutical Co., Ltd.
Current assets	1,215,816	1,155,621
Including: Cash and cash equivalents	319,913	475,065
Non-current assets	583,267	608,622
Total assets	<u>1,799,083</u>	<u>1,764,243</u>
Current liabilities	824,716	722,407
Non-current liabilities	42,890	40,890
Total liabilities	<u>867,606</u>	<u>763,297</u>
Minority interests		-
Equity attributable to shareholders of the company	<u>931,476</u>	<u>1,000,946</u>
Share of net assets by shareholding		
(i)	465,738	500,473
Adjustments		
- Unrealised profits arising from internal transactions	(10,559)	(5,934)
Carrying amount of investments in joint ventures	<u>455,179</u>	<u>494,539</u>
Fair value of the investment in joint ventures with quoted price	Not applicable	Not applicable

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**6 Equity in other subjects (Cont'd)**

**(2) Equity in joint ventures and associates (Cont'd)**

**(b) Summarised financial information of significant joint ventures (Cont'd)**

	For the year ended 31 December 2021 RMB'000 Shanghai Hutchison Pharmaceutical Co., Ltd.	For the year ended 31 December 2020 RMB'000 Shanghai Hutchison Pharmaceutical Co., Ltd.
Revenue	2,158,329	1,921,913
Finance expenses	7,211	(7,018)
Income tax expenses	(103,160)	(75,938)
Net profit	580,532	469,815
Other comprehensive income	-	-
Total comprehensive income	<u>580,532</u>	<u>469,815</u>
Dividends declared by the joint ventures to the Group	<u>325,000</u>	<u>250,000</u>

- (i) The Group calculates share of assets in proportion of the shareholdings based on the amount attributable to the parent company of joint ventures in their consolidated financial statements. The amount in the consolidated financial statements of joint ventures considers the impacts of fair value of identifiable assets and liabilities of joint ventures at the time of acquisition and the unification of accounting policies. None of the assets involved in transactions between the Group and its joint ventures constitute business.

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**6 Equity in other subjects (Cont'd)**

**(2) Equity in joint ventures and associates (Cont'd)**

(c) Summarised financial information of significant associates

	31 December 2021		31 December 2020	
	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	9,006,030	1,200,185	10,327,910	2,375,480
Non-current assets	2,605,938	678,653	2,666,548	699,758
Total assets	<u>11,611,968</u>	<u>1,878,838</u>	<u>12,994,458</u>	<u>3,075,238</u>
Current liabilities	6,246,174	1,079,844	7,486,952	2,231,095
Non-current liabilities	601,044	16,228	1,043,692	-
Total liabilities	<u>6,847,218</u>	<u>1,096,072</u>	<u>8,530,644</u>	<u>2,231,095</u>
Minority interests	-	-	-	-
Equity attributable to shareholders of the company	<u>4,764,750</u>	<u>782,766</u>	<u>4,463,814</u>	<u>844,143</u>
Share of net assets by shareholding (i)	1,429,425	234,830	1,339,144	253,243
Adjustments				
- Goodwill	-	-	-	-
- Unrealised profits arising from internal transactions	(22,460)	(2,855)	(23,107)	(3,486)
Carrying amount of investments in associate	<u>1,406,965</u>	<u>231,975</u>	<u>1,316,037</u>	<u>249,757</u>
Fair value of the investment in associates with quoted price	Not applicable	Not applicable	Not applicable	Not applicable

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**6 Equity in other subjects (Cont'd)**

**(2) Equity in joint ventures and associates (Cont'd)**

(c) Summarised financial information of significant associates (Cont'd)

	For the year ended 31 December 2021		For the year ended 31 December 2020	
	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.
Revenue	14,354,380	4,301,480	14,930,844	4,770,614
Net profit	720,235	319,911	838,594	376,971
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>720,235</u>	<u>319,911</u>	<u>838,594</u>	<u>376,971</u>
Dividends declared by the associates to the Group	125,789	114,386	141,087	130,859

- (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.

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**6 Equity in other subjects (Cont'd)**

**(2) Equity in joint ventures and associates (Cont'd)**

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

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Joint ventures –		
Carrying amount of investments in total	1,656,634	1,645,625
Aggregate of the following items in proportion		
Net profit (i)	15,346	37,099
Other comprehensive income (i)	-	-
Total comprehensive income	<u>15,346</u>	<u>37,099</u>
Associates –		
Carrying amount of investments in total	5,322,522	2,945,106
Aggregate of the following items in proportion		
Net profit (i)	175,289	366,893
Other comprehensive income (i)	(661)	2,694
Total comprehensive income	<u>174,628</u>	<u>369,587</u>

(i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment in joint ventures and associates and the unification of accounting policies adopted by the joint ventures and the associates to those adopted by the Company.

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**7 Segment Information**

The Group's revenue is mainly derived from Mainland China. The board of directors consider the business from a business type perspective. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Group identified 4 reportable segments as follows:

- Pharmaceutical business (Production segment), which is mainly engaged in research and development, manufacturing and sale of a broad range of pharmaceutical and healthcare products;
- Distribution and supply chain solutions (Distribution segment), which is mainly engaged in distribution, warehousing, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical manufacturers and dispensers;
- Pharmaceutical retail (Retail segment), which is mainly engaged in operation of a network of retail pharmacy stores; and
- Other business operations (Others), which is mainly engaged in other business.

Inter-segment transfer prices are measured by reference to selling prices to third parties. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

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7 Segment Information (Cont'd)

(1) Segment information as at 31 December 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	883,025,626.91	1,064,468,346.23	177,119,572.56	233,264,336.50	-	2,357,877,882.20
Capital expenditures	2,788,031,260.32	497,447,493.21	30,276,022.73	781,866,859.24	-	4,097,621,635.50
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
Investment in associates-net	3,424,947,045.18	1,803,440,243.73	739,522.77	1,732,334,667.86	-	6,961,461,479.54
Investment in joint ventures -net	518,781,565.47	340,133,254.14	-	1,252,899,054.77	-	2,111,813,874.38
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

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7 Segment Information (Cont'd)

(2) Segment information as at 31 December 2020 and for the year ended 31 December 2020 is as follows:

