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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)

2023 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 2023. 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 2023 is attached to this announcement. The formal annual report will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sphchina.com) at an appropriate time.

By Order of the Board
Shanghai Pharmaceuticals Holding Co., Ltd.*
YANG Qiuhua
Chairman

Shanghai, the PRC, 28 March 2024

As of the date of this announcement, the executive Directors of the Company are Mr. YANG Qiuhua, Mr. SHEN Bo, Mr. LI Yongzhong and Mr. DONG Ming; the non-executive Director is Mr. CHEN Fashu; and the independent non-executive Directors are Mr. GU Zhaoyang, Mr. Manson FOK and Mr. WANG Zhong.

* 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” or “Shanghai Pharma”	Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability (shares of which are listed on the Shanghai Stock Exchange with stock code 601607, and on the Main Board of the Hong Kong Stock Exchange with stock code 02607) or Shanghai Pharmaceuticals Holding Co., Ltd. and its subsidiaries, where applicable
“Articles of Association” or “Articles”	the articles of association of Shanghai Pharmaceuticals (as amended from time to time)
“Reporting Period”	the 12-month period from 1 January 2023 to 31 December 2023
“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
“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 C3 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 C1 to the Hong Kong Listing Rules (as amended, supplemented or otherwise modified from time to time)
“Code Provision”	the code provisions of part II of the Corporate Governance Code
“SFO”	the Securities and Futures Ordinance, Chapter 571, the Laws of Hong Kong, as amended from time to time
“Controlling Shareholders”	unless otherwise stated, has the meaning ascribed to it under the Hong Kong Listing Rules, including SIIC, Shanghai Shangshi and Shanghai Pharmaceutical (Group)
“NDRC”	National Development and Reform Commission of the People’s Republic of China (中華人民共和國發展和改革委員會)
“NHC” or “The National Health Commission”	National Health Commission of the People’s Republic of China (中華人民共和國國家衛生健康委員會)
“FDA”	Food and Drug Administration of the United States
“MOF”	Ministry of Finance of the People’s Republic of China

"NMPA"	National Medical Products Administration of the People's Republic of China (中華人民共和國國家藥品監督管理局)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Shanghai SASAC"	Shanghai State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
"SIIC"	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)
"Shanghai Shangshi"	Shanghai Shangshi (Group) Co., Ltd. (上海上實(集團)有限公司)
"Shanghai Pharmaceutical (Group)"	Shanghai Pharmaceutical (Group) Co., Ltd. (上海醫藥(集團)有限公司)
"S.I. Yangtze River Delta"	S.I. Yangtze River Delta Ecological Development Company Limited (上海上實長三角生態發展有限公司)
"Shanghai Industrial"	Shanghai Industrial Holdings Limited
"Shanghai Tandong"	Shanghai Tandong Enterprise Consulting Services Co., Ltd. (上海潭東企業諮詢服務有限公司)
"Yunnan Baiyao"	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司)
"Guosheng Group"	Shanghai Guosheng Group Co., Ltd. (上海國盛(集團)有限公司) and its wholly-owned subsidiaries Shanghai Shengrui Investment Co., Ltd. (上海盛睿投資有限公司) and Shanghai Guosheng Group Assets Co., Ltd. (上海國盛集團資產有限公司)
"SHAPHAR"	Shanghai Pharmaceutical Co., Ltd. (上藥控股有限公司)
"SPH Cardinal"	SPH Cardinal (Shanghai) Pharma Co., Ltd. (上藥康德樂(上海)醫藥有限公司)
"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 Sine"	SPH Sine Pharmaceutical Factory Co., Ltd. (上海上藥信誼藥廠有限公司)

“SPH Changzhou Pharmaceutical”	SPH Changzhou Pharmaceutical Co., Ltd. (上藥集團常州藥業股份有限公司)
“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)
“SPH Ruier”	Shanghai SPH Ruier Drugs Co., Ltd. (上海上藥睿爾藥品有限公司)
“Xiamen TCM Factory”	Xiamen TCM Factory Co., Ltd. (廈門中藥廠有限公司)
“Lei Yun Shang”	Shanghai Lei Yun Shang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)
“Guofeng”	SPH Qingdao Guofeng Pharmaceutical Co., Ltd. (上海醫藥集團青島國風藥業股份有限公司)
“Qingchunbao”	Chiatai Qingchunbao Pharmaceutical Co., Ltd. (正大青春寶藥業有限公司)
“Herbpex”	Liaoning Herbpex Pharmaceutical (Group) Co., Ltd. (遼寧上藥好護士藥業(集團)有限公司)
“Huqingyutang”	Hangzhou Huqingyutang Pharmaceutical Co., Ltd. (杭州胡慶餘堂藥業有限公司)
“Xiamen TCM Factory”	Xiamen TCM Factory Co., Ltd. (廈門中藥廠有限公司)
“Hutchison Pharmaceuticals”	Shanghai Hutchison Pharmaceuticals Co., Ltd. (上海和黃藥業有限公司)
“Shanghai Biomedical Frontier Industry Innovation Center”	Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd. (上海生物醫藥前沿產業創新中心有限公司)
“Xun Yao Biotechnology”	Shanghai Xun Yao Biotechnology Co., Ltd. (上海循曜生物科技有限公司)
“Shanghai Biomedical Fund”	Shanghai Biomedical Industrial Equity Investment Fund Partnership (Limited Partnership) (上海生物醫藥產業股權投資基金合夥企業(有限合夥))
“HKSTP”	Hong Kong Science and Technology Parks Corporation (香港科技園公司)
“SPH Thailand”	Shanghai Pharma (Thailand) Co., Ltd. (上藥泰國有限責任公司)

"Zynexis"	Zynexis Healthcare Private Ltd.
"SPH Middle East FZ-LLC"	SPH Middle East FZ-LLC
"Hunan Runji Pharmaceutical"	Hunan Runji Pharmaceutical Co., Ltd. (湖南潤吉藥業有限公司)
"Chia Tai Tianqing"	Chia Tai Tianqing Pharmaceutical Group Co., Ltd. (正大天晴藥業集團股份有限公司)
"Benemae Pharmaceutical"	Shanghai Benemae Pharmaceutical Corporation (上海仁會生物製藥股份有限公司)
"Hisun Pharmaceutical"	Zhejiang Hisun Pharmaceutical Co., Ltd. (浙江海正藥業股份有限公司)
"Hapharm"	Hapharm Group Co., Ltd. (哈藥集團股份有限公司)
"North China Pharmaceutical"	North China Pharmaceutical Co., Ltd. (華北製藥股份有限公司)
"Shanghai Shyndec Pharmaceutical"	Shanghai Shyndec Pharmaceutical Co., Ltd. (上海現代製藥股份有限公司)
"SJTU"	Shanghai Jiao Tong University
"ANDA"	the Abbreviated New Drug Application
"GMP"	Good Manufacturing Practice
"GSP"	Good Supply Practice
"first-in-class"	first new drug target or mechanism of action discovered
"IQVIA"	Qwest Communications International Inc. (formerly known as IMSHealth Incorporated), established in the U.S., a world-leading provider of professional medical and health information and strategic consultation

Corporate Information

DIRECTORS

Executive Directors

Mr. YANG Qihua (*Chairman*) ^{Note 1}
 Mr. SHEN Bo (*President and Chief Financial Officer*)
 Mr. LI Yongzhong (*Executive President*)
 Mr. DONG Ming

Non-executive Directors

Mr. CHEN Fashu

Independent Non-executive Directors

Mr. GU Zhaoyang
 Mr. Manson FOK
 Mr. WANG Zhong

SUPERVISORS

Mr. XU Youli
 Mr. YU Weidong
 Mr. MA Jia

JOINT COMPANY SECRETARIES

Mr. ZHONG Tao
 Ms. WONG Pui Kiu Ingrid ^{Note 2}

AUTHORISED REPRESENTATIVES

Mr. SHEN Bo
 Mr. ZHONG Tao

STRATEGY COMMITTEE

Mr. YANG Qihua (*Convener*)
 Mr. CHEN Fashu
 Mr. WANG Zhong

AUDIT COMMITTEE

Mr. GU Zhaoyang (*Convener*)
 Mr. Manson FOK
 Mr. WANG Zhong

NOMINATION COMMITTEE

Mr. Manson FOK (*Convener*)
 Mr. SHEN Bo
 Mr. GU Zhaoyang

REMUNERATION AND ASSESSMENT COMMITTEE

Mr. WANG Zhong (*Convener*)
 Mr. YANG Qihua
 Mr. GU Zhaoyang

Note 1: Mr. YANG Qihua was appointed as chairman, executive director, a member of the strategy committee and a member of the remuneration and assessment committee on 19 March 2024.

Note 2: Ms. WONG Pui Kiu Ingrid was appointed as the joint company secretary on 20 February 2024 and Ms. LEUNG Shui Bing, the former joint company secretary, resigned on 20 February 2024.

Corporate Information

COMPANY NAME

Shanghai Pharmaceuticals Holding Co., Ltd.

REGISTERED ADDRESS

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

PRINCIPAL PLACE OF BUSINESS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road, Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

Freshfields Bruckhaus Deringer LLP

LEGAL ADVISOR AS TO PRC LAW

Grandall Law Firm (Shanghai)

AUDITOR

PricewaterhouseCoopers Zhong Tian LLP

PRINCIPAL BANKS

Bank of Communications
Industrial and Commercial Bank of China
Bank of China
China Merchants Bank
Citi Bank
The Hongkong and Shanghai Banking
Corporation Limited

STOCK ABBREVIATION

SH PHARMA

STOCK EXCHANGES ON WHICH SHARES ARE LISTED

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

A SHARE REGISTRAR

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

H SHARE REGISTRAR

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

COMPANY WEBSITE

<http://www.sphchina.com>

CONTACT METHODS

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Joint Company Secretary)*
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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				
	2019	2020	2021	2022	2023
Revenue	186,565,796	191,909,156	215,824,259	231,981,300	260,295,089
Profit before income tax	6,262,467	7,175,483	8,143,814	8,808,353	7,054,297
Income tax expenses	(1,431,725)	(1,570,219)	(1,869,245)	(1,816,338)	(1,887,727)
Profit for the year	4,830,742	5,605,264	6,274,569	6,992,015	5,166,570
Attributable to:					
Owners of the Company	4,080,994	4,496,217	5,093,467	5,617,152	3,768,000
Non-controlling interests	749,748	1,109,047	1,181,102	1,374,863	1,398,570

Unit: RMB'000

Assets and Liabilities	As at 31 December				
	2019	2020	2021	2022	2023
Total assets	137,026,396	149,185,656	163,435,509	198,134,901	211,972,534
Total liabilities	87,640,468	94,444,926	104,369,299	120,132,450	131,646,441
Total equity	49,385,928	54,740,730	59,066,210	78,002,451	80,326,093
Attributable to:					
Owners of the Company	41,659,059	45,354,678	49,359,480	67,063,006	68,524,143
Non-controlling interests	7,726,869	9,386,052	9,706,730	10,939,445	11,801,950

Note: The financial information of 2021, 2022 and 2023 is extracted from the financial statements of the Company prepared under the China Accounting Standards.

Letter to Shareholders

Dear shareholders,

In this season of warm spring and blooming flowers, the Company's 2023 Annual Report is here presented to you. First of all, I would like to extend my cordial greetings and sincere thanks to you on behalf of the management team and all the staff of Shanghai Pharmaceuticals Holding Co., Ltd.! Thank you for your firm support and continuous cooperation. It is the trust and support of investors as always that gives us confidence, courage, and motivation to bravely move forward in the Company's development.

As we all know, due to the influence of market environment, policy environment, industry transformation and other factors, the pharmaceutical industry is undergoing profound adjustment, and the development of the industry is facing many new situations and challenges at present. Looking back on the past year, facing the complicated and ever-changing internal and external environment, we have always adhered to our initial intentions, strengthened our confidence and bravely moved forward in the face of difficulties.

In 2023, Shanghai Pharmaceuticals continued to be selected in the Fortune Global 500 and as "Top 50 Global Pharma Companies", and won honors such as "Global Top 25 Most Valuable Pharmaceutical Brands", "Top 100 Pharmaceutical Enterprises in China" and "Best Industrial Enterprise with Pharmaceutical R&D Product Line in China". This is not only a concentrated reflection of the Company's comprehensive strength, but also an important foundation for the Company's further development.

In the past year, we unswervingly served the national strategy and accelerated the innovation and development of the biomedical industry. Biomedicine is related to the national economy, people's livelihood and national security. It is a strategic emerging industry supported by the state and one of the three leading industries that Shanghai is fully developing. We took the initiative to integrate into the overall development situation, accelerated the layout of the biomedical industry, increased investment in research and development of innovative drugs, and made solid steps. In terms of the construction of collaborative innovation platforms, we jointly declared the "National Key Laboratory of Innovative Immunotherapy" with Shanghai Jiao Tong University, and signed a strategic cooperation agreement with China Pharmaceutical University to jointly build an "Innovative Drug Research Institute". In terms of the construction of industrial bases, the SPH Biomedicine Industrial Base (Lane 88, Zhangjiang Road, Pudong New Area) which we made every effort to build was awarded the "Shanghai Pharmaceutical Open Innovation Center", and we, together with Shanghai Biomedical Frontier Industry Innovation Center and HKSTP, jointly built the SPH-HKSTP Joint Innovation Incubator. In terms of the pipeline layout of innovative drugs, we continued to increase investment in research and development ("R&D"), and achieved breakthrough progress in varieties of R&D pipelines at multiple clinical stages, such as biological drugs, chemical drugs, traditional Chinese medicines and rare diseases drugs. The above pioneering and innovative businesses have not been directly reflected in the business indicators of this annual report, but we should keep an eye on the future. We believe that the innovation seeds that have been sown are accumulating strength and will inject strong kinetic energy into the Company's high-quality development in the future.

In the past year, we deepened reform and innovation and formed a new pattern in the integration of pharmaceutical service. The pharmaceutical service segment has always been the “overall performance” and “ballast stone” of Shanghai Pharmaceuticals. After years of pioneering and careful operation, our distribution network has covered 31 provinces, autonomous regions and municipalities across the country and building more than 300 hospital supply processing distribution (SPD) projects. It was precisely because of such a large and efficient distribution network that our pharmaceutical circulation business ranked second in the country year after year, and has become an important embodiment of the Company’s core competitiveness. In order to cope with the great concentration and competition changes in the industry, we were prepared for danger in times of peace, steadily promoted the integration of the northern and southern segments of pharmaceutical service, and formed a new pattern of pharmaceutical service with “organization integration, business integration and management integration”. We have also built a new ecosystem with our business partners through in-depth cooperation in various fields and channels. In 2023, the Company and Sanofi reached an omni-channel and nationwide major strategic cooperation, demonstrating our strength as the largest import and export platform for drugs and devices in China.

In the past year, we adhered to the craftsman spirit and solidly promoted the excellent manufacturing action of the pharmaceutical manufacturing. A number of major projects, such as SPH Jinshan Green Pharmaceutical Boutique Base, were completed as scheduled, among which the “Over-limit Magic Workshop” was highly praised by the industry. We won the Star award of “2023 Asia-Pacific Quality Organization-Innovation Award” by virtue of the digital empowerment of safe production, quality management and lean management, and our enterprises won 27 national quality awards and 112 provincial and municipal quality awards. What lies behind these honors is our inheritance of and persistence in the concept of “Hundred Years of Shanghai Pharmaceuticals, Reassuring Good Medicines”.

Of course, the development of any enterprise cannot be without difficulties and challenges. “On the way forward, it is normal to have difficulties and challenges.” In the past year, both the whole industry and our Company have experienced many difficulties and challenges. We resolutely implemented the national requirements for deepening the centralized rectification of corruption in the pharmaceutical field, persisted in promoting reform through cases, improved corporate governance, and strengthened compliance construction and risk control management. We firmly believe that the rainbow will be more beautiful after the storm!

Letter to Shareholders

Looking forward to the future development, the pharmaceutical manufacturing is pregnant with new opportunities and new tracks in the process of accelerating reform and adjustment. As a leading state-owned pharmaceutical enterprise, we firmly believe that only with the mind of “the utmost interests of the nation” can we win more development space and give more returns to investors. **In terms of biomedicine, we will give full play to the unique advantages of the integration of “pharmaceutical manufacturing and service research and investment”, promote the deep integration of innovation chain, industrial chain, capital chain and talent chain, make every effort to create an innovative ecosystem of biomedical industry, increase R&D investment, optimize pipeline layout and accelerate the cultivation of new quality productive forces. In terms of the pharmaceutical service, we will strengthen the construction of a national regional integrated platform, continue to expand multi-field and multi-channel business cooperation, further expand the scale of operation and improve the quality of operation. In terms of the pharmaceutical manufacturing, we will accelerate the inheritance, innovation and development of traditional Chinese medicine industry, vigorously promote the rapid transformation of industrial marketing, continue to build an excellent manufacturing system, and accelerate the intensive, intelligent and green development. We will also increase investment in mergers and acquisitions, accelerate the pace of international development, further improve corporate governance, strengthen compliance construction, fulfill social responsibilities, continue to promote the Company’s high-quality development, and strive to create greater value for shareholders, employees and the society.**

When there is a will, there is a way. It is our goal and unremitting pursuit to build a leading pharmaceutical company in China with international influence and devote ourselves to improving people’s healthy quality of life. The future has come, and we look forward to working with you to witness the new development of Shanghai Pharmaceuticals.

Thank you again for your trust and support to the Company, and I hope you can put forward your valuable opinions and suggestions for the Company’s development and jointly create a better tomorrow for Shanghai Pharmaceuticals with us.

Sincerely!

Shanghai Pharmaceuticals Holding Co., Ltd.
March 2024

Management Discussion and Analysis

DETAILS OF RESULTS

At present, the pharmaceutical industry in China is undergoing profound adjustments. In 2023, Shanghai Pharmaceuticals adhered to the general principle of seeking progress while maintaining stability, confronted difficulties and challenges, successfully completed the election of the new session of the directors, supervisors and senior management, and solidly promoted “4+1” strategy of innovation development, intensive development, financial and industrial integration, international development and digital construction around “stabilizing growth, improving efficiency, controlling risks and optimizing systems”, continuously solidifying the foundation for high-quality development.

In 2023, the Company continued to be listed among the **Fortune Global 500** and has won honors such as “**Top 50 Global Pharma Companies**”, “Global Top 25 Most Valuable Pharmaceutical Brands”, “Top 100 Pharmaceutical Enterprises in China” and “Best Industrial Enterprise with Pharmaceutical R&D Product Line in China”.

During the Reporting Period, the Company achieved operating income of RMB260.295 billion, representing a year-on-year increase of 12.21%. Among which, the pharmaceutical manufacturing achieved sales revenue of RMB26.257 billion, down 1.87% year-on-year; the pharmaceutical service achieved sales revenue of RMB234.038 billion, up 14.04% year-on-year.



During the Reporting Period, due to the influence of one-off special profit or loss, the Company recorded RMB3.768 billion of net profit attributable to shareholders of the listed company, representing a year-on-year decrease of 32.92%. **The net profit attributable to shareholders of the listed company after deduction of one-off special profit or loss amounted to RMB4.919 billion, representing a year-on-year increase of 2.99%.** Among which, the pharmaceutical manufacturing contributed profits of RMB2.116 billion, representing a year-on-year decrease of 5.04%; pharmaceutical service contributed profits of RMB3.350 billion, representing a year-on-year increase of 7.67%. The major shareholding enterprises contributed profits of RMB538 million, representing a year-on-year increase of 13.23%. The net profit after deduction of non-recurring profit or loss attributable to equity holders of listed company amounted to RMB3.596 billion, representing a year-on-year decrease of 16.31%. Upon excluding above one-off special profit or loss, the net profit after deduction of non-recurring profit or loss basically kept flat with the previous year.

During the Reporting Period, the Company's R&D investment reached RMB2.602 billion, including RMB2.204 billion of R&D expenditure, representing a year-on-year increase of 4.35%.

During the Reporting Period, the operating net cash inflow of the Company amounted to RMB5.232 billion, representing a year-on-year increase of 10.29%, continuously maintaining its high-quality development.

OPERATING HIGHLIGHTS OF THE COMPANY

- **Create an open innovation ecological chain with scientific and technological innovation**

During the Reporting Period, the Company continued to increase investment in research and development, and actively built **an open and diversified innovation system of "independent research and development + mergers and acquisitions and introduction + incubation and cultivation"**. While accelerating the progress of the research and development pipelines, the Company continued to deepen its cooperation with universities, scientific research institutes, medical institutions and innovative enterprises.

During the Reporting Period, the total R&D investment of the Company amounted to RMB2.602 billion, accounting for 9.91% of sales revenue from pharmaceutical manufacturing.



1. New drug pipelines have made breakthroughs

As of the end of the Reporting Period, the Company has marketed three innovative drugs, i.e. Oncorine (recombinant human adenovirus type 5), Kallidinogenase (Urinary) and Peifeikang (bifidobacterium triple viable bacteria) and one improved new drug (namely Lansoprazole and Sodium Bicarbonate). There have been 68 new drug pipelines for entering clinical approval application stage, the clinical study stage and the investigator-initiated clinical trial (IIT) stage, including 55 innovative drugs (including 3 innovative drugs in American clinical Phase II) and 13 improved new drugs. **Among the innovative drug pipelines, three innovative drug pipelines have been applied for pre-NDA or marketing, and four innovative drug pipelines are in pivotal studies or clinical Phase III.**

Major new drugs in development:

Classification	Quantity (by indication)	Remarks
Innovative drugs	55	3 projects applied for pre-NDA or marketing, 45 projects entered the clinical or IIT stage, and clinical applications of the other 7 projects have been accepted
Improved new drugs	13	6 projects entered the clinical stage, and clinical applications of the other 7 projects have been accepted (4 of which have obtained the clinical approval)
Total	68	/

Pipeline of innovative drugs in development:

No.	Treatment	Drug name/Code	Indications	R&D progress in China and other countries as of the end of the Reporting Period
1	Digestive and metabolism	X842	Reflux esophagitis	NDA
2	Cardiovascular	I001	Primary mild to moderate hypertension	NDA
3	Psychoneurotic	SRD4610	Amyotrophic lateral sclerosis	pre-NDA
4	Neoplasm	BCD-100	Cervical cancer	Clinical Phase III
5	Neoplasm	BCD-100	Non-small cell lung cancer	Clinical Phase III
6	Autoimmunity	BCD-085	Psoriasis	Clinical Phase III
7	Autoimmunity	BCD-085	Ankylosing spondylitis	Clinical Phase III
8	Infection	I008-A	AIDS chronic abnormal immune priming	Clinical Phase II, completed
9	Digestive and metabolism	I001-A	Diabetic nephropathy	Clinical Phase II
10	Autoimmunity	I001-B	Ulcerative colitis	Clinical Phase II
11	Autoimmunity	I001-B	Ulcerative colitis	US, Clinical Phase II
12	Neoplasm	I022	Advanced solid tumors/ liposarcoma	Clinical Phase I
13	Neoplasm	I022	Advanced solid tumors/ liposarcoma	US, Clinical Phase II
14	Neoplasm	I022 combination drugs	Liposarcoma	Clinical Phase II
15	Neoplasm	I022 combination drugs	First-line therapies for breast cancer	Clinical Phase II
16	Neoplasm	I022 combination drugs	Later line therapies for breast cancer	Clinical Phase II

Management Discussion and Analysis

No.	Treatment	Drug name/Code	Indications	R&D progress in China and other countries as of the end of the Reporting Period
17	Neoplasm	I022 combination drugs	Breast cancer and brain metastasis	Clinical Phase II
18	Neoplasm	I036	Juventus sarcoma	Clinical Phase IIa
19	Psychoneurotic	I037	Acute ischaemic stroke	Clinical Phase II
20	Infection	Benapenem	Anti-infection	Clinical Phase II
21	Neoplasm	B013	Breast cancer	Clinical Phase II
22	Digestive and metabolism	SI006	Irritable bowel syndrome	Canada/US, Clinical Phase II
23	Autoimmunity	I008	Rheumatoid arthritis	Clinical Phase II
24	Neoplasm	B003	Breast cancer	Clinical Phase II
25	Cardiovascular	Salvianolic acid A for injection	Angina pectoris of coronary heart disease	Clinical Phase II
26	Neoplasm	I025-A	HER2-positive advanced breast cancer	Clinical Phase I
27	Autoimmunity	B001-C	Neuromyelitis optica	Clinical Phase I
28	Autoimmunity	B007-A	Membranous nephropathy	Clinical Phase I
29	Neoplasm	B015 combination drugs	Advanced solid tumors	Clinical Phase Ib
30	Neoplasm	B015	Melanoma	Clinical Phase I
31	Neoplasm	Oncorine	Malignant peritoneal effusion	Clinical Phase I
32	Respiratory system	SV001	Idiopathic pulmonary fibrosis	Clinical Phase I
33	Neoplasm	I010	Non-small cell lung cancer	Clinical Phase I
34	Neoplasm	I020	Advanced solid tumors	Clinical Phase I
35	Neoplasm	I022-K	Advanced solid tumors	Clinical Phase I
36	Neoplasm	B001	Non-Hodgkin lymphoma	Clinical Phase I
37	Neoplasm	B002	Breast cancer	Clinical Phase I
38	Neoplasm	B006	Progressive large cell lymphoma (PTCL), Hodgkin lymphoma	Clinical Phase Ib
39	Neoplasm	B007	Non-Hodgkin lymphoma	Clinical Phase I
40	Autoimmunity	I035	Inflammatory bowel disease	Clinical approval obtained
41	Neoplasm	B019	Leukemia (Primary Care Program)	Clinical approval obtained
42	Digestive and metabolism	WST01	Metabolic syndrome	US, clinical approval obtained
43	Neoplasm	WST04	Solid tumors	Clinical approval obtained
44	Autoimmunity	I039	Inflammatory bowel disease	Clinical approval obtained
45	Autoimmunity	B001-A	Multiple sclerosis	Clinical approval obtained
46	Neoplasm	B010-A	Advanced hepatocellular carcinoma	IIT
47	Neoplasm	Autologous cell immunotherapy	Lung cancer	IIT

No.	Treatment	Drug name/Code	Indications	R&D progress in China and other countries as of the end of the Reporting Period
48	Psychoneurotic	Tsung-Ming-Tang (聰明湯)	Alzheimer's disease	IIT
49	Autoimmunity	B007	Pemphigus	IND
50	Autoimmunity	B007	Myasthenia gravis	IND
51	Neoplasm	B013	Ovarian cancer	IND
52	Neoplasm	BCD-021	Non-small cell lung cancer, colorectal cancer	IND
53	Psychoneurotic	C012	Alzheimer's disease	IND
54	Neoplasm	I031	Tumor	pre-IND
55	Psychoneurotic	I040	Depression	pre-IND

Note: In order to focus on advantageous projects, the Company has terminated preclinical projects I025 (HER2-positive advanced breast cancer), BCD-057 (rheumatoid arthritis) and BCD-022 (breast cancer).

Introduction to major new drug projects in development

- **I001 project**

I001 tablets (i.e. SPH3127; type 1 chemical drug) are a new generation of oral non-peptide small molecule renin inhibitors, and three indications are in the middle and late stage of clinical trials. The application for marketing NDA for hypertension indication was accepted in June 2023. At present, the statistical results show that the main end point has been reached, and the Topline results confirm that the non-inferior effect is established, and the test achieves the expected results, which is expected to provide more abundant treatment methods for the majority of patients with mild and moderate hypertension. There is a great demand for antihypertensive drugs in China. According to IQVIA database, the total sales amount of antihypertensive drugs prescribed by hospitals in China in 2023 was RMB23.46 billion. The subjects of I001 tablets are being actively enrolled for the two indications of inflammatory bowel disease and diabetic nephropathy.

- **X842**

X842 is a class 1 new drug introduced by the Company and is a new generation of potassium ion competitive acid blocker (P-CAB) oral drug. The application for marketing NDA for reflux esophagitis indication was accepted in February 2023. These drugs can competitively block the potassium ion activity in H-K-ATPase, and have advantages of quick effect, strong and lasting acid inhibition, no significant individual difference in curative effect and few adverse reactions. At present, P-CAB, together with PPI, has become the preferred drug for treating the gastroesophageal reflux disease (GERD) in the consensus of GERD experts in China, and is expected to break the monopoly of PPI in the acid suppression market. According to IQVIA database, in 2022, the sales of traditional PPI products totaled RMB13 billion, and in 2023, the sales of proton pump inhibitors products totaled RMB11.5 billion (including about RMB680 million of P-CAB).

- **I037 (“LT3001for injection”)**
 I037 is a class 1 new drug introduced by Shanghai Pharmaceuticals for the treatment of acute stroke. The phase I clinical trial has been completed at the end of January 2022, the phase II clinical trial has been approved in September and approval letter from IEC (Independent Ethics Committee) has been obtained in December. The sub-center has submitted the project approval and ethical review materials. As of the end of last year, half of the subjects have been enrolled, and its overall safety is good. According to IQVIA database, in 2023, the market size of cerebrovascular and peripheral vascular therapeutic drugs was RMB17.7 billion (including RMB12.9 billion for injection).
- **B013**
 B013 is a class 1 new drug introduced by Shanghai Pharmaceuticals and is a biological product. In 2018, Shanghai Pharmaceuticals signed a license agreement with Oncternal and obtained the exclusive rights and interests in the Greater China, and carried out domestic development. B013 inhibits tumor metastasis and drug resistance mainly by inhibiting the signal pathway related to cell growth, metastasis and drug resistance. In the animal experiment of triple negative breast cancer, B013 combined with chemical drugs has obvious synergistic effect. On 18 August 2022, B013 project was approved for phase II/III clinical trial of triple negative breast cancer. At the end of August 2023, enrollment for phase II clinical trial has been completed, and its safety is good at present.
- **SPH4336**
 SPH4336 tablets are oral small molecule inhibitors independently developed by Shanghai Pharmaceuticals. The phase II clinical trial of SPH4336 tablets for locally advanced or metastatic liposarcoma has been approved by the FDA of the United States. In China, the phase I clinical trials of SPH4336 tablets for advanced solid tumors have been completed and the data demonstrates that SPH4336 tablets have good efficacy, high safety and excellent pharmacokinetics profile. Kaitanil® (catunilimab injection) is the first-in-class PD1/CTLA-4 bi-specific immuno-therapy drug independently developed by Akeso. In combination with cardunilimab, SPH4336 tablets are expected to achieve better anti-tumor effects, which have the potential for further development.
- **NJ-2021-002(Z) (hemorrhoids) and NJ-2021-002(F) (radiation proctitis)**
 NJ-2021-002(Z) and (F) are improved new drug projects. According to the product action mechanism and efficacy test results, the R&D team developed the world’s first sterile gel preparation which can be used for anorectal local use, to promote wound healing after hemorrhoid surgery, relieve edema and pain and inhibit itching. The data of phase I clinical study of this indication showed good tolerance and safety. Phase II clinical enrollment has been completed. At the same time, the drug can also promote wound healing and inhibit inflammation and intestinal fibrosis through mucosal protection. It can also be used to resist oxidative stress and prevent oxidative damage caused by radiotherapy, and phase II clinical trials are being carried out for related indications. After the product goes on the market, it is expected to become the first drug with the indication of “radiation proctitis” in the world, filling the gap in the clinical use of radiation proctitis.