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	23,743,175,872.04	167,650,205,994.46	8,519,004,157.66	1,191,048,039.78	(9,194,277,903.06)	191,909,156,160.88
Including: External revenue	20,207,854,319.56	162,461,998,951.46	8,473,006,957.12	766,295,932.74	-	191,909,156,160.88
Inter-segment revenue	3,535,321,552.48	5,188,207,043.00	45,997,200.54	424,752,107.04	(9,194,277,903.06)	-
Less: Cost of sales	(10,029,538,415.85)	(156,010,138,498.63)	(7,362,872,500.09)	(578,026,941.00)	8,800,472,581.98	(165,180,103,773.59)
Taxes and surcharges	(226,730,036.17)	(324,961,256.92)	(21,709,221.72)	(19,593,837.63)	-	(592,994,352.44)
Selling expenses	(7,763,253,274.32)	(3,670,140,057.97)	(692,838,099.83)	(129,098,002.34)	96,628,130.89	(12,158,701,303.57)
General and administrative expenses	(1,938,835,708.26)	(2,189,008,062.86)	(366,408,444.70)	(470,418,552.47)	232,876,474.92	(4,731,794,293.37)
Research and development expenses	(1,656,670,833.68)	-	-	-	-	(1,656,670,833.68)
Segment profit	2,128,147,603.76	5,455,958,118.08	75,175,891.32	(6,089,293.66)	(64,300,715.27)	7,588,891,604.23
Unallocated:						
Finance expenses-net						(1,239,584,410.58)
Asset impairment losses						(898,616,318.25)
Credit impairment losses						39,657,678.67
Add: Profit arising from changes in fair value						116,797,793.20
Investment income						976,194,502.02
Other income						548,898,062.46
Gains on disposals of assets						52,149,230.81
Operating profit						<u>7,184,388,142.56</u>
Depreciation and amortisation	845,075,031.07	1,100,962,354.49	192,190,985.08	176,209,141.15	-	2,314,437,511.79
Capital expenditures	1,800,196,995.90	364,283,848.43	32,982,008.44	488,476,636.56	-	2,685,939,489.33
Assets	33,000,552,477.85	105,413,756,411.79	2,633,187,666.93	36,434,058,676.87	(36,306,327,131.09)	141,175,228,102.35
Investment in associates-net	2,757,375,516.85	299,981,076.79	-	1,453,543,557.92	-	4,510,900,151.56
Investment in joint ventures -net	516,301,873.82	321,019,908.31	-	1,302,842,071.92	-	2,140,163,854.05
Unallocated:						
Deferred tax assets						<u>1,359,363,370.67</u>
Total assets						<u>149,185,655,478.63</u>
Liabilities	12,256,541,872.32	76,824,349,046.83	1,979,083,869.30	17,610,654,354.23	(15,740,531,895.72)	92,930,097,246.96
Unallocated:						
Deferred tax liabilities						832,375,455.83
Income tax payable						<u>682,453,006.19</u>
Total liabilities						<u>94,444,925,708.98</u>

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**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 2020	Increase in the current year	Decrease in the current year	31 December 2021
Shanghai Pharma Group	<u>3,158,720,000.00</u>	<u>-</u>	<u>-</u>	<u>3,158,720,000.00</u>

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

	31 December 2021		31 December 2020	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Shanghai Pharma Group	25.21%	25.21%	25.21%	25.21%

**(2) Significant subsidiaries**

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

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**8 Related parties and related party transactions (Cont'd)**

**(3) Associates**

Except for the important joint ventures and associates disclosed in Note 4(13), the other joint ventures and associates that have related party transactions with the Group are as follows:

	Relationship with the Group
Shanghai 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
Guangzhou Ruixun Medicine Co., Ltd. (廣州銳訊醫藥有限公司)	Previous Associate

**(4) Other related parties**

	Relationship with the Group
Shanghai Asia Pioneer Pharmaceutical Co., Ltd. (上海新先鋒藥業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Indu-Land Property Co., Ltd. (上海英達萊物業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Yingdalai Property Co., Ltd. (上海英達萊置業有限公司)	Controlled by Shanghai Pharma Group
Shanghai Overseas United Investment Co., Ltd. (上海海外聯合投資股份有限公司)	Controlled by Shanghai Pharma Group
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

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**8 Related parties and related party transactions (Cont'd)**

**(5) Related party transactions**

Except for the items disclosed in other items of the financial statements, other related party transactions of the Group include:

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

Purchase of goods and services:

Related party	Related transaction	Pricing policies	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Roche Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	2,182,920.24	1,927,881.67
Shanghai Hutchison Pharmaceutical Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	293,374.53	282,669.57
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	262,539.25	-
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Purchase of goods	By negotiation	244,172.78	239,590.04
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Purchase of goods	By negotiation	155,553.60	137,555.45
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Purchase of goods	By negotiation	89,739.34	68,512.72
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	87,797.03	77,536.53
Wing Fat Printing Limited and its subsidiaries	Purchase of goods	By negotiation	42,431.02	15,438.70
Shanghai Sine Promod Pharmaceutical Corp., Ltd and its subsidiaries.	Purchase of goods	By negotiation	35,537.64	47,294.16
Guangzhou Ruixun Medicine Co., Ltd.	Purchase of goods	By negotiation	2,072.93	122,994.35
Others	Purchase of goods and services	By negotiation	104,306.65	99,163.31
			<u>3,500,445.01</u>	<u>3,018,636.50</u>

Sales of goods and services:

Related party	Related transaction	Pricing policies	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	3,248,162.65	3,074,029.05
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	184,437.03	-
Shanghai Hutchison Pharmaceutical Co., Ltd	Sales of goods	By negotiation	72,915.75	55,704.40
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	59,351.39	43,210.40
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	Sales of goods	By negotiation	56,438.21	66,432.85
Others	Sales of goods and vender of services	By negotiation	58,891.72	70,792.51
			<u>3,680,196.75</u>	<u>3,310,169.21</u>

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**8 Related parties and related party transactions (Cont'd)**

**(5) Related party transactions (Cont'd)**

(b) Lease

The rental income recognised by the Group as the lessor:

Lessee	Leased asset	Rental income recognised for the year ended 31 December 2021 RMB'000	Rental income recognised for the year ended 31 December 2020 RMB'000
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Building	10,666.57	11,686.51
Shanghai Yingdai Property Co., Ltd.	Building	4,806.90	4,360.00
Shanghai Hutchison Pharmaceutical Co., Ltd.	Building	1,723.78	2,462.54
		<u>17,197.25</u>	<u>18,509.05</u>

The Group is the lessee:

Lessor	Leased asset	Lease payable for the year ended 31 December 2021 RMB'000	Lease payable for the year ended 31 December 2020 RMB'000
Shanghai Pharma Group	Building	31,686.74	30,525.15
Shanghai Indu-Land Property Co., Ltd	Building	11,941.18	9,495.54
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Land use right and Building	-	7,427.93
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Machinery equipment	-	1,201.73
		<u>43,627.92</u>	<u>48,650.35</u>

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**8 Related parties and related party transactions (Cont'd)**

**(5) Related party transactions (Cont'd)**

(b) Lease (Cont'd)

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

Lessor	Leased asset	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Pharma Group	Building	<u>8,189.21</u>	<u>45,622.80</u>

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

Lessor	Leased asset	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Pharma Group	Building	1,766.42	2,009.56
Shanghai Indu-Land Property Co., Ltd	Building	-	37.32
		<u>1,766.42</u>	<u>2,046.88</u>

(c) R&D expenditures

	Pricing policies	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Huiyong Medicine Research Co., Ltd.	By negotiation	12,830.19	-
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	By negotiation	-	4,243.72
		<u>12,830.19</u>	<u>4,243.72</u>

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8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(d) Assets acquisition

Related party	Related transaction	Pricing policies	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
		By negotiation		
Shanghai Asia Pioneer Pharmaceutical Co., Ltd.	Assets acquisition	Pricing policies	<u>1,060,668.85</u>	<u>-</u>

(e) Key management compensation

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Salary, bonus and other compensation	41,335.18	36,168.74
Stock options	<u>3,483.99</u>	<u>4,360.17</u>
	<u>44,819.17</u>	<u>40,528.91</u>

(f) Interest

Interest income

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>11,203.62</u>	<u>10,296.04</u>

Interest expense

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>83,634.51</u>	<u>72,129.68</u>

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

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	4,760.40	11,271.10
Shangshi Commercial Factoring Co., Ltd.	-	<u>1,315.10</u>
	<u>4,760.40</u>	<u>12,586.20</u>

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8 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(h) Deposits and borrowings

		For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Net increase of the deposit balance			
	Shanghai Industrial Group Finance Co., Ltd.	<u>(39,771.97)</u>	<u>725,453.48</u>
Loan received from related parties			
	Shanghai Industrial Group Finance Co., Ltd.	2,555,477.37	3,956,504.33
	SPH-BIOCAD(HK) Limited	-	1,291,153.58
		<u>2,555,477.37</u>	<u>5,247,657.91</u>
Loan repayment to related parties			
	Shanghai Industrial Group Finance Co., Ltd.	<u>1,958,018.08</u>	<u>3,765,980.00</u>
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	-
		<u>238,975.77</u>	<u>-</u>
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	400.00
		<u>240,542.74</u>	<u>400.00</u>

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**8 Related parties and related party transactions (Cont'd)**

**(5) Related party transactions (Cont'd)**

(i) Discount of bank acceptance notes

		For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Discount amount	Shanghai Industrial Group Finance Co., Ltd.	<u>308,577.39</u>	<u>818,313.29</u>

(j) Discount of trade acceptance notes

		For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Discount amount	Shanghai Industrial Group Finance Co., Ltd.	<u>-</u>	<u>31,806.73</u>

(k) Factoring of trade receivables

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Shangshi Commercial Factoring Co., Ltd.	<u>-</u>	<u>81,250.00</u>

(l) Capital increase to the subsidiary of the company

Shanghai Biomedical Industry Equity Investment Fund Partnership (L.P.) and Shanghai Huadong Industrial Co., Ltd. increased capital of RMB392,343.75 thousands and RMB30,000.00 thousands to the subsidiary of the company in 2021(Note 4(64)(b)(ii))

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**8 Related parties and related party transactions (Cont'd)**

**(6) Balance of receivables and payables of related parties**

Amounts due from related parties

		31 December 2021		31 December 2020	
		Accounts balance RMB'000	Provision for bad debts RMB'000	Accounts balance RMB'000	Provision for bad debts RMB'000
Accounts					
receivables	Jiangxi Nanhua Medicines Co., due from: Ltd and its subsidiaries.	727,411.83	948.60	677,108.34	3,718.23
	Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	65,280.68	189.73	-	-
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	30,353.55	707.15	27,456.01	844.19
	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	15,456.87	2,250.07	12,109.31	2,306.73
	Others	17,030.81	934.41	30,864.39	1,297.09
		<u>855,533.74</u>	<u>5,029.96</u>	<u>747,538.05</u>	<u>8,166.24</u>
Other					
receivables	Sino-American Shanghai Squibb due from: Pharmaceuticals Ltd.	57,386.33	40.17	42,582.94	106.53
	Shanghai Roche Pharmaceutical Co., Ltd.	14,565.01	384.94	5,053.04	331.89
	Shanghai Overseas United Investment Co., Ltd.	13,297.64	392.39	13,297.64	66.49
	Others	22,014.40	12,157.55	31,397.32	13,798.92
		<u>107,263.38</u>	<u>12,975.05</u>	<u>92,330.94</u>	<u>14,303.83</u>
Prepayments					
due from:	Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	3,168.92		1,771.12	
	Shanghai Huayu Saffron Planting Professional Cooperative	2,250.00		2,920.10	
	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	758.63		1,700.03	
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd.	300.10		300.10	
	Others	129.43		1,842.92	
		<u>6,607.08</u>		<u>8,534.27</u>	

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**8 Related parties and related party transactions (Cont'd)**

**(6) Balance of receivables and payables of related parties (Cont'd)**

Amounts due to related parties

		31 December 2021	31 December 2020
		RMB'000	RMB'000
Accounts payables due to:			
	Shanghai Roche Pharmaceutical Co., Ltd.	265,825.63	171,980.11
	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	54,513.63	32,885.42
	Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	33,161.74	-
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries	21,497.82	13,114.26
	Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	21,325.63	16,639.80
	Wing Fat Printing Limited and its subsidiaries	18,380.04	6,426.10
	Sino-American Shanghai Squibb Pharmaceuticals Ltd.	15,124.62	11,619.23
	Shanghai Hutchison Pharmaceutical Co., Ltd and its subsidiaries.	12,542.21	11,500.36
	Others	38,054.87	29,930.42
		<u>480,426.19</u>	<u>294,095.70</u>
Other payables due to:			
	SPH-BIOCAD(HK) Limited	1,166,750.46	1,194,054.00
	Shanghai Shangshi (Group) Co., Ltd.	908,790.00	622,000.00
	Shanghai Tandong Enterprise Consulting Service Co., Ltd.	30,000.00	-
	Shanghai Pharma Group	12,129.57	12,662.18
	Others	13,979.59	12,247.21
		<u>2,131,649.62</u>	<u>1,840,963.39</u>
Other non-current liabilities	Shanghai Biomedical Industry Equity Investment Fund Partnership (L.P.)	60,917.91	-
Contract liabilities:			
	Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	38,143.76	604.92
	Others	8,910.53	451.07
		<u>47,054.29</u>	<u>1,055.99</u>
Lease liabilities:	Shanghai Pharma Group	44,498.48	55,012.04
Borrowings:	Shanghai Industrial Group Finance Co., Ltd.	2,144,963.63	1,547,504.33
Cash at bank:	Shanghai Industrial Group Finance Co., Ltd.	2,890,744.20	2,927,661.15
Deposit:	Shanghai Industrial Group Finance Co., Ltd.	7,842.61	10,697.63

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8 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors

(a) Remuneration of directors, supervisors and CEO

Remuneration of directors, supervisors and CEO for the year ended 31 December 2021 were as follows:

Name	Emoluments in respect of a person's services as a director or supervisor						Remuneration for other services provided for the management of the Company or subsidiaries RMB'000	Total RMB'000
	Remuneration RMB'000)	Salary and allowance RMB'000	Pension plan contribution RMB'000	Bonus RMB'000	Other allowances and benefits RMB'000	Stock options RMB'000		
Independent director								
Mr.Hong Liang	300	-	-	-	-	-	-	300
Mr.Cai Jiangnan	300	-	-	-	-	-	-	300
Mr.Gu Zhaoyang	300	-	-	-	-	-	-	300
Mr.Fok Manson	300	-	-	-	-	-	-	300
Director								
Mr.Zhou Jun	-	-	-	-	-	-	-	-
Mr.Ge Dawei	-	-	-	-	-	-	-	-
Ms.Li An	-	-	-	-	-	-	-	-
Mr.Cho Man (CEO)	-	1,500	-	4,362	4	575	-	6,441
Mr.Li Yongzhong	-	1,245	16	4,344	139	467	-	6,211
Mr.Shen Bo	-	1,245	103	3,944	142	467	-	5,901
Supervisor								
Mr.Xu Youli	-	-	-	-	-	-	-	-
Mr.Huan Jianchun	-	-	-	-	-	-	-	-
Mr.Xin Keng	-	-	-	-	-	-	-	-
	1,200	3,990	119	12,650	285	1,509	-	19,753

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8 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors (Cont'd)

(a) Remuneration of directors, supervisors and CEO (Cont'd)

Remuneration of directors, supervisors and CEO for the year ended 31 December 2020 were as follows:

Name	Emoluments in respect of a person's services as a director or supervisor						Remuneration for other services provided for the management of the Company or subsidiaries RMB'000	Total RMB'000
	Remuneration RMB'000)	Salary and allowance RMB'000	Pension plan contribution RMB'000	Bonus RMB'000	Other allowances and benefits RMB'000	Stock options RMB'000		
Independent director								
Mr.Hong Liang	300	-	-	-	-	-	-	300
Mr.Cai Jiangnan	300	-	-	-	-	-	-	300
Mr.Gu Zhaoyang	300	-	-	-	-	-	-	300
Mr.Fok Manson	300	-	-	-	-	-	-	300
Director								
Mr.Zhou Jun	-	-	-	-	-	-	-	-
Mr.Ge Dawei	-	-	-	-	-	-	-	-
Ms.Li An	-	-	-	-	-	-	-	-
Mr.Cho Man (CEO)	-	1,500	-	3,658	4	646	-	5,808
Mr.Li Yongzhong	-	1,245	12	3,732	118	525	-	5,632
Mr.Shen Bo	-	1,245	105	3,520	76	525	-	5,471
Supervisor								
Mr.Xu Youli	-	-	-	-	-	-	-	-
Mr.Huan Jianchun	-	-	-	-	-	-	-	-
Mr.Xin Keng	-	-	-	-	-	-	-	-
	1,200	3,990	117	10,910	198	1,696	-	18,111

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**8 Related parties and related party transactions (Cont'd)**

**(7) Benefits and interests of directors (Cont'd)**

**(a) Remuneration of directors, supervisors and CEO (Cont'd)**

In 2021 and 2020, 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 2021, no director waived any remuneration (2020: Nil).

No director was resigned or appointed in 2021 or 2020.

**(b) Director's retirement benefits**

In 2021, there are no retirement benefits due to directors' services or other services apart from the pension plan mentioned above (2020: Nil).

**(c) Director's termination benefits**

There are no directors' termination benefits for the directors in 2021(2020: 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 (2020: 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 (2020: 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 (2020: Nil).**

**(f) Substantial interests of directors in transaction, arrangement or contract**

In 2021, 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 (2020: Nil).

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8 Related parties and related party transactions (Cont'd)

(8) The five individuals whose remunerations were the highest

The five individuals whose remunerations were the highest in the Group for 2021 included three directors (2020: three directors) whose remunerations were reflected in Note 8(7). The remunerations of the remaining two (2020: two) highest individuals during the year were as follows:

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Basic salary, housing subsidy and other subsidies	2,435	5,714
Bonus	7,830	5,495
Share-based payment	395	579
	<u>10,660</u>	<u>11,788</u>
	<u>Number of individuals</u>	
	2021	2020
Remuneration bands:		
HKD 6,000,001 - 6,500,000	2	1
HKD 6,500,001 - 7,000,000	-	1

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**9 Contingencies**

**(1) Contingent liabilities and their financial impacts arising from significant pending litigation or arbitration**

The Group has no significant pending litigation or arbitration.

**(2) Contingent liabilities arising from debt guarantees provided for other units and their financial impacts**

The Group has no significant contingent liabilities arising from debt guarantees provided for other units.

**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 2021	31 December 2020
Buildings, machinery and equipment	<u>355,215,814.07</u>	<u>659,867,035.43</u>

**11 Events after the balance sheet date**

**(1) The issue of Super & Short-term Commercial Paper (“SCP”)**

The Company is authorised to issue SCP by National Association of Financial Market Institution Investors in the PRC subsequently. The Company has completed the first stage of issuing with amount of RMB3,000,000,000 and bears fixed interest rate of 2.50% per annum, it is repayable within 185 days. The raised funds have been received by the Company on 11 January 2022. The Company has completed the second stage of issuing with amount of RMB3,000,000,000 and bears fixed interest rate of 2.13% per annum, it is repayable within 94 days. The raised funds have been received by the Company on 22 February 2022.

**(2) Non-public issuance of A Shares**

The Company held the extraordinary general meeting (the “EGM”), A Share Class Meeting and H Share Class Meeting (collectively, the “Meetings”) on 12 August 2021. The meetings approved the proposal regarding the fulfilment of the criteria for the Proposed Non-public Issuance of A Shares. The Company intends to issue no more than 852,626,796 of A share to Yunnan Baiyao Group Co., Ltd. and Shanghai Tandong Enterprise Consulting Service Co., Ltd., and the raised funds will not exceed RMB14,383,814,000.00. On 22 March 2022, the Company received Approval for the Non-public Issuance of Shares from Shanghai Pharmaceuticals Holding Co., Ltd. from CSRC.

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**11 Events after the balance sheet date (Cont'd)**

**(3) Statement of dividend distribution**

In accordance with the resolution of the Board of Directors dated on 29 March 2022, the Company proposed a cash dividend to the shareholders at RMB4.20 per 10 shares (including tax). The resolution is pending for approval of the shareholders' meeting (Note 4(45)).

**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 2021	31 December 2021
Within 1 year	25,792,246.83	47,971,012.20
1-2 years	23,652,999.50	46,497,095.52
2-5 years	61,221,365.83	83,885,102.79
Above 5 years	4,711,353.00	24,934,222.76
	<u>115,377,965.16</u>	<u>203,287,433.27</u>

**13 Business combination**

Please refer to Note 5(1).

**14 Financial instruments and risks**

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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**14 Financial instruments and risks (Cont'd)**

**(1) Market risk**

**(a) Foreign exchange risk**

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars and Hong Kong dollars.