During the Reporting Period, a total of 13 varieties (16 specifications) of the Company passed the consistency evaluation of the quality and efficacy of generic drugs, and the products passing the consistency evaluation increased to 60 varieties (87 specifications), ranking forefront in the industry. See the “Major R&D projects” below for details of the products passing the consistency evaluation in 2023.

2. *Diversified innovation empowers future development*

- **Shanghai’s major project, the SPH Biomedicine Industrial Base** (Lane 88, Zhangjiang Road), has fully implemented the construction progress, and the first phase has been basically completed. It is expected to be put into trial operation in the first half of 2024. The industrial base is positioned to integrate three major functions of “R&D center, innovation incubation platform, pilot test and industrialization platform”, and was awarded “Shanghai Pharmaceutical Open Innovation Center” by the Pudong New Area Group Open Innovation (GOI). During the Reporting Period, Shanghai Biomedical Frontier Industry Innovation Center signed an agreement with Bayer to jointly build a laboratory, which will introduce the first joint laboratory (CO.LAB) in China into the industrial base.
- Shanghai Pharmaceuticals, together with Shanghai Biomedical Frontier Industry Innovation Center and HKSTP, jointly built the **Shanghai-Hong Kong joint innovation incubator “01LABS@HongKong”**, which was officially opened in January 2024. According to the positioning of “Hong Kong Incubation and Shanghai Transformation”, the incubator will focus on the frontier fields such as cell and gene therapy (CGT), synthetic biology, brain science and immunity, and connect with outstanding scientists and high-quality scientific research resources in Hong Kong and the world. At present, two companies have confirmed their settlement.
- Shanghai Pharmaceuticals and China Pharmaceutical University signed a strategic cooperation framework agreement to jointly build an **“Innovative Drug Research Institute”**. The purpose of this cooperation is to empower the basic research of university researchers, accelerate the transformation of scientific and technological achievements, explore a new mode of school-enterprise cooperation, and promote the deep integration of Industry-University-Research by gathering the innovative elements and superior resources of both sides and with innovation as the driving force.
- **Large variety strategy and excellent manufacturing achieved high quality and efficiency**
During the Reporting Period, focusing on the strategy of concentrating large varieties, **the Company achieved 48 products with annual industrial sales revenue exceeding RMB100 million**, which was basically the same as the previous year, covering cardiovascular, digestive system, immune metabolism, systemic anti-infection, mental nerve and anti-tumor fields. The sales revenue of 60 key varieties was RMB14.940 billion, representing a slight year-on-year decrease.

1. Inherit traditional Chinese medicine culture and promote Chinese treasures

The Company seized the development opportunity of Chinese medicine industry to continue to promote the strategy of breeding large varieties of Chinese medicine. **In 2023, the revenue from pharmaceutical manufacturing for traditional Chinese medicine segment amounted to RMB9.817 billion, representing a year-on-year increase of 10.30%.** Seven companies of the Company, including Lei Yun Shang, Guofeng, Qingchunbao, Herbpex, Huqingyutang, Xiamen TCM Factory and Hutchison Pharmaceuticals, won the title of “Top 100 Chinese Patent Medicine Industry Enterprises 2023”. With their long brand history, profound cultural background and good market recognition, “Dinglu” and “Shenxiang”, subsidiaries of Shanghai Pharmaceuticals, have been successfully selected into the latest list of Chinese time-honored brands. Together with the previously recognized “Leishi”, “Longhu”, “Hongrentang” and “Yutiancheng”, **Shanghai Pharmaceuticals currently owns six Chinese time-honored brands.**

During the Reporting Period, the Company **greatly increased the sales revenue of the varieties with the sales revenue of more than RMB100 million such as Shengmai Drink, Weifuchun and Liushen Pills** by improving terminal coverage, optimizing commercial layout, developing overseas markets, expanding sales channels and conducting health talks, **with an average growth rate of over 40%.** In addition, the Company evaluated and screened several dormant recovery products from the perspectives of clinical value and market value, and continued to track the product marketing plan and progress. Suhexiang Pills and other products have resumed sales.

2. Improve the manufacturing capacity level and promote cost reduction and efficiency improvement

During the Reporting Period, the Company insisted on quality first, solidly promoted the action of manufacturing excellence, actively improved the capacity level of pharmaceutical manufacturing, and continuously built an excellent manufacturing system of the industrial manufacturing segment from top to bottom. **The SPH Jinshan Green Pharmaceutical Boutique Base** was basically completed, thus accelerating industrial transformation and promoting intelligent development. **SPH Sine Micro-ecological Smart Factory** was selected as the **“Smart Factories”** in Shanghai in 2023.

During the Reporting Period, the Company first applied for the **“2023 Asia-Pacific Quality Organization Innovation Award”** and **won the Star award.** The Company is the only pharmaceutical enterprise in China to win this award since the establishment of this award, fully demonstrating that Shanghai Pharmaceuticals’ excellent performance in quality management and innovation ability has been highly recognized by international quality organizations and professionals.

During the Reporting Period, all the project indicators of the **over-limit manufacturing project** of SPH No.1 Biochemical have been completed, and the project has been submitted to the Shanghai Municipal Development & Reform Commission and the Science and Technology Commission for project acceptance. Through special implementation, SPH No.1 Biochemical established the application model of disruptive technology of over-limit manufacturing in the industrialization of APIs, and completed the research and development of continuous synthesis process of two cardiovascular drugs, verifying **the application feasibility and technical superiority of continuous manufacturing technology in dangerous processes such as sulfonation and acylation of APIs**. Relevant experimental data show that compared with the traditional kettle reaction, the continuous process developed by over-limit manufacturing technology has been greatly improved in safety, environmental protection, quality and energy saving.

3. *Expand international markets and implement a global strategy*

In 2023, the Company adhered to the direction of international development, striving to expand its overseas markets and operations despite challenges, and the revenue from international business increased steadily. The Company steadily expanded its overseas business operations, with substantial progress in registering various products.

- Shanghai Pharma (Thailand) Co., Ltd. successfully launched its private-label products in the market, introduced the relevant production lines, and begun generating sales revenue.
 - Zynexis Healthcare Private Ltd. brought in two products and achieved stable operations.
 - In the Philippines, the Company made a breakthrough in market access. It registered the rosuvastatin calcium tablet for the Philippine market and is planning to launch it shortly. Additionally, two other products successfully underwent preliminary review by the Food and Drug Administration (FDA) of the Philippines.
 - SPH Middle East FZ-LLC obtained its business license.
 - SPH Changzhou Pharmaceutical Co., Ltd. obtained a GMP clearance certificate from the Thai FDA and completed the BE test for three products.
- **Initiate the integration of southern and northern service segments and pioneer the creation of a high ground in innovative commercial services**

During the Reporting Period, the Company further expanded its domestic pharmaceutical distribution network by acquiring Hunan Runji Pharmaceutical Co., Ltd. and CTTQ service segment, thus filling in the network gaps in Hunan province for biological products, and in Suzhou and Lianyungang. **In 2023, the Company's pharmaceutical business sales exceeded RMB10 billion in six provinces.**

1. Smoothly advance the integration of southern and northern service segments

To confront the large-scale concentration and competition changes within the industry, enhance the overall strength of the pharmaceutical service segments, and achieve integrated operation and high-quality development, the Company initiated the program of integrating southern and northern service segments in August 2023. Fifteen working groups collaborated closely, formulating specific implementation plans for **“organizational integration, business integration and management integration”**. They promoted the integration work in an orderly and forceful manner. By the set timeline, the integration goal of integrated operation across 25 provinces and four major professional segments was met, thereby establishing a “national-level modern pharmaceutical supply chain service platform”. Through this integration, the Company will further strengthen the operational control of its pharmaceutical business, unify its decision-making with the authorization system, operational system, information system, logistics, talent and incentives, and financial system, exert the advantages of both southern and northern business segments, and expand industrial collaboration.

2. Accelerate the development of business innovation

- **Continue to solidify its ranking in the first echelon of import service provider for innovative drugs**

The Company strives to build a **lifecycle innovative drug service platform**, providing one-stop management services of the whole supply chain covering four major areas of pre-marketing cooperation, import and export services, nationwide distribution and innovation and added value for innovative products of pharmaceutical enterprises around the world. In 2023, the Company successfully introduced 29 import varieties under general agency. SPH International Supply Chain Co., Ltd. smoothly passed the customs Authorized Economic Operator (AEO) certification and officially completed the licensing in September 2023. The Lingang Customs approved flexible clearance, and Shanghai will pilot a scheme in Lingang for pharmaceuticals that allows a one-time import declaration followed by multiple shipments. In terms of vaccine import agency, the Company achieved sales revenue of approximately RMB5.2 billion during the Reporting Period, representing a year-on-year increase of 19%. **Additionally, it concluded an agreement with Pfizer for the contract sales of 13-valent pneumococcal conjugate vaccine (Prevenar 13).**

- **Strive to build a leading brand of Contract Sales Organization (CSO)**

The Company first joined forces with Bayer in 2016 to explore the CSO business model of multinational pharmaceutical companies in China, with the cooperation scale now exceeding the RMB1 billion milestone. In 2023, the Company’s pharmaceutical CSO contract promotion business achieved sales of approximately RMB2.9 billion, with a year-on-year increase of approximately 50%. At the end of the year, with rich business experience and strict compliance management, the Company established a strategic collaboration with Sanofi for contract sales. **The collaboration involves over 20 products in key disease areas, with a contract size exceeding RMB5 billion. It is one of the largest, widest-reaching, and most profound strategic collaborations between industry and commerce in the pharmaceutical sector in recent years, signifying the dawn of a new era in China’s commercial marketing services.**

- **Solidly advance the steady growth of devices and big health business**
In 2023, the Company achieved devices and big health business sales of approximately RMB36.3 billion. The Company actively explores the expansion of new non-pharmaceutical businesses such as devices, medical beauty and health food, speeds up the basic layout of the national device business, improves the service level of the whole value chain, creates a professional platform for segmentation, and further promotes its diversified, multi-variety and multi-channel development. During the Reporting Period, the medical beauty business of regional companies in areas such as Shanghai, Sichuan, Zhejiang and Beijing experienced rapid growth. **SPH Cardinal and Benemae collaborated on the sales promotion of Benaglutide Injection (Fitus®),** aiming to unlock the body shaping market with this opportunity. The partnership worked with industry associations and experts to jointly create the *Standardized Construction for Body Shaping Centers (Departments)* group standard. It also established a talent training program. With an emphasis on providing safe and effective products, the Company also offers more comprehensive, safer, and more effective body aesthetic solutions, promoting the development of the body shaping industry. Currently, the product has been successfully admitted into 300 top medical beauty institutions, including 11 national chain medical beauty groups.
- **Expand the “Internet+” innovation model in a coordinated manner**
SPH Cloud Health is an “Internet+” pharmaceutical business technology platform hatched and continuously supported by Shanghai Pharmaceuticals that provides lifecycle services for innovative drugs based on China’s leading specialty pharmacy network – “Yiyao Pharmacy”. As of the end of 2023, SPH Cloud Health operates over 200 DTP pharmacies and authorized hospital side stores, covering 25 provinces and 66 cities across the country, and has reached cooperation with more than 300 new special drug enterprises in total, becoming the first choice for 80% of innovative drugs making their initial sales in China, and also one of the main channels for patients with special diseases in China to obtain innovative therapies at home and abroad.

MediTrust Health, as a leading universal health care service and insurance platform in China, has launched diversified universal health insurances and various medical health benefits and services. As of the end of 2023, it has saved patients approximately RMB2.4 billion in expenses, served nearly 250 million insurance policies, covered 70% of innovative drugs marketed in China, and realized medical insurance coverage in more than 150 cities nationwide.

- **Serve national strategy and forge ahead with social responsibility**

- 1. Respond to national strategy and take on corporate mission**

Shanghai Pharmaceuticals consistently upholds service to the national strategy, social development, and public health. As a large state-owned pharmaceutical enterprise, it fully leverages its resource advantages, devoting full efforts to participate in the construction of a healthy China and vigorously promoting innovation and development of the biopharmaceutical industry – one of Shanghai’s three leading industries. In the new era and new phase of pharmaceutical industry chain development, the Company remains committed to fostering the deep integration of the innovation, industry and capital chains, accelerates the enhancement of China’s biopharmaceutical industry innovation ecology, continuously drives the growth of small and medium-sized enterprises, and propels the transformation and upgrading of the industry chain, contributing to sustained economic development.

During the Reporting Period, the Company continued to increase investment in research and development, strengthen the research and development pipeline for innovative drugs, traditional Chinese medicine, rare disease drugs and pediatric drugs, and uphold the collaborative incubation among “companies, universities, research institutes, and hospitals”. This incubation aims to build an innovative ecosystem and enhance the efficiency of transforming innovative achievements, continuously improving the quality of health and life for the people and actively contributing as a service provider in the health sector.

- 2. Adhere to sustainable development to co-create a harmonious society**

For its ESG (environmental, social, and governance) work, Shanghai Pharmaceuticals has been rated AA for two consecutive years by the international authoritative index institution MSCI (Morgan Stanley Capital International), and it was also rated AA in the Wind ESG Rating, leading among global peers. In 2023, Shanghai Pharmaceuticals continued to be included in the Fortune China ESG Influential List, won Jiemian Gold Medal Award for ESG Practice of the Year, ranked among the “ESG Pioneer 100 Index for Listed SOEs (2023)” released by the State-owned Assets Supervision and Administration Commission of the State Council, and joined efforts with Shanghai Academy of Quality Management Co., Ltd. and the Shanghai Pharmaceutical Profession Association to release China’s first ESG disclosure guide for the pharmaceutical industry – *ESG Disclosure Guide for Pharmaceutical Enterprises*, filling a gap in this field for the pharmaceutical industry. By implementing the new development concept and continuously strengthening ESG work, the Company actively contributes to the construction of a beautiful society that features green, low-carbon and sustainable development.

3. *Build a platform for rare diseases and care for special groups*

As the rare disease platform under Shanghai Pharmaceuticals, SPH Ruier currently has 16 underway research projects, which involve global innovative drugs, first generic drugs, and multiple drugs for clinical urgent need that are in short supply. These projects cover multiple rare disease categories, including oncology, motor neuron disease, endocrinology, cardiovascular, and metabolism. **A key product of SPH Ruier, SRD4610, intended to treat Amyotrophic Lateral Sclerosis (ALS)**, has completed phase II clinical trials as of the end of the Reporting Period. Currently, in China, the only drugs available for ALS treatment are Riluzole and Edaravone, and the treatment needs of patients are far from being met. Other key products of SPH Ruier include SRD2407 for the indication of pulmonary arterial hypertension, which has completed the registration declaration during the Reporting Period. Also included are SRD6214 and SRD6016, intended for the treatment of α -thalassemia and all types of Hemophilia respectively; the former's similar products have not yet started clinical trials in China, and the latter represents a globally innovative cell and gene therapy approach, both of which are undergoing preclinical research and other studies.