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the Group, whose recording currencies are RMB, are expressed in RMB as at 31 December 2021 and 31 December 2020 as follows:

	31 December 2021		
	USD and HKD	Others	Total
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
	<u>281,560,739.15</u>	<u>22,544,467.76</u>	<u>304,105,206.91</u>
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
	<u>103,676,436.71</u>	<u>7,127,439.34</u>	<u>110,803,876.05</u>
	31 December 2020		
	USD and HKD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	230,226,501.39	7,179,220.99	237,405,722.38
Accounts receivables	17,184,150.81	662,062.50	17,846,213.31
	<u>247,410,652.20</u>	<u>7,841,283.49</u>	<u>255,251,935.69</u>
Financial liabilities denominated in foreign currency -			
Accounts payables	319,067,195.89	750,549.23	319,817,745.12
Current portion of long-term borrowings	2,218,466,000.00	-	2,218,466,000.00
	<u>2,537,533,195.89</u>	<u>750,549.23</u>	<u>2,538,283,745.12</u>

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**14 Financial instruments and risks (Cont'd)**

**(1) Market risk (Cont'd)**

**(a) Foreign exchange risk (Cont'd)**

As at 31 December 2021, 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 RMB8,894,215.12 (31 December 2020: higher/lower by approximately RMB114,506,127.18).

**(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 2021, the Group's short-term, long-term within one year and long-term interest-bearing borrowings were mainly with floating rates, amounting to RMB4,148,541,479.80(31 December 2020: RMB6,548,683,265.11).

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 2021 and 31 December 2020, the Group did not enter into any interest rate swap agreements.

As at 31 December 2021, 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 RMB4,016,005.36(31 December 2020: approximately RMB15,911,488.23).

**(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 2021, 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 RMB138,890,066.66 (31 December 2020: approximately RMB39,934,847.47), increase/decrease other comprehensive income approximately RMB7,339,241.32(31 December 2020: approximately RMB3,305,172.03).

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**14 Financial instruments and risks (Cont'd)**

**(2) Credit risk**

The Group's credit risk mainly arises from cash at bank, notes receivables, accounts receivables, other receivables, receivables financing, long-term receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank 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 2021, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2020: Nil).

**(3) Liquidity risk**

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

As at the balance sheet date, the financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

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14 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2021				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
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
	<u>87,748,327,203.74</u>	<u>7,556,180,407.35</u>	<u>1,388,789,933.65</u>	<u>1,013,579,819.77</u>	<u>97,706,877,364.51</u>

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14 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2020				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Short-term borrowings	20,139,185,856.91	-	-	-	20,139,185,856.91
Derivative financial liabilities	9,314,855.96	-	-	-	9,314,855.96
Notes payables	4,930,726,339.18	-	-	-	4,930,726,339.18
Accounts payables	32,861,440,182.89	-	-	-	32,861,440,182.89
Other payables	12,142,797,539.60	-	-	-	12,142,797,539.60
Current portion of long-term payables	83,368,535.41	-	-	-	83,368,535.41
Current portion of long-term borrowings	5,293,115,880.39	-	-	-	5,293,115,880.39
Current portion of lease liabilities	601,593,271.01	-	-	-	601,593,271.01
Current portion of debentures payable	3,017,668,077.27	-	-	-	3,017,668,077.27
Other current liabilities	5,018,616,438.36	-	-	-	5,018,616,438.36
Long-term borrowings	-	536,602,161.33	552,634,656.21	94,841,493.82	1,184,078,311.36
Lease liabilities	-	478,637,678.04	771,594,679.76	628,207,782.70	1,878,440,140.50
Long-term payables	-	2,970,166.00	680,007,459.78	257,509,100.00	940,486,725.78
Loan interest	589,876,080.32	38,971,891.33	8,916,175.34	14,948,383.56	652,712,530.55
	<u>84,687,703,057.30</u>	<u>1,057,181,896.70</u>	<u>2,013,152,971.09</u>	<u>995,506,760.08</u>	<u>88,753,544,685.17</u>

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14 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

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 2021				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Guarantees	-	-	-	-	-

	31 December 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Guarantees	9,929,681.01	-	-	-	9,929,681.01

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(36)(a)):

	31 December 2021				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Cash flows derived from leases not yet commenced	2,433,559.83	1,232,250.53	1,820,817.84	-	5,486,628.20

	31 December 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Cash flows derived from leases not yet commenced	12,403,714.23	2,475,574.47	1,951,088.46	-	16,830,377.16

Bank and other borrowings are analysed by repayment terms as follows:

	31 December 2021		31 December 2020	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	22,548,017,422.19	9,077,033,424.66	25,432,301,737.30	8,036,284,515.63
1 to 2 years	6,901,569,347.87	-	536,602,161.33	-
2 to 5 years	87,657,378.30	-	552,634,656.21	-
Above 5 years	168,524,977.31	-	94,841,493.82	-
	<u>29,705,769,125.67</u>	<u>9,077,033,424.66</u>	<u>26,616,380,048.66</u>	<u>8,036,284,515.63</u>

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**15 Fair value estimates**

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

**(1) Financial assets and liabilities measured at fair value on a recurring basis**

As at 31 December 2021, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>73,392,413.17</u>	<u>-</u>	<u>-</u>	<u>73,392,413.17</u>
Total financial assets	<u>363,485,271.32</u>	<u>3,284,464.66</u>	<u>2,717,817,639.99</u>	<u>3,084,587,375.97</u>

As at 31 December 2021, the financial liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>-</u>	<u>774,097.78</u>	<u>85,752,514.64</u>	<u>86,526,612.42</u>

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**15 Fair value estimates (Cont'd)**

**(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)**

As at 31 December 2020, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets—				
Forward foreign exchange contract	-	501,339.00	-	501,339.00
Receivables financing—				
Notes receivables	-	-	2,485,373,691.07	2,485,373,691.07
Other non-current financial assets	399,348,474.70	-	579,208,554.83	978,557,029.53
Other equity instrument investments	33,051,720.32	-	-	33,051,720.32
Total financial assets	<u>432,400,195.02</u>	<u>501,339.00</u>	<u>3,064,582,245.90</u>	<u>3,497,483,779.92</u>

As at 31 December 2020, the financial liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities				
Forward foreign exchange contract	-	9,314,855.96	-	9,314,855.96

The Group takes the date on which events causing the transfers between the levels take place as the timing specific for recognising the transfers. There was no transfer between Level 1 and Level 2 for the current year.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include risk-free interest rate, benchmark rate, exchange rate, credit spread, liquidity premium, EBITDA multiplier, liquidity discount and etc.

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15 Fair value estimates (Cont'd)

(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)

The changes in Level 3 assets and liabilities are as follows:

	31 December 2020	Purchase	Disposal	Transfer into Level 3	Transfer out of Level 3	Gain or loss for the current year		31 December 2021
						Gain or loss recognised in profit or loss	Gain or loss recognised in other comprehensive income	
Receivables financing	2,485,373,691.07	16,775,203,959.84	(17,641,567,819.38)	-	-	(107,706,032.80)	107,706,032.80	1,619,009,831.53
Other non-current financial assets	579,208,554.83	454,306,752.54	(200,000.00)	-	-	65,492,501.09	-	1,098,807,808.46
Other non-current liabilities	-	84,163,444.98	-	-	-	1,589,069.66	-	85,752,514.64
Total	<u>3,064,582,245.90</u>	<u>17,313,674,157.36</u>	<u>(17,641,767,819.38)</u>	<u>-</u>	<u>-</u>	<u>(40,624,462.05)</u>	<u>107,706,032.80</u>	<u>2,803,570,154.63</u>

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15 Fair value estimates (Cont'd)

(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)

Information about the Level 3 fair value measurement is as follows:

	Fair value as at 31 December 2021	Valuation technique	Inputs			
			Name	Scope	Relationship with fair value	Observable/ Unobservable
Receivables financing	1,619,009,831.53	DCF	estimated discount rate	2.7360%- 2.7483%	Negative	Unobservable
Other non-current financial assets	1,098,807,808.46	Market method Equity value	EV/EBIT, EV/S, etc.	0.31-17.76	Positive	Unobservable
Other non-current liabilities	85,752,514.64	distribution method	Stock volatility	30.7307- 41.6631	Positive	Unobservable

Information about the Level 2 fair value measurement is as follows:

	Fair value as at 31 December 2021	Valuation technique	Observable inputs	
			Name	Scope/ weighted average
Assets				
Derivative financial assets—				
Forward foreign exchange contract	<u>3,284,464.66</u>	Market approach	Exchange rate	AUDUSD: 0.7317-0.7752
Liabilities				
Derivative financial assets—				
Forward foreign exchange contract	<u>774,097.78</u>	Market approach	Exchange rate	AUDNZD: 0.93908-0.95266
Fair value as at 31 December 2020				
Assets				
Derivative financial assets—				
Forward foreign exchange contract	<u>501,339.00</u>	Market approach	Exchange rate	AUDNZD: 0.9296-0.9328
Liabilities				
Derivative financial assets—				
Forward foreign exchange contract	<u>9,314,855.96</u>	Market approach	Exchange rate	AUDUSD: 0.6436-0.7627

(2) Assets measured at fair value on a non-recurring basis

Non-current assets held for sale are recognised at the amount equal to the lower of the original carrying amount and the fair value less costs to sell. As at 31 December 2021, the Group has no non-current assets held for sale.

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**15 Fair value estimates (Cont'd)**

**(3) Assets and liabilities not measured at fair value but for which the fair value is disclosed**

Financial assets and liabilities measured at amortised cost mainly include notes receivables, accounts receivables, 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 2021 and 31 December 2020, 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 2021 and 31 December 2020, the Group's gearing ratios are as follows:

	31 December 2021	31 December 2020
Gearing ratio	<u>26.18%</u>	<u>24.32%</u>

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17 Notes to the Company's financial statements

(1) Accounts receivables

	31 December 2021	31 December 2020
Accounts receivables	119,851,808.14	119,851,808.14
Less: Provision for bad debts	<u>(119,851,808.14)</u>	<u>(119,851,808.14)</u>
	<u>-</u>	<u>-</u>

(a) The aging analysis of accounts receivables based on the date of entry is as follows:

	31 December 2021	31 December 2020
Above three years	<u>119,851,808.14</u>	<u>119,851,808.14</u>

(b) As at 31 December 2021, 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	<u>39,911,209.13</u>	<u>(39,911,209.13)</u>	<u>33.30%</u>

(c) 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	11,546,794.10	100%	(11,546,794.10)	Through assessment, provision on an individual basis
Accounts receivable 2	10,013,149.47	100%	(10,013,149.47)	Through assessment, provision on an individual basis
Accounts receivable 3	8,634,602.83	100%	(8,634,602.83)	Through assessment, provision on an individual basis
Accounts receivable 4	5,546,970.95	100%	(5,546,970.95)	Through assessment, provision on an individual basis
Others	<u>84,110,290.79</u>	100%	<u>(84,110,290.79)</u>	Through assessment, provision on an individual basis
	<u>119,851,808.14</u>		<u>(119,851,808.14)</u>	

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17 Notes to the Company's financial statements (Cont'd)

(2) Other receivables

	31 December 2021	31 December 2020
Amount due from subsidiaries	18,688,077,341.63	17,891,565,843.56
Guarantees (including deposits)	17,447,445.98	17,821,322.94
Dividends receivable	764,040,878.85	876,220,484.67
Interests receivable	33,485,996.75	26,629,306.01
Receivables from enterprises	186,105.00	-
Others	257,141,035.97	257,141,035.97
	<u>19,760,378,804.18</u>	<u>19,069,377,993.15</u>
Less: provision for bad debts	<u>(271,186,918.17)</u>	<u>(304,216,181.67)</u>
	<u>19,489,191,886.01</u>	<u>18,765,161,811.48</u>

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

	31 December 2021	31 December 2020
Within 1 year	11,996,953,024.45	14,881,996,613.25
1-2 years	3,865,141,323.22	3,139,791,963.04
2-3 years	3,067,427,569.76	264,522,802.65
Above 3 years	830,856,886.75	783,066,614.21
	<u>19,760,378,804.18</u>	<u>19,069,377,993.15</u>

(b) 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	33,375,018.03	100.00%	(33,375,018.03)	Unable to collect
Other receivable 3	26,030,686.00	100.00%	(26,030,686.00)	Unable to collect
Other receivable 4	22,000,000.00	100.00%	(22,000,000.00)	Unable to collect
Others	55,735,331.94	100.00%	(55,735,331.94)	Unable to collect
	<u>257,141,035.97</u>		<u>(257,141,035.97)</u>	

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

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**17 Notes to the Company's financial statements (Cont'd)**

**(2) Other receivables (Cont'd)**

(c) As at 31 December 2021, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

31 December 2021			31 December 2020		
Accounts balance	Provision for bad debts	% of total	Accounts balance	Provision for bad debts	% of total
Amount	Amount	balance	Amount	Amount	balance

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

Amount due from subsidiaries	18,688,077,341.63	(13,014,189.51)	0.07%	17,891,565,843.56	(44,728,914.61)	0.25%
Guarantees (including deposits)	17,447,445.98	(467,637.75)	2.68%	17,821,322.94	(89,106.61)	0.50%
Receivables from enterprises	186,105.00	(5,786.13)	3.11%	-	-	-
Dividends receivable	764,040,878.85	(534,828.62)	0.07%	876,220,484.67	(2,190,551.21)	0.25%
Interests receivable	33,485,996.75	(23,440.19)	0.07%	26,629,306.01	(66,573.27)	0.25%
	<u>19,503,237,768.21</u>	<u>(14,045,882.20)</u>		<u>18,812,236,957.18</u>	<u>(47,075,145.70)</u>	

As at 31 December 2021 and 31 December 2020, the Company has no other receivables in the second stage.

**(3) Long-term equity investments**

	31 December 2021	31 December 2020
Subsidiaries (a)	24,650,543,477.80	21,539,281,590.65
Associates (b)	2,314,194,152.07	2,069,984,944.47
Joint venture (c)	42,819,088.39	-
	<u>27,007,556,718.26</u>	<u>23,609,266,535.12</u>
Less: Provision for impairment of long-term equity investments	<u>(68,481,418.01)</u>	<u>(68,481,418.01)</u>
	<u>26,939,075,300.25</u>	<u>23,540,785,117.11</u>

The Company has no significant restriction on the realization of long-term investments.

## SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 17 Notes to the Company's financial statements (Cont'd)

##### (3) Long-term equity investments (Cont'd)

##### (a) Subsidiaries

	31 December 2020	Changes during the year				31 December 2021	Impairment balance	Cash dividends declared in the current year
		Increase in investment	Decrease in investment	Provision for impairment	Others			
SIIC Medical Science and Technology (Group) Limited and its subsidiaries	7,155,574,261.96	-	-	-	6,004,483.49	7,161,578,745.45	-	6,000,000.00
Shanghai Pharmaceutical Co., Ltd. and its subsidiaries	4,848,598,723.30	-	-	-	(66,345,322.43)	4,782,253,400.87	-	499,577,765.74
Shanghai Pharmaceuticals (HK) Investment Limited	120,863,033.06	1,956,457,134.00	-	-	-	2,077,320,167.06	-	-
Shanghai Traditional Chinese Medicine Co., Ltd.	1,891,973,782.14	-	-	-	2,134,069.07	1,894,107,851.21	-	167,393,347.30
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	1,414,753,608.52	-	-	-	2,251,161.09	1,417,004,769.61	-	198,829,889.31
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	1,224,110,615.06	-	-	-	1,224,162.18	1,225,334,777.24	-	10,630,483.64
Shanghai Shangyao Biomedical Co., Ltd.	-	750,808,416.07	-	-	-	750,808,416.07	-	-
China Medical Foreign Trading Liao Ning Co.Ltd.	558,601,296.99	-	-	-	-	558,601,296.99	-	113,442,910.96
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	512,647,746.01	-	-	-	515,154.52	513,162,900.53	-	251,512,543.32
TECHPOOL Bio-Pharma Co., Ltd.	490,948,337.53	-	-	-	842,335.08	491,790,672.61	-	20,660,381.31
Shanghai Medical Instruments Co., Ltd.	207,037,242.89	198,425,197.79	-	-	550,733.12	406,013,173.80	-	4,579,191.02
SPH (benxi) North Pharmaceutical Co., Ltd.	380,000,000.00	-	-	-	-	380,000,000.00	-	-
Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	324,523,901.18	-	-	-	862,017.06	325,385,918.24	-	161,836,972.04
Shanghai Pharmaceutical (USA), Inc.	255,553,125.35	26,095,000.00	-	-	95,779.67	281,743,905.02	-	-
SPH Qingdao Growful Pharmaceutical Co., Ltd.	258,262,799.69	-	-	-	848,515.40	259,111,315.09	-	18,836,211.00
SPH Changzhou Pharmaceutical Co., Ltd.	205,860,491.07	-	-	-	802,154.76	206,662,645.83	-	27,115,999.80
Shanghai Zhonghua Pharmaceutical Co., Ltd.	100,508,229.43	-	-	-	419,036.07	100,927,265.50	-	-
Shanghai Shangyao Ruier Pharmaceutical Co., Ltd.	-	100,000,000.00	-	-	155,641.97	100,155,641.97	-	-
Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.	89,478,301.80	-	-	-	341,033.70	89,819,335.50	-	-
Shanghai Huiyong Medicine Research Co., Ltd.	70,097,831.52	-	-	-	(70,097,831.52)	-	-	-
Shanghai Pharmaceutical Medicine Sales Co., Ltd.	65,562,750.09	-	-	-	778,209.84	66,340,959.93	-	131,178,239.75
Shanghai Shangyao Innovative Pharmaceutical Technology Co., Ltd.	-	32,800,000.00	-	-	215,504.26	33,015,504.26	-	-
China International Pharmaceutical (Holdings) Limited	18,430,887.87	-	-	-	-	18,430,887.87	-	-
Others	1,345,894,625.19	164,804,700.00	-	-	274,601.96	1,510,973,927.15	-	269,478,094.64
	<u>21,539,281,590.65</u>	<u>3,229,390,447.86</u>	<u>-</u>	<u>-</u>	<u>(118,128,560.71)</u>	<u>24,650,543,477.80</u>	<u>-</u>	<u>1,881,072,029.83</u>

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17 Notes to the Company's financial statements (Cont'd)

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

(b) Associates

	31 December 2020	Changes during the year								31 December 2021	Impairment balance
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjustment	Other equity changes	Cash dividends declared	Provision for impairment	Others		
Shanghai Industrial Group Finance Co., Ltd.	392,328,721.77	-	-	18,857,117.35	-	-	(7,450,164.45)	-	-	403,735,674.67	-
Shanghai Lianyi Investment Center (limited Partnership)	271,803,660.01	-	-	116,339,570.78	-	-	(38,438,327.35)	-	-	349,704,903.44	-
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	269,111,043.76	-	-	28,538,972.42	(438,877.11)	3,231,205.78	(6,978,928.00)	-	-	293,463,416.85	-
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	253,242,898.47	-	-	95,973,159.20	-	-	(114,386,328.00)	-	-	234,829,729.67	-
Shanghai Good Health Capital LLP	222,982,081.05	-	(28,742,000.00)	(3,916,223.48)	-	-	-	-	-	190,323,857.57	-
Shangshi Commercial Factoring Co., Ltd.	157,872,906.69	-	-	2,813,450.30	-	-	(2,923,287.67)	-	-	157,763,069.32	-
Chengdu Wesker Biomedical Co., Ltd.	84,720,742.74	-	-	(34,782,987.57)	-	90,130,923.87	-	-	-	140,068,679.04	-
Shanghai Ajinomoto Amino Acid Co., Ltd.	102,788,089.71	-	-	17,274,497.02	-	-	(5,312,381.30)	-	-	114,750,205.43	-
Hangzhou Huiqing Yutang Pharmaceutical Co., Ltd.	104,073,299.73	-	-	7,493,151.67	-	-	(6,979,840.00)	-	-	104,586,611.40	-
Shanghai Pharma Health Commerce Co., Ltd.	-	52,092,773.20	-	(701,797.93)	-	-	-	-	-	51,390,975.27	-
Sichuan Greentech Bio-technology Co., Ltd.	39,113,076.76	-	-	9,689,205.50	-	-	-	-	-	48,802,282.26	-
Shanghai Chest Medical Instruments Co., Ltd.	40,392,352.03	-	-	2,872,432.05	-	-	-	-	-	43,264,784.08	-
Shanghai Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP	-	45,000,000.00	-	(472,890.35)	-	-	-	-	-	44,527,109.65	-
Chengdu Huaxi Precision Medicine Industry Innovation Center Co., Ltd.	20,047,525.66	-	-	(747,875.19)	-	-	-	-	-	19,299,650.47	-
Tianjin Modern Innovative Tcm Technology Co., Ltd.	17,801,398.81	-	-	(3,140,373.80)	-	-	-	-	-	14,661,025.01	-
Chengdu Huaxi Clinical Research Center Co., Ltd.	14,954,869.57	-	-	(424,090.96)	-	-	-	-	-	14,530,778.61	-
Shanghai Huiyong Medicine Research Co., Ltd.	-	22,010,236.97	-	(18,784,312.39)	-	-	-	-	-	3,225,924.58	-
Shanghai Shangshi Biomedical Innovation Investment Management Co., Ltd.	-	1,750,000.00	-	(136,541.91)	-	-	-	-	-	1,613,458.09	-
Others	78,752,277.71	3,720,000.00	-	1,865,614.05	-	-	(685,875.10)	-	-	83,652,016.66	(68,481,418.01)
	<u>2,069,984,944.47</u>	<u>124,573,010.17</u>	<u>(28,742,000.00)</u>	<u>238,610,076.76</u>	<u>(438,877.11)</u>	<u>93,362,129.65</u>	<u>(183,155,131.87)</u>	<u>-</u>	<u>-</u>	<u>2,314,194,152.07</u>	<u>(68,481,418.01)</u>