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

Pharmaceutical consumption has a rigid attribute, and the pharmaceutical industry is characterized by weak periodicity. Biomedicine is a key track for the new round of global scientific and technological revolution and industrial transformation, an active field in frontier scientific research in the world, a strategic emerging industry related to the national economy, people's livelihood and national security and is also an important area for achieving high-level self-reliance in science and technology. 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, 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. At the same time, under the trend of Internet + big data, drug consumption terminals have become more diversified, which is expected to further generate new business models.

Management Discussion and Analysis

2. The new development stage brings new development opportunities to the pharmaceutical industry. With the acceleration of population aging, the promotion of the construction of healthy China on all fronts, the rising health requirements and consumption upgrading of residents, and the acceleration of supply-side structural reform in the pharmaceutical industry, the people's demand for a better life can be met in a better way. China's economy has turned to a stage of high-quality development, and the pharmaceutical industry will accelerate the quality change, efficiency change and momentum change.
3. The development of traditional Chinese medicine continued to improve. The development of traditional Chinese medicine has ushered in new opportunities. The Company shall continue to develop large varieties and brands of traditional Chinese medicine and revitalize time-honored traditional Chinese medicine brands, achieving a rapid development.

Overall, China's pharmaceutical industry is currently in an era of major supply-side structural reforms marked by survival of the fittest, industrial upgrading and innovation breakthroughs, and it is accelerating towards a stage of high-quality development.

Industry Situation

During the Reporting Period, the state issued a number of significant policies to encourage innovation in biomedicine, improve the level of pharmaceutical technology, and promote high-quality development of the pharmaceutical industry.

Category	Date	Issuing Authority	Document	Summary of Relevant Content
Traditional Chinese medicine development	10 February 2023	State Council	Implementation Plan for the Major Project of Revitalization and Development of Traditional Chinese Medicine	<p>Provide key support for scientific and technological innovation projects in traditional Chinese medicine (TCM).</p> <p>Accelerate the development of the traditional Chinese medicine seed industry and promote the high-quality development of the TCM industry.</p> <p>Promote the integration of TCM culture into the people's production and life, throughout the national education system, with preferential reimbursement policies from medical insurance fund.</p>

Category	Date	Issuing Authority	Document	Summary of Relevant Content
Traditional Chinese medicine development	10 February 2023	NMPA	Special Provisions for TCM Registration	Priority review and approval procedures should be implemented for the registration applications of new TCM drugs that have clear clinical orientation and significant clinical value if they are: (I) used for the prevention and treatment of major diseases, newly emerging infectious diseases and rare diseases; (II) in urgent clinical demand but short on market supply; (III) pediatric medications; (IV) newly discovered medicinal materials and their preparations, or new medicinal parts and their preparations; (V) clear in medicinal substance basis and basically clear in mechanism of action.
Traditional Chinese medicine development	3 January 2023	NMPA	Several Measures to Further Strengthen the Scientific Supervision of Traditional Chinese Medicine and Promote the Inheritance, Innovation and Development of Traditional Chinese Medicine	Further mobilize the enthusiasm of local governments in the producing areas of traditional Chinese herbal medicines, producers of traditional Chinese herbal medicines, and base farmers, encourage TCM producers to extend the drug quality management system to the planting and processing of traditional Chinese herbal medicines, and promote the integration of the production and processing of traditional Chinese herbal medicines with ecological civilization construction and rural revitalization.
Drug quality	6 February 2023	CPC Central Committee and State Council	Outline to Improve Quality of Development	Strengthen the lifecycle management of drugs and vaccines, accelerate the advancement of technology development and quality standard upgrading for chemical APIs and TCM, and enhance the consistency in quality and efficacy between generic drugs and brand-name or patented drugs.

Management Discussion and Analysis

Category	Date	Issuing Authority	Document	Summary of Relevant Content
Drug quality	4 July 2023	NMPA	Measures for Administration of Standards for Drugs	Strengthen the lifecycle management of drugs, comprehensively enhance the capacity building for drug administration, standardize drug administration, and promote the high-quality development of the pharmaceutical industry.
Innovation encouragement	25 August 2023	Executive Meeting of the State Council	Action Plan for High-Quality Development of the Pharmaceutical Industry (2023-2025)	Provide support across the chain in light of the characteristics of high innovation difficulty, extended period and substantial investment of medical research and development.
Innovation encouragement	July 2023	NMPA	Guiding Principles for Patient-Centered Drug Clinical Trial Implementation	Promote the practical application of the “patient-centered” concept in drug development, and guide pharmaceutical enterprises to efficiently develop drugs that are more in line with patient needs and have clinical value.
Innovation encouragement	March 2023	NMPA	Work Procedures for Expediting the Review of Marketing Applications of Innovative Drugs (Trial)	Encourage the research and creation of new drugs, pediatric drugs, and innovative R&D processes of drugs for rare diseases, and introduce multiple measures to accelerate the marketing applications of innovative drugs.
Innovation encouragement	August 2023	National Health Commission	The 4th List of Pediatric Drugs Encouraged for Development	Further encourage the development of pediatric drugs

UPDATE ON THE BUSINESSES 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 businesses (namely pharmaceutical manufacturing and pharmaceutical service) are all in the leading position in China.

The Company's pharmaceutical manufacturing ranked 41st in the top 50 pharmaceutical companies in the world. The Company had abundant product resources, producing nearly 700 kinds of traditional Chinese medicines and chemicals medicines and more than 20 kinds of dosage forms all the year round. 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 terms of pharmaceutical service, the Company is the second largest national pharmaceutical circulation enterprise and the leading service platform for imported drugs in China. The Company's distribution network directly covered 25 provinces, municipalities directly under the central government and autonomous regions in China, innovated service models and continuously provided efficient, convenient and reliable services to medical institutions, retail institutions and partners at all levels and patients.

CORE COMPETITIVENESS ANALYSIS

1. Integrated advantages of the industrial chain

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

Management Discussion and Analysis

2. Innovation transformation advantages

The Company has built an open and diverse innovation system encompassing “independent research and development + mergers and acquisitions and introduction + incubation and cultivation”. It continues to deepen cooperation with universities, scientific research institutes, medical institutions and innovative enterprises, promote the deep integration of the industrial chain, innovation chain, capital chain and talent chain, gather innovation resources from scratch, further consolidates resources from “prestigious universities, institutes and enterprises”, and establishes the Shanghai Biomedical Frontier Industry Innovation Center. Through in-depth cooperation with scientific research institutes, medical institutions and translational medicine centers, the Company is accelerating the introduction of outstanding projects at home and abroad. In addition, it undertakes joint development, technical support, auxiliary tests and equity investment, and provides first-class experimental sites, equipment and operation services to expedite the incubation and transformation of innovation projects. It aims to quickly cultivate a number of new drugs with stronger innovation and build several advanced pharmaceutical technology platforms.

3. Green intelligent manufacturing advantages

The Company makes continuous efforts to craft an excellent manufacturing system centered on “ensuring supply, improving quality, reducing costs and increasing efficiency”, optimizes production layout, strengthens quality and lean management, optimizes the production process by digitalization, continuation and pipelining, accelerates the industrial application of beyond-limit manufacturing technologies, and creates and transforms a number of “green factory”, “waste-free factory”, “zero-carbon factory” and “green supply chain” projects, consistently driving the transformation and upgrade of pharmaceutical manufacturing towards the “high-end, intelligent and green” direction.

4. Service innovation advantages

Based on a national terminal network, the Company develops “new distribution, new retail” strategies. By offering innovative pharmaceutical supply chain services and extended medical services, it builds new industry advantages and strong industrial competitiveness in new business areas, such as drug import distribution, vaccine marketing and supply chains, drug marketing services, medical health insurance, high-end consumables, and in-hospital logistics services for pharmaceutical products. The Company continuously explores new models and fields with partners, providing lifecycle services for innovative drugs at different stages. This includes package solutions for pre-marketing services, integrated supply chains, DTP (direct-to-patient delivery of high-value drugs), integrated marketing and innovative payment, enhancing the accessibility and affordability of innovative products.

5. Brand advantages

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	260,295,088,943.53	231,981,299,764.51	12.21	Increase of sales income during the Reporting Period
Operating cost	228,966,947,001.24	201,494,923,087.47	13.63	Increase of sales income during the Reporting Period
Costs of sales	13,902,191,503.50	14,278,974,907.54	-2.64	Decrease of costs of sales during the Reporting Period
Management expense	5,711,827,446.09	4,991,689,173.97	14.43	Increase of operation and administration expense during the Reporting Period
Finance costs	1,485,757,647.45	1,313,192,468.06	13.14	Increase of interest expense during the Reporting Period
R&D expenditure	2,204,033,687.43	2,112,197,580.39	4.35	Increase of investment in R&D during the Reporting Period
Assets impairment loss	561,277,474.11	331,471,295.70	69.33	Increase in provisions for inventory impairment loss during the Reporting Period
Credit impairment loss	279,958,650.49	312,460,488.87	-10.40	Decrease of impairment provisions of receivables during the Reporting Period
Other income	793,161,586.35	393,760,191.69	101.43	Increase of government grants received during the Reporting Period
Investment income	-68,122,676.68	533,117,089.08	-112.78	Increase of long-term equity investment loss calculated by equity method during the Reporting Period
Gains arising from changes in fair value	404,731,380.72	218,737,860.49	85.03	Increase in fair value of financial assets measured at fair value during the Reporting Period
Gains on assets disposal	92,475,307.03	1,438,918,138.68	-93.57	Decrease in gains from disposal of fixed assets and intangible assets during the Reporting Period
Non-operating income	40,689,731.27	32,778,070.70	24.14	Increase in compensation received during the Reporting Period
Non-operating expenses	653,627,697.11	239,075,178.84	173.40	Increase in penalties during the Reporting Period
Net cash flow generated from operating activities	5,231,519,727.10	4,743,361,181.87	10.29	Increase in the scale of sales during the Reporting Period
Net cash flow generated from investing activities	-2,491,872,838.52	-12,473,124,179.46	80.02	Decrease in cash paid for investment during the Reporting Period
Net cash flow generated from financing activities	231,850,890.73	12,138,594,111.89	-98.09	Decrease in cash received from issuance of shares during the Reporting Period

2. Income and cost analysis

(1) Principal business by industry

Unit: RMB

By industry	Operating income	Operating cost	Gross profit margin (%)	Increase/ decrease in operating income year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year
Manufacturing	26,256,792,197.75	10,898,239,514.39	58.49	-1.87	-1.74	-0.05 percentage point
Distribution	233,759,541,445.32	219,000,048,725.26	6.31	13.62	13.95	-0.27 percentage point
Retail	9,110,750,928.61	8,020,903,244.25	11.96	10.25	11.09	-0.66 percentage point
Others	284,529,321.63	249,504,887.00	12.31	97.46	106.22	-3.73 percentage points
Offsetting	-10,259,551,804.36	-9,850,704,896.99	/	/	/	/

(2) Principal business by region

Unit: RMB

By region	Operating income	Operating cost	Gross profit margin (%)	Increase/ decrease in operation income year-on-year (%)	Increase/ decrease in operating cost year-on-year (%)	Increase/ decrease in gross profit margin year-on-year
Domestic Sales	255,966,774,117.46	226,189,307,279.26	11.63	12.08	13.63	-1.21 percentage points
Overseas Sales	3,185,287,971.49	2,128,684,194.65	33.17	11.45	8.49	+1.83 percentage points

(3) Principal business by product field

Unit: RMB'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	476,685	160,940	66.24	-4.27	5.58	-3.15	66.52%
Digestive and metabolism	264,017	75,012	71.59	8.35	0.59	2.19	65.34%
Systemic anti-infection	207,588	125,172	39.70	-24.97	-32.50	6.73	28.65%
Central nervous system	182,862	42,545	76.73	-2.35	5.05	-1.64	52.24%
Anti-tumour and immunomodulatory agents	163,798	28,800	82.42	1.67	-6.61	1.56	71.45%
Musculoskeletal system	86,816	23,010	73.50	-13.28	-18.13	1.57	46.48%
Respiratory system	126,238	40,379	68.01	-28.03	-2.10	-8.47	41.28%
Others	1,117,674	593,966	57.94	8.14	6.83	11.73	/
Total	2,626,925	1,089,824	58.49	-1.83	-1.74	-0.05	/

Notes:

- ① Gross profit margin in the above table = (operating income – operating cost)/operating income *100%;
- ② The data of gross profit margin of the same products in the same industry and field of cardiovascular system was sourced from the gross profit margin of “cardiovascular drug” products in the 2022 annual report of Hisun Pharmaceutical.
- ③ Gross profit margin of the same products in the same industry and field of digestive and metabolism, systemic anti-infection, anti-tumour and immunomodulatory agents was sourced from the gross profit margin of “digestive system”, “anti-viral & anti-infection” and “anti-tumor” products in the 2022 annual report of Hapharm.
- ④ Gross profit margin of the same products in the same industry and field in terms of central nervous system was sourced from the gross profit margin of “nervous, blood system drug” products set out in the 2022 annual report of North China Pharmaceutical.
- ⑤ The data of gross profit margin of the same product in the same industry or field of musculoskeletal system and the respiratory system was sourced from the gross profit margin of “musculoskeletal system drug”, “respiratory system drug” products set out in the 2022 annual report of Shanghai Shyndec Pharmaceutical.

(4) Table of analysis of cost

Unit: RMB0'000

By industry	Cost composition	By industry				Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
		Amount for the current period	Proportion of the cost to the total cost of the Reporting Period (%)	Amount for the corresponding period of last year	Proportion of the cost to the total cost of the corresponding period of last year (%)		
Manufacturing	Raw materials, ancillary materials and packaging materials	779,769.52	71.55	802,267.86	72.33	-2.80	/
Manufacturing	Power expenses	37,494.34	3.44	31,590.34	2.85	18.69	/
Manufacturing	Depreciation expense	61,600.11	5.65	59,337.69	5.35	3.81	/
Manufacturing	Salaries	82,885.98	7.61	85,613.14	7.72	-3.19	/
Manufacturing	Other manufacturing cost	128,074.00	11.75	130,343.77	11.75	-1.74	/
Manufacturing	Total manufacturing cost	1,089,823.95	100.00	1,109,152.80	100.00	-1.74	/
Service and others	Cost	22,807,302.40	/	20,026,607.08	/	13.89	/
Offsetting total cost		-1,000,574.00	/	-986,267.57	/	1.45	/
Total operating cost		22,896,552.35	/	20,149,492.31	/	13.63	/

3. Expenses

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

4. R&D investment

(1) Table of R&D investment

Unit: RMBO'000

Expensed R&D investment for the current period	220,403.37
Capitalized R&D investment for the current period	39,822.63
Total investment in R&D	260,226.00
Proportion of the total amount of R&D investment to operating income (%)	9.91
Proportion of capitalized R&D investment (%)	15.30
Number of R&D personnel of the Company	1,666
Proportion of the number of R&D personnel to the total number of personnel of the Company (%)	3.46

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

(2) R&D investment in major projects

Unit: RMBO'000

R&D project	R&D Investment amount	Expensed R&D Investment amount	Capitalized R&D Investment amount	Proportion of R&D investment to the operation income (%)	Change ratio of the amount of the current period compared to that of the corresponding period of last year (%)	Explanation
I001	5,216.25	4,708.88	507.37	0.20	-34	Clinical phase III has been completed and NDA has been submitted
B001-C	3,111.53	3,111.53	-	0.12	253	All subjects in clinical phase I have been enrolled
I031	2,529.45	2,529.45	-	0.10	55	Pre-clinical research has been completed and IND has been accepted
I001-A	2,063.97	2,063.97	-	0.08	144	Clinical phase II research was in progress and 40% of cases have been enrolled
I022	2,038.05	2,038.05	-	0.08	48	Subjects in clinical phase I have been enrolled

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

(3) Major R&D projects

Unit: RMB0'000

R&D No.	Project	Name of drug (product)	Classification of registration	Indications or main function	Whether it belongs to prescription drugs	Whether it belongs to the protection varieties of traditional Chinese medicines (if available)	Phase of R&D (Registration)
1	I001	SPH3127 Tablets	Class 1 of chemical drugs	Hypertension	No	No	NDA accepted
2	B001-C	Recombinant Anti-CD20 Humanized Monoclonal Antibody Subcutaneous Injection	Class 1 of biological products for therapeutic use	Neuromyelitis	No	No	Clinical Phase I
3	I031	I031	Class 1 of chemical drugs	Advanced solid tumor	No	No	Clinical application
4	I001-A	SPH3127 Tablets	Class 1 of chemical drugs	Diabetic nephropathy	No	No	Clinical Phase II
5	I022	SPH4336 Tablets	Class 1 of chemical drugs	Breast cancer/ Advanced solid tumors	No	No	Clinical Phase II

Note: "No" represents that the R&D project is under research and development and certain contents are not available.

(4) Basic information of consistency evaluation projects

During the Reporting Period, the Company has obtained the approval for the consistency evaluation for a total of 13 varieties (16 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	Neostigmine Methylsulfate Injection	Supplementary Application	Anticholinesterase drugs	Yes	No	Approved
2	Indapamide Tablets	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
3	Oxytocin Injection (2 enterprises)	Supplementary Application	Polypeptide hormones uterine tonic drugs	Yes	No	Approved
4	Ketotifen Fumarate Tablets	Supplementary Application	Antihistamine drugs	Yes	No	Approved
5	Diazepam Tablets (2.5mg, 5mg)	Supplementary Application	Nervous system drugs	Yes	No	Approved
6	Azithromycin for Injection	Supplementary Application	Anti-infective drugs	Yes	No	Approved
7	Diclofenac Sodium Sustained Release Tablets	Supplementary Application	Nonsteroidal anti-inflammatory drugs	Yes	No	Approved
8	Bupivacaine Hydrochloride Injection	Supplementary Application	Anaesthetic	Yes	No	Approved
9	Metaraminol Bitartrate Injection	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
10	Phenylephrine Hydrochloride Injection	Supplementary Application	Cardiovascular drugs	Yes	No	Approved
11	Thymalfasin for Injection	Supplementary Application	Immunomodulatory drugs	Yes	No	Approved
12	Alprazolam Tablets	Supplementary Application	Nervous system drugs	Yes	No	Approved
13	Aciclovir Tablets (0.1g, 0.2g)	Supplementary Application	Antiviral drugs	Yes	No	Approved

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

Management Discussion and Analysis

(5) During the Reporting Period, drugs (products) submitted to the supervision department for approval or obtained approval

① Information about submitting and approval

During the Reporting Period, a total of 6 drugs (including different varieties and specifications, see below) of the Company have been applied for production.

Drugs (products) submitted to the state drug supervision department for approval					
No.	Drugs (products) submitted to the state drug supervision department for approval	Approval matters	Application No.	Indications	Classification of registration
1	X842 Capsule	Production application	CXHS2300027	Reflux esophagitis	Class 1 of chemicals drug
2	SPH3127 Tablets	Production application	CXHS2300055	Hypertension	Class 1 of chemicals drug
3	Formoterol Fumarate Inhalation Solution	Production application	CYHS2301674	Respiratory system drugs	Class 3 of chemicals drug
4	Methotrexate Injection, Pre-filled Syringe	Production application	CYHS2301523 CYHS2301524 CYHS2301525	Antitumor drugs	Class 4 of chemicals drug
5	Omeprazole and Sodium Bicarbonate for Suspension (II)	Production application	CYHS2300722	Digestive system drugs	Class 3 of chemicals drug
6	Pregabalin Extended Release Tablets	Production application	CYHS2300016	Analgesics	Class 3 of chemicals drug

② Information on approval

During the Reporting Period, the Company obtained Clinical Trial Approval (藥物臨床試驗批准通知書) for 10 drugs and obtained the Drug Registration Certificate (藥品註冊證書) for 6 drugs.

No.	Drugs (products) that obtained approval	Approval matters	Approval No./ Notice No.	Indications	Classification of registration
1	WST01	Clinical	29173	Weight management	Biological products
2	Recombinant Human Adenovirus Type 5 Injection	Clinical	2023LP01331	Malignant peritoneal effusion	Class 2.2 of biological products for therapeutic use
3	WST04	Clinical	2023LP02452	Advanced malignant solid tumors	Class 1 of biological products for therapeutic use
4	B019	Clinical	2023LP02188	Relapsed or refractory B-lymphocyte tumors	Biological products for therapeutic use
5	I039	Clinical	2023LP01501 2023LP01502	Ulcerative colitis	Class 1 of chemicals drug
6	I035	Clinical	2023LP02304 2023LP02305 2023LP02306	Inflammatory bowel disease	Class 1 of chemicals drug
7	Pyridostigmine Bromide Extended Release Tablet	Clinical	2023LP00758	Myasthenia gravis	Class 3 of chemicals drug
8	Celecoxib Capsules (I)	Clinical	2023LP00731	Nonsteroidal antiinflammatory drugs	Class 2.2 of chemicals drug
9	NJ-2021-002(M)	Clinical	2023LP00099 2023LP00100 2023LP00101 2023LP00102	Diabetic foot	Class 2.2 and 2.4 of chemicals drug
10	NJ-2021-002(S)	Clinical	2023LP00652 2023LP00653 2023LP00654	Burn injury	Class 2.2 and 2.4 of chemicals drug
11	Bivalirudin For Injection	Production	Guoyaozhunzi No. H20233081	Anticoagulant	Class 4 of chemicals drug
12	Lacosamide Oral Solution	Production	Guoyaozhunzi No. H20234264	Anti-epileptic drugs	Class 4 of chemicals drug
13	Lacosamide Injection	Production	Guoyaozhunzi No. H20234250	Anti-epileptic drugs	Class 4 of chemicals drug
14	Magnesium Sulfate Injection	Production	Guoyaozhunzi No. H20233060	Anticonvulsant drugs	Class 3 of chemicals drug
15	Capecitabine Tablets	Production	Guoyaozhunzi No. H20233900	Anti-tumor drugs	Class 4 of chemicals drug
16	Memantine Hydrochloride Tablets	Production	Guoyaozhunzi No. H20234003 Guoyaozhunzi No. H20204004	Alzheimer's disease	Class 4 of chemicals drug

Management Discussion and Analysis

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

5. Cash flows

During the Reporting Period, the net cash flow generated from operating activities of Shanghai Pharmaceuticals was RMB5.232 billion; the net cash flow generated from investing activities was RMB-2.492 billion; and the net cash flow generated from financing activities was RMB232 million. The net cash flow generated from operating activities accounted for 101.26% of net profit.

Assets and liabilities

Unit: RMB

Item	Current Ending Amount	Proportion of Ending Amount to Total Assets (%)	Last Ending Amount	Proportion of Last Ending Amount to Total Assets (%)	Change ratio of Current Ending Amount to Last Ending Amount (%)	Explanation
Derivative financial assets	2,596,393.11	0.001	4,820,057.40	0.002	-46.13	Decrease in fair value of forward foreign exchange contract held during the Reporting Period
Receivables financing	2,320,106,012.96	1.095	1,627,386,138.71	0.821	42.57	Increase in bank acceptance bills held during the Reporting Period
Other receivables	3,381,133,896.89	1.60	2,574,814,141.06	1.30	31.32	Increase in other receivables held during the Reporting Period
Non-current assets due within one year	77,420,057.49	0.04	185,619,908.99	0.09	-58.29	Decrease in long-term receivables due within one year during the Reporting Period
Other equity instruments investment	55,416,725.20	0.03	101,487,525.55	0.05	-45.40	Decrease in fair value of financial assets during the Reporting Period
Derivative financial liabilities	2,316,492.78	0.001	1,569,907.10	0.0008	47.56	Increase in fair value of derivative financial liabilities held during the Reporting Period
Provisions	39,585,088.27	0.019	23,978,898.02	0.01	65.08	Increase in provisions for pending litigations 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	291,251.57
Increase or decrease in amount of investment	-20,110.75
Amount of investment in the same period of last year	311,362.32
Percentage of increase or decrease in amount of investments (%)	-6.46

2. Major equity investment

As at 31 December 2023, the Company did not have any significant investment under paragraph 32(4A) of Appendix D3 to the Hong Kong Listing Rules.

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	848.44	192.23	1,437.42	24.55
SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Sales of drugs	100.00%	13.00	361.63	91.91	563.65	10.69
SPH Sine Pharmaceutical Factory Co., Ltd.	Production and sales of drugs	100.00%	11.92	70.40	38.33	48.53	5.96
SPH No. 1 Biochemical & Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	2.25	28.46	4.42	30.62	-7.61
SPH New Asia Pharmaceutical Co., Ltd.	Production and sales of drugs	96.90%	10.52	20.46	10.93	15.02	-1.45
Shanghai TCM Co., Ltd.	Production and sales of drugs	100.00%	14.76	86.43	49.11	75.08	5.31
Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Production and sales of drugs	75.00%	1.29	38.82	28.31	12.85	-0.62
SPH Changzhou Pharmaceutical Co., Ltd.	Production and sales of drugs	75.89%	1.58	52.34	29.37	63.10	2.61
SPH Zhongxi Sunve Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	5.46	39.79	32.08	11.88	5.49
SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Production and sales of drugs	67.52%	0.93	18.26	11.47	19.62	1.77
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Production and sales of drugs	51.01%	1.35	12.04	9.15	10.81	1.90
Xiamen TCM Factory Co., Ltd.	Production and sales of drugs	61.00%	2.00	6.83	5.44	7.36	1.00
Liaoning Herbex Pharmaceutical (Group) Co., Ltd.	Production and sales of drugs	55.00%	1.02	11.33	3.63	9.24	0.90
Shanghai Zhonghua Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.94	5.05	2.69	3.11	-0.23
Shanghai Medical Instruments Co., Ltd.	Production and sales of medical instruments	100.00%	3.27	7.52	5.97	4.70	0.39
Shanghai Pharma Sales Co., Ltd.	Sales of drugs	100.00%	0.50	13.68	1.35	13.60	0.41
TECHPOOL Bio-pharma Co., Ltd.	Production and sales of drugs	67.14%	1.00	24.02	18.38	17.28	2.77
SPH Changzhou Kony Pharmaceutical Co., Ltd.	Production and sales of drugs	100.00%	0.15	3.71	2.76	2.11	0.23

DISCUSSIONS AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

Industry landscape and development trends

2024 is a critical year for implementing the guiding principles of the 20th National Congress of the CPC and fully implementing the "14th Five-Year Plan". The pharmaceutical industry will continue the development trend of the "14th Five-Year Plan" period. (For details, please refer to the paragraph headed "Development stage and cyclical characteristics of the industry in which the Company was engaged during the Reporting Period" above)

Development Strategy

The Company 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”.** The Company continued to strengthen R&D investment and built a product chain that meets new clinical needs and with technological advantages through various ways including independent research and development, M&A and introduction, incubation and cultivation; vigorously promoted the construction of existing research and development platforms and promoted the construction and layout of domestic and foreign innovation platforms in an orderly manner; established a high-quality R&D team, accelerated the introduction of high-end leading talents and expanded the medical affairs, clinical trial operation management and drug registration talents. The Company continued to promote the establishment of open research and development platforms with domestic universities, research institutes, hospitals, etc., and continued to enrich its product line and increase technical ability levels. The Company vigorously promoted the innovation of the service content and service model of pharmaceutical service, further strengthened the development of advantageous businesses such as drug import services, medical institution supply chain, prescription extension services, and supplier value-added services, and actively used modern information technologies such as cloud computing and big data to continue to innovate business model.
- **Focusing on “international development”.** The Company will accelerate the pace of international development, actively participate in international competition, and seek a breakthrough by exporting preparations passing the certification of European and the U.S.A. and reaching the internationally advanced level. “Expanding generic drugs and actively deploying innovative drugs” is a strategic measure for international development, strengthening the systemic ability of the Company’s preparation products in international registration and sales. The Company will strengthen overseas R&D cooperation with a global perspective, monitor overseas M&A projects with major markets, and seek opportunities for pharmaceutical investment and export in countries along the “Belt and Road”.
- **With the help of “combination between industry and finance”.** The Company will deepen the operation of integrated production and financing, expand various financing channels and investment methods, ensure that the Company maintains a good capital structure, and improve investment and financing efficiency.
- **Rooted in “intensive development”.** In the pharmaceutical manufacturing segment, the Company will gradually transform and upgrade to an R&D pharmaceutical company driven by technological innovation. To realize that, the Company will continue to improve the management system for efficient and close collaboration in marketing, manufacturing, research and development, and investment, strengthen the professional capacity building of vertical integration management within the Group and enhance the competitiveness of the product portfolio market in the focused fields. In the pharmaceutical service sector, the Company will accelerate the integration of commercial network layout and internal resource, improve the synergy between business and resources, vigorously promote the construction of provincial platforms, accelerate the downward extension of terminal service networks, actively expand featured businesses, strengthen regional leading advantages, and conduct sound management in key provinces guided by “one province, one strategy”, further improve the construction of the logistics system, orderly promote the storage and logistics upgrade project, strengthen business process optimization and resource sharing, do a good job in innovation business and risk management and control, promote the transition from traditional supply chain services to technology-based health services centering on “technology + finance + services”, and gradually transform into a service-driven and technology-driven modern health service provider.

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

Business Plan

In 2024, the Company will fully, accurately and comprehensively implement the new development concept, adhere to the principle of “seeking progress while maintaining stability, promoting stability with progress and establishing the new before abolishing the old”, focus on the goal of “accelerating the construction of a Chinese leading pharmaceutical company with international competitiveness”, strengthen confidence, unify thoughts, deepen reform, innovate and develop, strive to improve the core competitiveness of enterprises, enhance core functions, and endeavor to achieve effective improvement in quality and reasonable growth in quantity, promoting high-quality development to a new level.