(c) Joint venture

	31 December 2020	Changes during the year								31 December 2021	Impairment balance
		Increase in investment	Decrease in investment	Share of net profit or loss using the equity method	OCI adjustment	Other equity changes	Cash dividends declared	Provision for impairment	Others		
Zhejiang Shangyao Jiuzhou Biopharmaceutical Co., Ltd.	-	45,000,000.00	-	(2,180,911.61)	-	-	-	-	-	42,819,088.39	-

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

17 Notes to the Company's financial statements (Cont'd)

(4) Capital surplus

	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)
	<u>18,969,516,229.49</u>	<u>124,694,851.27</u>	<u>-</u>	<u>19,094,211,080.76</u>

	31 December 2019	Increase for the year	Decrease for the year	31 December 2020
Share premium	19,132,076,187.53	-	-	19,132,076,187.53
Other capital surplus -				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	4,207,655.42	86,915,503.36	-	91,123,158.78
Share-based payment	1,231,412.28	34,742,418.42	-	35,973,830.70
Others	(289,656,947.52)	-	-	(289,656,947.52)
	<u>18,847,858,307.71</u>	<u>121,657,921.78</u>	<u>-</u>	<u>18,969,516,229.49</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS  
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17 Notes to the Company's financial statements (Cont'd)

(5) Other Comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 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	Amount after tax
Other comprehensive income items which will be reclassified to profit or loss							
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	292,608.91	-	(146,268.20)	(438,877.11)	-	-	(438,877.11)
	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2020 income statement			
	31 December 2019	Converted from OCI into retained earnings	31 December 2020	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Amount after tax
Other comprehensive income items which will be reclassified to profit or loss							
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(1,509,389.95)	-	292,608.91	1,801,998.86	-	-	1,801,998.86

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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17 Notes to the Company's financial statements (Cont'd)

(6) Undistributed profits

	For the year ended 31 December 2021	For the year ended 31 December 2020
Undistributed profits at the beginning of the year	2,964,512,023.95	2,789,667,692.06
Add: net profit attributable to shareholders of the Company	1,664,054,355.06	1,583,737,370.63
Less: appropriation to statutory surplus reserve	(166,405,435.51)	(158,373,737.06)
Dividends declared	(1,364,202,874.56)	(1,250,519,301.68)
Others	(42,134,193.68)	-
Undistributed profits at the end of year	<u>3,055,823,875.26</u>	<u>2,964,512,023.95</u>

(7) Revenue and cost of sales

	For the year ended 31 December 2021	For the year ended 31 December 2020
Main operations revenue	-	-
Other operations revenue (a)	<u>137,484,511.05</u>	<u>183,701,052.91</u>
	<u>137,484,511.05</u>	<u>183,701,052.91</u>
	For the year ended 31 December 2021	For the year ended 31 December 2020
Main operations cost	-	-
Other operations cost (a)	<u>998,811.10</u>	<u>2,067,947.37</u>
	<u>998,811.10</u>	<u>2,067,947.37</u>

(a) Other operations revenue and cost of sales

	For the year ended 31 December 2021		For the year ended 31 December 2020	
	Other operations revenue	Other operations cost	Other operations revenue	Other operations cost
Service revenue	<u>137,484,511.05</u>	<u>998,811.10</u>	<u>183,701,052.91</u>	<u>2,067,947.37</u>

(8) Investment income

	For the year ended 31 December 2021	For the year ended 31 December 2020
Long-term equity investment income calculated by cost method	1,881,072,029.83	1,707,837,396.61
Long-term equity investment income calculated by equity method	236,429,165.15	244,351,099.64
Interest income from entrusted loans	338,487,693.99	344,853,741.06
Loss on disposal of long-term equity investment	(19,248,059.52)	-
Others	<u>9,958,639.53</u>	<u>11,161,626.27</u>
	<u>2,446,699,468.98</u>	<u>2,308,203,863.58</u>

The Company does not have any significant restrictions on repatriation of investment income.

**SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.**

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS  
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(All amounts in RMB Yuan unless otherwise stated)

**1 Summary of non-recurring profit or Loss**

	For the year ended 31 December 2021	For the year ended 31 December 2020
Net profit on disposal of non-current assets	1,249,686,382.85	121,927,393.32
Government grants recognised in profits (Except closely related with the enterprise's businesses and the normed or quantitative government grants at national uniform standard)	465,740,372.82	543,156,846.45
Except for effective hedging business related to the Group's normal business operations, gains and losses on changes in fair value from holding transactional financial assets, and investment income from disposal of transactional financial assets and other non-current financial assets	(197,618,301.60)	134,409,436.48
Reversal of provision for bad debts for receivables on individual basis	8,341,978.95	51,767,019.97
Non-operating income and expenses other than the above	(61,671,412.79)	(8,905,578.93)
Other profit items that meet the definition of non-recurring profit or loss	-	33,435,397.74
	<u>1,464,479,020.23</u>	<u>875,790,515.03</u>
Impact of income tax expense	(303,704,084.16)	(142,128,883.59)
Impact on the minority interests, net of tax	<u>(68,237,862.88)</u>	<u>(58,656,474.03)</u>
	<u>1,092,537,073.19</u>	<u>675,005,157.41</u>

**Basis for preparation of summary of non-recurring profit or loss**

Under the requirements in Explanatory announcement No.1 on information disclosure by companies offering securities to the public — non-recurring profit or loss [2008] from CSRC, non-recurring profit or loss refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

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**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS  
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**2 Return on net assets and earnings per share**

	Weighted average return on		Earnings per share			
	net assets (%)		Basic earnings per share		Diluted earnings per share	
	For the year ended 31 December 2021	For the year ended 31 December 2020	For the year ended 31 December 2021	For the year ended 31 December 2020	For the year ended 31 December 2021	For the year ended 31 December 2020
Net profit attributable to ordinary shareholders of the Company	10.76	10.34	1.79	1.58	1.79	1.58
Net profit attributable to ordinary shareholders of the Company after deducting non- recurring profit or loss	8.45	8.79	1.41	1.34	1.41	1.34