- In terms of scientific and technological innovation, the Company will continue to adhere to the guidance of scientific and technological innovation, improve the scientific, advanced, open and diversified innovation system, carry out real and effective R&D innovation in a down-to-earth manner and strive to achieve a breakthrough in the research and development of innovative drugs.
- In terms of manufacturing development, the Company will solidly build its own marketing system in the manufacturing sector with complete functions, a capable team and the ability to carry out marketing activities for major products and innovative drugs, and continue to create an excellent manufacturing system around “guaranteeing supply, improving quality, reducing costs and increasing efficiency” and continuously improve the level of intensive, intelligent and green development of the pharmaceutical manufacturing.
- In terms of commercial channels, the Company will promote the coordinated and integrated development of service segment business and resources, continue to expand the development of innovative business in multiple fields and channels, further expand the scale of operations and improve the quality of operations.
- In terms of investment and mergers and acquisitions, the Company will optimize investment and mergers and acquisitions strategies, accelerate product-focused mergers and acquisitions and focus on strengthening business capabilities and weak links in the industrial chain.
- In terms of talent team, the Company will further improve the manpower system, optimize the layout of talents, focus on leading talents, compound talents and related professional skills talent reserve and improve the quality of talents.

Potential risk factors

In consideration of the impact of geopolitics and international economic situation, the business development of international trade, international investment and import of bulk raw materials may face fluctuation risks in the short term.

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

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

Impairment test for goodwill is based on the forecast of future cash flow and contains the management's relevant assumptions and professional judgments. Goodwill is exposed to certain risks of impairment. For possible risks, the Company will actively propose solutions to lower their overall effect on the business of the Company.

Report of the Board of Directors

The board of directors of the Company (the “Board” or the “Board of Directors”) is pleased to present its report together with the audited annual financial statements of the Group for the year ended 31 December 2023. The annual report has been reviewed by the audit committee of the Company and approved at the 7th meeting of the eighth 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 5 (1) to the financial statements. During the Reporting Period, there were no significant changes in the nature of the Group’s principal business.

BUSINESS REVIEW

The details of Business review (including major risks and uncertainties of relevant business and its likely future developments), please refer to the chapter headed “Management Discussion and Analysis” above.

RESULTS AND DIVIDEND

The profit of the Group for the year ended 31 December 2023 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 2023: The Company proposes to distribute cash dividend of RMB4.10 (tax inclusive) for every ten Shares to all shareholders. As at the 31 December 2023, total proposed cash dividend of RMB1,518,353,432.14 (tax inclusive) shall be distributed based on 3,703,301,054 shares of the total share capital of the Company, accounting for 40.30% 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 RMB32,303,979,456.17. During the Reporting Period, there is no conversion of capital reserve into share capital of the Company.

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

Report of the Board of Directors

The above profit distribution plan needs to be approved by the 2023 annual general meeting of the Company.

Cash dividend of H Shares is expected to be paid before 30 August 2024. The Company will publish 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 2023 was RMB2,074,708,835.61 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 2023 are set out in the Note 15 (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 “2023 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 RMB14,744.28 million, accounting for 5.66% of the total sales for the year; the sales to the related parties among the sales to the five largest customers was RMB3,945.40 million, accounting for 1.52% of the total sales for the year.

The aggregate purchase from the five largest suppliers was RMB23,850.59 million, accounting for 10.42% of the total purchase for the year; the purchase from the related parties among the purchase from the five largest suppliers was RMB0, accounting for 0% 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.

Report of the Board of Directors

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a confirmation of independence pursuant to Rule 3.13 of the Hong Kong Listing Rules from each of the independent non-executive directors (namely Gu Zhaoyang, Manson Fok and Wang Zhong) and the Company considers such directors to be independent during the Reporting Period.

INTEREST OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

As of 31 December 2023, 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 for the service contracts of management of the Company.

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

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

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

Unit: Share

Name of shareholders	Increase/ Decrease during the Reporting Period	Number of Shares held at the end of the Reporting Period	Shareholding percentage (%)	Number		Nature of shareholders
				of trade restricted Shares held	Pledged or frozen	
Shanghai Pharmaceutical (Group)	0	716,516,039	19.348	0	Nil	State-owned legal person
HKSCC NOMINEES LIMITED ^{note 1}	-16,783,600	673,982,524	18.200	0	Unknown	Foreign legal person
Yunnan Baiyao	0	665,626,796	17.974	665,626,796	Nil	State-owned legal person
SIIC and its wholly-owned subsidiaries and Shanghai Shangshi and its wholly- owned Subsidiaries ^{note 2}	16,808,600	629,987,798	17.012	187,000,000	Nil	State-owned legal person
Hong Kong Securities Clearing Company Limited ^{note 3}	32,417,216	84,031,724	2.269	0	Unknown	Foreign legal person
Guosheng Group	0	44,632,100	1.205	0	Nil	State-owned legal person
China Securities Finance Corporation Limited	-17,988,700	41,330,543	1.116	0	Unknown	State-owned legal person
China Construction Bank Corporation-E fund CSI 300 Medical and Healthcare Trading Open-end Index Securities Investment Fund	Unknown	16,734,637	0.452	0	Unknown	Unknown
Yinhua Fund – Agricultural Bank – Yinhua China Securities and Financial Assets Management Program	-106,800	11,601,222	0.313	0	Unknown	Unknown
Industrial and Commercial Bank of China Company Limited – CSI Shanghai State- owned Exchange Traded Open-end Index Securities Investment Fund	2,973,931	10,839,871	0.293	0	Unknown	Unknown

Report of the Board of Directors

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 220,686,000 H Shares held by SIIC's wholly-owned subsidiaries and 23,515,100 H Shares held by Guosheng Group through Southbound Trading. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

Note 2: The 187,000,000 A Shares held by Shanghai Tandong are included in the number of Shares held by Shanghai Shangshi and its wholly-owned subsidiaries. The number of shares held by Shanghai Pharmaceutical (Group) is not included.

Note 3: Hong Kong Securities Clearing Company Limited is the nominee holder of the RMB ordinary Shares under Shanghai-Hong Kong Stock Connect.

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

As at 31 December 2023, according to the information available to the Company and to the knowledge of the Directors, the following shareholders had interests or short positions in the Shares or underlying Shares which were subject to disclosure by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 5% or more of the voting rights of the total number of the issued A Shares or H Shares at the general meetings of the Company. Interests and short positions of Directors, Supervisors and Chief Executive are set out in the "Chapter 7 Directors, Supervisors and Senior Management".

Name of shareholders	Class of Shares	Nature of interests in shares	Number of shares	Percentage of	
				H Shares held as at the end of the Reporting Period to the entire issued A Shares/ H Shares (%)	Percentage in total share capital of the Company as at the end of the Reporting Period (%)
SIIC group ^{Note 1(1)}	A Shares/H Shares	Interests of controlled corporations	1,346,503,837(L)	40.44 (A shares)/ 24.01 (H shares)	36.36
Shanghai Shangshi Group ^{Note 1(2)}	A Shares	Beneficial owner/ Interests of controlled corporations	1,125,317,837(L)	40.42	30.39
Shanghai Pharmaceutical (Group)	A Shares	Beneficial owner	716,516,039(L)	25.73	19.35
Yunnan Baiyao	A Shares	Beneficial owner	665,626,796(L)	23.91	17.97
BlackRock, Inc.	H Shares	Interests of controlled corporations	64,034,575(L)	6.97	1.73

(L) represents long position

- 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 1,346,503,837 Shares of the Company in total (including A Shares and H Shares), of which 500,000 A Shares and 220,686,000 H Shares were directly held by SIIC group, and 1,125,317,837 A Shares were indirectly held by SIIC through Shanghai Shangshi Group.
 - (2) Shanghai Shangshi is a wholly-owned subsidiary of the Shanghai SASAC. Shanghai Shangshi Group refers to Shanghai Shangshi and its wholly-owned subsidiaries. Shanghai Shangshi holds 60% equity interests in Shanghai Pharmaceutical (Group) and is therefore deemed to hold Shares of the Company through Shanghai Pharmaceutical (Group). As at the end of the Reporting Period, out of the 1,125,317,837 A Shares held by Shanghai Shangshi Group in the Company, 221,801,798 A Shares were directly held by Shanghai Shangshi, while 716,516,039 A Shares were indirectly held by Shanghai Shangshi through Shanghai Pharmaceutical (Group) and 187,000,000 A Shares were indirectly held by Shanghai Shangshi through Shanghai Tandong.
 - (3) As at the end of the Reporting Period, Shanghai Pharmaceutical (Group) is held as to 60% by Shanghai Shangshi and as to 40% by S.I. Yangtze River Delta. S.I. Yangtze River Delta is held as to 50% by Shanghai Industrial and as to 50% by Shanghai Overseas Company. SIIC held approximately 62.9% equity interest in Shanghai Industrial and was authorized to manage Shanghai Overseas Company.
- Note 2:
- (1) Figures disclosed above are based on the information provided on the website of the Hong Kong Stock Exchange (www.hkexnews.hk);
 - (2) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file a disclosure of interests form when certain conditions are fulfilled. When a shareholding in the Company changes, it is not necessary for the Shareholder to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, therefore a shareholder's latest shareholding in the Company may be different from the shareholding filed with the Hong Kong Stock Exchange;
 - (3) Save as disclosed above, as at 31 December 2023, the Company was not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

SHARE OPTION SCHEME

On 18 December 2019, the Company's 2019 share option incentive scheme (the "Option Incentive Scheme") was considered and approved by the shareholders of the Company at the 2019 first extraordinary general meeting, the 2019 second H-share class meeting, and the 2019 second A-share class meeting (the "General Meetings") and adopted by the Company. On 19 December 2019 (the "Initial Options Grant Date") pursuant to shareholders' authorization, the Board approved the grant of 25,680,000 share options to 211 participants. Due to the resignation of employee, the Company considered and approved at the meeting of the Board on 10 February 2020 to adjust the number of the initial participants from 211 to 210 and the number of initial granted options was adjusted from 25,680,000 to 25,600,000 accordingly. On 15 December 2020 ("Reserved Options Grant Date", together with "Initial Options Grant Date" collectively referred to as "Grant Date"), pursuant to shareholders' authorization, the Board approved the grant of 2,730,000 share options to 28 participants.

Due to the resignation or unfulfillment of performance assessment requirements of some employees, on 5 January 2022, the Board of the Company considered and approved 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; on 9 January 2023, the Board considered and approved to adjust the number of the initial participants from 190 to 182 and the number of initial granted options was adjusted from 23,258,120 to 22,735,520 accordingly and the number of participants of reserved options was adjusted from 28 to 23 and the number of reserved options was adjusted from 2,730,000 to 2,290,000 accordingly; on 21 December 2023, the Board considered and approved to adjust the number of the initial participants from 182 to 170 and the number of initial granted options was adjusted from 22,735,520 to 22,065,720 accordingly.

Due to fulfillment of the exercise conditions for the first exercise period, the second exercise period and the third exercise period of the initial granted share options and fulfillment of the exercise conditions for the first exercise period, the second exercise period and the third exercise period of the reserved share options of the Option Incentive Scheme, on 5 January 2022, the Board considered and approved that 190 participants can exercise 7,667,220 share options during the first exercise period; on 9 January 2023, the Board considered and approved that 182 participants can exercise 7,421,700 share options during the second exercise period and 23 participants can exercise 755,700 share options during the first exercise period of reserved share options; on 21 December 2023, the Board considered and approved that 170 participants can exercise 6,976,800 share options during the third exercise period and 23 participants can exercise 755,700 share options during the second exercise period of reserved options. The exercise and share transfer registration in respect of total 3,342,561 shares have completed during the first exercise period for the initial granted share options under the Option Incentive Scheme which has expired on 13 February 2023. On 30 March 2023, the Board of the Company considered and approved that 4,324,659 share options that had expired but not been exercised during the first exercise period for the initial granted options under the 2019 A-share Option Incentive Scheme of the Company have been cancelled. As at 31 December 2023, 8,584,936 A-share share options were exercised by the Company.

In conclusion, as at 31 December 2023, 11,446,125 A-share share options were granted by the Company, which had not been exercised.

1. PURPOSE OF THE OPTION INCENTIVE SCHEME

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

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

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

As at 31 December 2023, 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 ^{Note 1}	Executive Director, President (resigned)	48.00	1.971%	0.017%
Shen Bo	Executive Director, President, Chief Financial Officer	39.00	1.601%	0.014%
Li Yongzhong	Executive Director, Executive President	39.00	1.601%	0.014%
Zhao Yong	Vice President	33.00	1.355%	0.012%
Mao Jianyi	Vice President	33.00	1.355%	0.012%
Gu Haoliang ^{Note 2}	Vice President (resigned)	33.00	1.355%	0.012%
Zhang Yaohua	Vice President	33.00	1.355%	0.012%
Chen Jinzhu ^{Note 3}	Vice President, Secretary to the Board, Joint Company Secretary (resigned)	33.00	1.355%	0.012%
Pan Deqing ^{Note 4}	Vice President (resigned)	18.00	0.739%	0.006%
Middle level management and core employees of the Company (161 persons in total after adjustment) under the initial grant		1,897.572	77.911%	0.668%
Middle level management and core employees (23 persons in total) under the reserved options grant		229.00	9.402%	0.081%
Total		2,435.572	100.000%	0.860%

Report of the Board of Directors

- Note 1: Mr. Cho Man has resigned from the executive director, vice president and other positions of the Company from 29 June 2023 (for details, please refer to the Company's announcement dated 30 June 2023. Except share options that granted but not exercised during the first exercise period for the initial granted options have been cancelled by the Company, his granted share options remained unchanged as at 31 December 2023.
- Note 2: Mr. Gu Haoliang ceased to be the vice president of the Company from 29 March 2022 (for details, please refer to the Company's overseas regulatory announcement dated 30 March 2022 (A share announcement Lin No. 2022-025)). His share options that granted but not exercised during the first exercise period for the initial granted options have been cancelled by the Company and share options that granted but not exercised during the second exercise period for the initial granted options shall be subsequently cancelled by the Company. Due to unfulfillment of exercise conditions, his share options granted during the third exercise period for the initial granted options have been cancelled by the Company, for details, please refer to the Company's overseas regulatory announcement dated 22 December 2023 (A share announcement Lin No. 2023- 100).
- Note 3: Ms. Chen Jinzhu ceased to be the vice president of the Company from 29 March 2022, and ceased to be the secretary to the Board and joint company secretary of the Company from 29 August 2022. For details, please refer to the Company's overseas regulatory announcement dated 30 March 2022 (A share announcement Lin No. 2022-025) and the Announcement on Proposed Re-election and Election of Directors and Supervisors, etc dated 29 August 2022 (A share announcement Lin No. 2022-066). Her share options that granted but not exercised during the first exercise period for the initial granted options have been cancelled by the Company and share options that granted but not exercised during the second exercise period for the initial granted options shall be subsequently cancelled by the Company. Due to unfulfillment of exercise conditions, her share options granted during the third exercise period for the initial granted options have been cancelled by the Company, for details, please refer to the Company's overseas regulatory announcement dated 22 December 2023 (A share announcement Lin No. 2023- 100).
- Note 4: Mr. Pan Deqing ceased to be the vice president of the Company on 2 September 2023 (for details, please refer to the Company's overseas regulatory announcement dated 2 September 2023 (A share announcement Lin No. 2023-071)). His share options that granted but not exercised during the first exercise period for the initial granted options have been cancelled by the Company and share options that granted but not exercised during the second exercise period for the initial granted options shall be subsequently cancelled by the Company. Due to unfulfillment of exercise conditions, his share options granted during the third exercise period for the initial granted options have been cancelled by the Company, for details, please refer to the Company's overseas regulatory announcement dated 22 December 2023 (A share announcement Lin No. 2023- 100).

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 24,355,720, 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 of the Option Incentive Scheme by the General Meetings (being 18 December 2019) on a cumulative basis.

5. VESTING PERIOD

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

6. EXERCISE PERIOD AND EXERCISE DATE

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

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

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

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

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

7. EXERCISE PRICE

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

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 2023 are as follows:

Name	Position(s)	Number							Grant Date	Exercise period	Exercise Price	The weighted average closing price of A shares of the Company immediately before the exercise date during The Reporting Period
		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 option Exercised during the Reporting Period (in 10,000 A Shares)	Number of option cancelled during the Reporting Period (in 10,000 A Shares)	Number of options lapsed during the Reporting Period (in 10,000 A Shares)	Number of options outstanding during the Reporting Period (in 10,000 A Shares)				
Cho Man	Executive Director, President (resigned)	48.00	0	31.68	0	-15.84	0	32.16	19 December 2019	From 14 February 2022 to 13 February 2025	RMB18.41 per A Share	
Li Yongzhong	Executive Director, Executive President	39.00	0	25.74	0	-12.87	0	26.13				
Shen Bo	Executive Director, President, Chief Financial Officer	39.00	0	25.74	0	-12.87	0	26.13				
Zhao Yong	Vice President	33.00	0	21.78	0	-10.89	0	22.11				
Mao Jianyi	Vice President	33.00	0	21.78	0	-10.89	0	22.11				
Zhao Yaohua	Vice President	29.00	0	17.78	0	-6.89	0	22.11				
Pan Deqing	Vice President (resigned)	18.00	0	11.88	0	-12.06	0	5.94				
Resigned senior executives (2 members)		66.00	0	43.56	0	-44.22	0	21.78				
Middle level management and core employees of the Company (161 persons in total after adjustment) under the initial grant		1,737.8066	0	1,025.9466	-548.5136	-425.1759	0	764.1171				RMB21.91
Middle level management and core employees (23 persons in total) under the reserved options grant		273.00	0	75.57	-26.9746	-44.00	0	202.0254	15 December 2020	From 8 February 2023 to 7 February 2026	RMB20.16 per A share	RMB22.54
Total		2,315.8066	0	1,301.4566	-575.4882	-595.7059	0	1,144.6125				

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.

As of 31 December 2023, exercise conditions for the second exercise period of the initial granted share options for 182 participants under the 2019 Option Incentive Scheme of the Company and exercise conditions for the first exercise period of the reserved share options for 23 participants had been fulfilled. According to the exercise arrangement for the Option Incentive Scheme of the Company, exercisable options for the second exercise period accounted for 33% of the granted share options, and exercisable options for the first exercise period of reserved share options accounted for 33% of the granted share options, that is, 182 participants under the Share Option Scheme of the Company can exercise 7,421,700 share options in total during the second exercise period. The closing date for the exercise of share options was 13 February 2024. 23 participants for the reserved share options can exercise 755,700 share options in total for the first exercise period. The closing date for the exercise of share options was 7 February 2024.

As of 31 December 2023, exercise conditions for the third exercise period of the initial granted share options for 170 participants under the 2019 Option Incentive Scheme of the Company and exercise conditions for the second exercise period of the reserved share options for 23 participants had been fulfilled. According to the exercise arrangement for the Option Incentive Scheme of the Company, exercisable options for the third exercise period accounted for 34% of the granted share options, and exercisable options for the second exercise period of the reserved share options accounted for 33% of the granted share options, that is, 170 participants under the Share Option Scheme of the Company can exercise 6,976,800 share options in total during the third exercise period. The closing date for the exercise of share options was 13 February 2025. 23 participants for the reserved share options can exercise 755,700 share options in total during the second exercise period. The closing date for the exercise of share options was 7 February 2025.

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

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

(1) *Value of share options*

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

Initial Grant

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

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

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

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

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)

(2) Accounting policies in relation to share options

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

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

11. SHARES ISSUED IN RESPECT OF ALL SHARE OPTIONS AND AWARDS GRANTED UNDER THE SHARE SCHEME

During the Reporting Period, 13,014,566 A shares in respect of all share option incentive schemes of the Company can be issued, representing 0.468% of the weighted average number of A shares issued during the Reporting Period.

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 2023, the Company has not entered into any equity-linked agreement.

PERMITTED INDEMNITY PROVISIONS APPROVED FOR DIRECTORS AND SUPERVISORS

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

PURCHASE, SALES AND REDEMPTION OF SHARES

During the period from January to December 2023, none of the Company or its subsidiaries purchased, sold or redeemed any listed Shares of Shanghai Pharmaceuticals.

ISSUANCE OF EQUITY SECURITIES

During the Reporting Period, 5,754,882 shares that have been exercised under the 2019 Option Incentive Scheme of the Company completed the share transfer registration and the Company issued 5,754,882 A shares accordingly. Save as disclosed above, the Company did not issue any equity securities during the Reporting Period.

PUBLIC FLOAT

As at 31 December 2023, the total share capital of the Company was 3,703,301,054 Shares (2,784,228,350 A Shares and 919,072,704 H Shares), including 2,850,592,658 Shares without trade restrictions (1,931,519,954 A Shares and 919,072,704 H Shares). During the Reporting Period and as at the date of this report, the Company has sufficient public float to meet the minimum public float requirements stipulated under the Securities Law of the People's Republic of China and the Hong Kong Listing Rules.

PRE-EMPTIVE RIGHTS

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

DISCLOSEABLE CONTINUING CONNECTED TRANSACTION UNDER THE HONG KONG LISTING RULES

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

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

In 2023, 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 2023 connected transaction	Annual cap for the 2023 connected transaction
During the period from January to December 2023	Shanghai Pharmaceutical (Group) and its subsidiaries	Leasing premises and production equipment from connected persons	Housing, machinery leasing and property service	4,408.37	10,000.00
		Leasing premises and production equipment from connected persons	The value of the use right assets involved	2,619.91	18,000.00

Note: For details, please refer to Company's announcement dated 30 October 2020 in relation to entering into the Property leasing Framework Agreement (A share announcement Lin No. 2020-061). As Shanghai Pharmaceutical (Group) is the Controlling Shareholder of the Company, Shanghai Pharmaceutical (Group) and its subsidiaries are connected persons of the Company, and the transaction constitutes a continuing connected transaction (as defined under Chapter 14A of the Hong Kong Listing Rules, the same as below).

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

The Company approved the Proposal regarding the Renewal of Financial Services Agreement with Shanghai Shangshi Group Finance Co., Ltd. and Daily Related Transactions/Continuing Connected Transactions at the 2021 annual general meeting held on 30 June 2022. The agreement is effective from the date of the 2021 annual general meeting to 31 December 2024. During the term of the agreement, the maximum daily balance of deposits of the Group with the Finance Company from the date of the 2021 annual general meeting to 31 December 2022 and for the years ended 31 December 2023 and 31 December 2024, shall not exceed RMB4.0 billion, RMB4.5 billion and RMB5.0 billion, respectively, and the maximum outstanding balance of comprehensive credit facilities provided to the Group by the Finance Company shall not exceed RMB6.0 billion.

In 2023, 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 to the actual amount of deposit service was higher than 5%. Therefore, the transaction shall be subject to reporting, annual review, announcement and independent shareholders' approval requirements. Actual loan services were conducted on normal business terms, and the Group did not grant any of its assets to the Finance Company as securities for such loan services; the highest applicable percentage ratio for actual settlement and financial services provided by connected company, calculated on an annual basis, were less than 0.1%. Details are as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2023 connected transaction	Annual cap for the 2023 connected transaction
During the period from January to December 2023	Finance Company	Deposit service provided by connected company	Deposit service (maximum daily balance)	42.12	45

Note: For details, please refer to Company's announcement dated 30 March 2022 in relation to the renewal of financial services agreement and the Company's announcement dated 1 July 2022 in relation to poll results of general meetings (A share announcements Lin No. 2022-027, 053); as the Company holds 30% of the equity interests in the Finance Company, and the shareholding in Finance Company by Shanghai Shangshi, the Controlling Shareholder of the Company, is more than 10%, the Finance Company is a commonly held entity and connected person of the Company. This transaction constitutes a continuing connected transaction.

Report of the Board of Directors

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

The Company approved the Proposal regarding the Renewal of Procurement Framework Agreement and the Daily Related Transactions/Continuing Connected Transactions with Wing Fat Printing Co., Ltd. at the 35th meeting of the seventh session of the Board of Directors held on 27 October 2022 and entered into the Procurement Framework Agreement with Wing Fat Printing with a valid term from 1 January 2023 to 31 December 2023. During the term of the agreement, the Wing Fat Group will provide printed packaging materials for pharmaceutical products to the Group with an annual cap of RMB90 million for the purchase amount.

In 2023, as the actual amount of continuing connected transactions between the Group and Wing Fat Group under the Procurement Framework Agreement did not exceed the aforementioned maximum amount approved by the Board, and the maximum applicable percentage ratio of the actual amount exceeded 0.1% but was less than 5%, and was subject to the reporting, annual review and announcement requirements but exempt from independent shareholders’ approval requirement with details as below:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2023 connected transaction	Annual cap for the 2023 connected transaction
During the period from January to December 2023	Wing Fat Printing Group	Procure the printed packaging materials from connected companies	Printed packaging materials	0.52	0.9

Note: For details, please refer to Company’s announcement dated 28 October 2022 in relation to entering into the Procurement Framework Agreement (A share announcement Lin No. 2022-081). As SIIC is the controlling shareholder of the Company as well as Shanghai Industrial, and Wing Fat Printing is an indirect non-wholly owned subsidiary of Shanghai Industrial, Wing Fat Printing is a connected person of the Company and such transaction constituted a continuing connected transaction.

Sales and Procurement Framework Agreement between the Company and Yunnan Baiyao

The Company approved the Proposal regarding the Renewal of Framework Agreement and the Daily Related Transactions/Continuing Connected Transactions with Yunnan Baiyao at the 37th meeting of the seventh session of the Board of Directors held on 30 March 2023 and entered into the Sales and Procurement Framework Agreement with a valid term until 31 December 2023. For the year ended 31 December 2023, the Group agrees to sell to Yunnan Baiyao the medicines, medical devices, health care products and food products that the Group produces or is the main distributor, with a cap of RMB1,031 million for the sales amount; and the Group agrees to procure from Yunnan Baiyao the medicines, medical devices, health care products and food products that it produces or is the main distributor, with a cap of RMB460 million for the purchase amount.

In 2023, the actual amount of continuing connected transaction between the Group and the Yunnan Baiyao under the Sales and Procurement Framework Agreement did not exceed the above-mentioned maximum amount approved by the Board, and the highest applicable percentage ratio corresponding to the actual amount was higher than 0.1% but less than 5%. Therefore, the transaction is only subject to reporting, annual review and announcement requirements, and is exempt from independent shareholders' approval requirements. Details are as follows:

Unit: RMB100 million

Date of transaction	Party of connected transaction	Types of connected transaction	Subject of connected transaction	Actual amount of the 2023 connected transaction	Annual cap for the 2023 connected transaction
During the period from January to December 2023	Yunnan Baiyao	Sell products to connected companies	Sell the medicines, medical devices, health care products and food products	6.16	10.31
		Purchase products from connected companies	Purchase the medicines, medical devices, health care products and food products	4.06	4.60

Note: For details, please refer to Company's announcement dated 31 March 2023 in relation to entering into the 2023 Sales and Procurement Framework Agreement (A share announcement Lin No. 2023-026). Yunnan Baiyao is a substantial shareholder of the Company, therefore, Yunnan Baiyao is a connected person of the Company and such transaction constitutes a continuing connected transaction.

CONFIRMATION OF CONTINUING CONNECTED TRANSACTIONS

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

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

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

Report of the Board of Directors

- no transactions were entered into without approval of the board of directors of the Company;
- no transactions that involved the provision goods 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.

SIGNIFICANT RELATED PARTIES

Please refer to Note 7 (5) to the financial statements for the information on related party transactions of the Group. The transactions that constitute related party transactions under Chapter 14A of the Hong Kong Listing Rules have been disclosed in the “Discloseable Continuing Connected Transaction under the Hong Kong Listing Rules” section above and have complied with the provisions of Chapter 14A of the Hong Kong Listing Rules. Except as disclosed above, other related party transactions do not constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Refer to the “2023 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 2023 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.

RELEVANT INFORMATION OF THE CORPORATE BONDS

During the year ended 31 December 2023, the Company has not issued, repurchased, sold or redeemed bonds.

CAPITAL STRUCTURE AND LIQUIDITY

The asset-liability ratio (total liabilities/total assets) of Shanghai Pharmaceuticals was 62.11% as at 31 December 2023, representing an increase of 1.48 percentage points on a year-on-year basis. The interest coverage ratio (EBIT/Interest Expenses) was 4.74 times (2022: 6.21 times). The gearing ratio of the Company (net amount of debts divided by total capital) was 23.51%.

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 2023 were RMB43.713 billion, nil and RMB6.051 billion, respectively, of which the balance of loans in US Dollar amounted to RMB6 million, the balance of loans in New Zealand Dollar amounted to RMB252 million, the balance of loans (including long and short-term bonds) at a fixed interest rate amounted to approximately RMB47.463 billion. The net amount of accounts receivable and notes receivable as at 31 December 2023 was RMB74.843 billion, representing an increase of 9.16% 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 2023, the balance of accounts payable and notes payable was RMB54.632 billion, representing an increase of 5.95% 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 2023, the balance of the Group's other monetary funds was RMB3,018 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 2023, houses, buildings, machinery and equipment with a book value of RMB165 million (original price: RMB280 million) and land use rights of 506,700 square meters (original price: RMB737 million, book value: RMB695 million) were used as collateral for RMB231 million of short-term borrowings, RMB733 million of long-term borrowings, and RMB27 million of current portion of long-term borrowings.

As at 31 December 2023, the bank pledged borrowings of RMB753 million were short-term borrowings obtained by discounting commercial acceptance bills of RMB55 million, the short-term borrowings obtained by discounting bank acceptance bills of RMB134 million and the short-term borrowings obtained by using the accounts receivable with book value of RMB732 million as collaterals.

As at 31 December 2023, the Group pledged the accounts receivable with the book value of RMB142 million to the bank as a guarantee for long-term borrowings of RMB52 million and long-term borrowings due within one year of RMB90 million.

As at 31 December 2023, the equity interest in subsidiary of the Group was pledged for RMB2 million of long-term borrowings due within one year and short-term borrowings of RMB10 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 (date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Collateral (if any)	Guarantee fully fulfilled	Guarantee overdue	Overdue amount of guarantee	Any counter Guarantee	Guarantee provided to related parties	Connected relationship
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	614,208.00		2022.09.19	2023.03.19	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,559,950.12		2022.09.26	2023.03.26	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	6,616,106.70		2022.10.24	2023.01.24	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	289,065.00		2022.10.24	2023.04.24	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,224,882.27		2022.12.20	2023.03.20	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,669,900.47		2022.12.20	2023.06.20	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	400,297.80		2022.10.24	2023.04.24	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	33,880.00		2022.12.06	2023.03.06	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	5,029,579.38		2023.02.22	2023.05.22	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	70,308.00		2023.02.22	2023.08.22	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	3,665,873.65		2023.06.16	2023.09.12	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	331,190.16		2023.07.26	2023.10.26	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	3,127,422.31		2023.06.16	2023.12.12	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	4,892,783.40		2023.07.26	2024.01.26	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	99,102.64		2023.08.10	2023.11.10	Joint guarantee		Yes	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	2,571,009.90		2023.08.10	2024.02.10	Joint guarantee		No	No		Nil	No	Associate
Shanghai Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	3,329,784.34		2023.07.26	2024.01.26	Joint guarantee		No	No		Nil	No	Associate
Total value guaranteed during the Reporting Period (excluding those provided to its subsidiaries)													23,117,053.77	
Total remaining balance guaranteed at the end of the Reporting Period (A) (excluding those provided to its subsidiaries)													10,793,577.64	

Report of the Board of Directors

Guarantees provided by the Company and its subsidiaries to its subsidiaries	
Total value guaranteed for its subsidiaries during the Reporting Period	7,532,758,773.28
Total remaining balance guaranteed for its subsidiaries at the end of the Reporting Period (B)	5,122,209,529.60
Total value guaranteed by the Company (including guarantees to subsidiaries)	
Total value guaranteed (A+B)	5,133,003,107.24
Proportion of total value guaranteed in the Company's net assets (%)	7.49%
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)	4,101,348,317.84
Amount of total value guaranteed exceeding 50% of net assets (E)	
Total of value guaranteed for the above three items (C+D+E)	4,101,348,317.84
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	205
Number of in-service employees of the major subsidiaries	47,959
Total number of in-service employees	48,164
The number of retired employees whose expenses are borne by the parent company and the major subsidiaries	212

Composition of professions

Type of profession	Number of staff in the profession
Production staff	15,108
Sales staff	18,476
Technical staff	7,357
Finance staff	1,957
Administrative staff	4,031
Other service staff	1,235
Total	48,164

Education level	
Type of Education Level	Number of persons
PhD	174
Master	2,114
University graduate	14,978
College graduate	14,322
Specialized secondary school (high school and technical school) graduate	9,477
Others	7,099
Total	48,164

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 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 7(8) of financial statements.

In 2023, 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 (31) 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 integrated management level and leadership ability, the Group carried out the group empowerment training through five major categories including main program, professional program, special program, rotational training program and 4 major theme forums (medical professional class, management new knowledge class, professional skill class and humanities and general education class) and in the form of online and offline graduation.

In 2023, Shanghai Pharma University continued to improve version 2.0 system, promoted business-driven, practical and customized training, built a knowledge management platform and optimized Shanghai Pharmaceuticals' talent training system, so as to facilitate the growth in the Company's business and the improvement in organizational capabilities. In 2023, Shanghai Pharma University carried out 20 programs, 54 classes and 21 forums. A total of 21,224 people participated in the empowerment training of Shanghai Pharma University. Among them, based on different stages and orientation of talent development, the main program established the Ling Yan (comprehensive ability improvement class for general manager) on the basis of the Jing Yan and Hong Yan and optimized and carried out the training series focusing on six "new" (new employees from campus recruitment, new employees from social recruitment, management trainees, new managers, new M&A companies and new organizations). In terms of professional projects, Shanghai Pharma University jointly carried out more than 10 training projects with the functional lines of the Group Headquarters, among which, Shanghai Pharma University jointly promoted the value stream project of "one product, one policy for key products to reduce costs and increase efficiency" (VSM) with the Manufacturing Management Center, and in combination with theoretical study and on-site diagnosis technical guidance, analyzed 121 lean subprojects from 23 key products through VSM value stream and completed 110 items. In terms of special projects, Shanghai Pharma University set up three sessions of R&D, manufacturing and investment expansion of the international capacity expansion project (Phase II), which opened managers' international horizons in terms of management level and professional cognition in combination with the experience sharing of overseas business expansion by domestic industry experts, overseas famous schools' courses and visits to top 500 multinational pharmaceutical companies, promoting the implementation of the internationalization strategy. At the same time, the study of business English went deep into the business grassroots of secondary enterprises (Sine United, Shanghai Pharmaceutical Imp. & Exp., and Zhongxi), and 536 people were trained throughout the year, improving the communication skills necessary for conducting business abroad.

CHANGES IN AUDITORS FOR PAST THREE YEARS

The Company has not changed its auditor in any of the past three years. PricewaterhouseCoopers Zhong Tian LLP has reached the maximum term for a company to engage the same accounting firm consecutively as required by the regulations. Therefore, the Company shall change its accounting firm for the year 2024. The Company proposed to appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's auditor of financial statements and internal control for the year 2024. Please refer to the announcement dated 22 December 2023 for details of the proposed change of the accounting firm.

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 2023.

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	Total Remuneration payable by the Company during the Reporting Period (before tax) (RMB10,000) ^{Note 5}	Whether obtained salary from connected parties of the Company
Yang Qiu Hua	Chairman, Executive Director	Male	52	2024-03-19	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	0	Yes
Shen Bo	Executive Director, President, Chief Financial Officer	Male	51	2016-06-28	Expiry date of the term of the 8th session of the Board of Directors	71,700 A shares	71,700 A shares ^{Note 1}	0	563.87	No
Li Yongzhong	Executive Director, Executive President	Male	54	2016-06-28	Expiry date of the term of the 8th session of the Board of Directors	0	0 ^{Note 2}	0	602.73	No
Dong Ming	Executive Director	Male	48	2023-06-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	0	Yes
Chen Fashu	Non-Executive Director	Male	64	2023-06-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	0	Yes
Gu Zhaoyang	Independent Non-Executive Director	Male	58	2019-06-27	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	30.00	No
Manson Fok	Independent Non-Executive Director	Male	67	2019-06-27	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	30.00	No
Wang Zhong	Independent Non-Executive Director	Male	55	2023-06-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	15.00	No
Xu Youli	Chief Supervisor	Male	50	2016-06-28	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	0	Yes
Yu Weidong	Employee Supervisor	Male	53	2023-06-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	0	Yes
Ma Jia	Supervisor	Male	47	2023-06-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	0	Yes
Zhao Yong	Vice President	Male	52	2019-06-27	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	451.49	No
Mao Jianyi	Vice President	Male	56	2013-11-19	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	404.50	No
Zhang Yaohua	Vice President	Male	51	2017-06-15	Expiry date of the term of the 8th session of the Board of Directors	40,000 A shares	40,000 A shares	0	458.93	No
Zhong Tao	Vice President, Secretary to the Board of Directors, Joint Company Secretary	Male	52	2022-03-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	311.66	No
Li Dongming	Vice President	Male	55	2022-03-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	311.63	No
Shao Shuai	Vice President	Female	36	2022-08-29	Expiry date of the term of the 8th session of the Board of Directors	0	0	0	207.71	No
Zhou Jun (resigned)	Chairman, Non-Executive Director	Male	55	2016-10-20	2023-11-18	0	0	0	0	Yes

Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Starting date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase/Decrease of Shares during the year	Total Remuneration payable by the Company during the Reporting Period (before tax) (RMB10,000) ^{Note 5}	Whether obtained salary from connected parties of the Company
Yao Jiayong (resigned)	Vice Chairman, Non-Executive Director	Male	58	2023-06-29	2024-03-19	0	0	0	0	Yes
Ge Dawei (resigned)	Vice Chairman, Non-Executive Director	Male	61	2019-06-27	2023-06-29	0	0	0	0	Yes
Cho Man (resigned)	Executive Director, President	Male	63	2013-06-05	2023-06-29	20,009 A shares	20,009 A shares ^{Note 3}	0	523.00	No
Li An (resigned)	Non-Executive Director	Female	63	2016-06-28	2023-06-29	0	0	0	0	No
Cai Jiangnan (resigned)	Independent Non-Executive Director	Male	67	2016-06-28	2023-06-29	0	0	0	15.00	No
Hong Liang (resigned)	Independent Non-Executive Director	Male	49	2016-06-28	2023-06-29	0	0	0	15.00	No
Huan Jianchun (resigned)	Employee Supervisor	Male	62	2019-06-27	2023-06-29	3,000 H shares	3,000 H shares	0	0	Yes
Xin Keng (resigned)	Supervisor	Male	57	2013-06-05	2023-06-29	0	0	0	0	No
Pan Deqing (resigned)	Vice President	Male	55	2022-03-29	2023-09-02	0	0	0	383.65	No
Total ^{Note 4}	/	/	/	/	/	131,709 A shares 3,000 H shares	131,709 A shares 3,000 H shares	0	4,324.17	/

Note 1: As at the end of the Reporting Period, Mr. Shen Bo also had an interest in 261,300 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 261,300 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. Cho Man also had an interest in 321,600 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.

Note 5: The total remuneration payable by the Company during the Reporting Period (before tax) consists of two parts, which are basic remuneration for 2023 and performance-based remuneration for 2022.

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Yang Qihua

Mr. Yang Qihua has obtained a master's degree in Pharmaceutical Engineering from East China University of Science and Technology. He is a senior engineer. He currently is the chairman and executive director of the Company. Mr. Yang Qihua currently serves as the vice president of Shanghai Industrial Investment (Holdings) Co., Ltd., the vice executive president of Shanghai Industrial Holdings Limited, the secretary to the Party Committee of Shanghai Pharmaceutical (Group) Co., Ltd. and Shanghai Pharmaceuticals Holding Co., Ltd.. Mr. Yang Qihua has extensive experience in corporate management. He has served as the secretary to the Party Committee and general manager of Shanghai Sunve Pharmaceutical Co., Ltd. (上海三維製藥有限公司), the vice chairman and general manager of SIIC Investment Company Limited, the chairman of The Tien Chu (Hong Kong) Company Limited, the vice president of SIIC Investment (Shanghai) Co., Ltd., the chairman of Nanyang Brothers Tobacco Co., Ltd. and the chairman of Wing Fat Printing Company, Limited, etc.

Chen Fashu

Mr. Chen Fashu is currently the non-executive director of the Company. He is currently the chairman of the board of directors of the Fujian Fashu Charity Foundation, the legal representative and the chairman of New Huadu Industrial Group Co., Ltd. and the director of Yunnan Baiyao Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 000538). He successively served as a member of the ALL-China Youth Federation, a member of the Executive Committee of the Ninth All-China Federation of Industry and Commerce, a member of the Ninth and Tenth Fujian Provincial Committee of the Chinese People's Political Consultative Conference, the chairman of the Direct Committee of Fujian Federation of Industry and Commerce, the chairman of Yunnan Baiyao Holdings Co., Ltd. and the co-chairman of Yunnan Baiyao Group Co., Ltd..

Shen Bo

Mr. Shen Bo obtained a master degree in professional accountancy from Chinese University of Hong Kong and is a Chinese Certified Public Accountant. He is currently the executive director, president and chief financial officer of the Company, and holds directorships in subsidiaries of the Company. Mr. Shen Bo currently serves as the non-executive director of 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 non-executive director of Tianda Pharmaceuticals Limited (a company listed on the Hong Kong Stock Exchange) (stock code 00455), the general manager of the finance department of Shanghai Pharmaceutical (Group) Co., Ltd., the chief financial officer of Shanghai Industrial Pharmaceutical Investment Co., Ltd. and the deputy general manager of the finance department of Shanghai Jinling Co., Ltd., etc.

Li Yongzhong

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

Dong Ming

Mr. Dong Ming has obtained a bachelor's degree and is now studying as a doctor majoring in management. He is currently the executive director of the Company. He is the legal representative, the director, the chief executive officer and the president of Yunnan Baiyao Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 000538), and the executive director and chairman of YNBY International Limited (stock code: 00030), a company listed on The Stock Exchange of Hong Kong Limited. He successively served as the vice president of Commonwealth of Independent States region, the director of the VIP systems department, the general manager of the Beijing branch, the director of the mobile system department of Huawei Technologies Co., Ltd., and the vice president of China region in Huawei Technologies Co., Ltd..

Gu Zhaoyang

Mr. Gu Zhaoyang obtained a B.A. degree in English from Tsinghua University, an M.A. degree in Management from Renmin University of China, and a M.A. degree in Economics and Ph.D. degree in Accounting from Tulane University U.S.A. He is a CPA (non-practicing) in the U.S.A. He is currently an independent non-executive director of the Company and a Professor of Accountancy, and an Outstanding Fellow of the Faculty of Business Administration at the Chinese University of Hong Kong (CUHK). Previously he was an Assistant and Associate Professor at Carnegie Mellon University, and an Associate Professor and Honeywell Professor in Accounting at the Carlson School of Management, University of Minnesota, where he was also the person in charge of the Accounting Ph.D. program. He is the dean of the School of Accountancy at the Chinese University of Hong Kong (CUHK).

Directors, Supervisors and Senior Management

Manson Fok

Mr. Manson Fok is a Bachelor of Medicine and Bachelor of Surgery, a Fellow of the Royal College of Surgeons of Edinburgh, United Kingdom, a Fellow of the Hong Kong College of Surgeons, and a Fellow of the Hong Kong Academy of Medicine (Surgery). He is currently an independent non-executive director of the Company and an independent director of Tianjin Pharmaceutical Co., Ltd. (津藥藥業股份有限公司, stock code: 600488) listed on the Shanghai Stock Exchange. Mr. Manson Fok has been committed to the study of esophagus and upper gastrointestinal diseases and vascular diseases for many years, actively promoting the development of minimally invasive surgery, and has published many articles on international medicine and written chapters of over 10 professional books. Currently, he serves as the Dean of Faculty of Medicine of the Macau University of Science and Technology (MUST), the Dean and the chairman of the board of directors of the MUST Hospital. He also holds key positions in various foundations, professional committees and medical associations, and is a visiting professor at many well-known institutions in China. He previously served as the vice chairman of the Endoscopy Skills Evaluation Committee of the Ministry of Health of China, the executive deputy director and the head of the Surgical Department of the Kiang Wu Hospital of Macau, a doctor of the Hong Kong Tung Wah Hospital and a senior lecturer of the Queen Mary Hospital of Hong Kong, etc.

Wang Zhong

Mr. Wang Zhong holds a master's degree of science awarded by the Hong Kong Polytechnic University and has the title of research fellow. He is the independent non-executive director of the Company. He is currently the executive director of the National Intelligent Sensor Innovation Center and an independent director of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd., a company listed on the Shanghai Stock Exchange with stock codes of 600663 and 900932. He served as the general manager of the human resources department and integrated department of Zhejiang Mobile Communication Company Limited, the deputy director of Zhejiang Branch of the China News Service, the chief executive officer of Greentown Real Estate Group Company Limited (綠城房地產集團有限公司), the vice chairman of China Youth Travel Industry (Group) Development Co., Ltd. (中國青旅實業(集團)發展有限公司), the director and vice president of Qingdao Zhongzi Zhongcheng Group Co., Ltd., an external director of Shanghai Guoxin Venture Capital Co., Ltd. (上海國鑫創業投資有限公司), the administrative vice principal of Shanghai Advanced Institution of Finance of Shanghai Jiao Tong University, etc.

Xu Youli

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

Yu Weidong

Mr. Yu Weidong holds a master's degree. He is an employee supervisor of the Company. He currently serves as a member of the Party Committee and the secretary to the Disciplinary Committee of Shanghai Pharmaceutical (Group) Co., Ltd. and Shanghai Pharmaceuticals Holding Co., Ltd., respectively. Mr. Yu previously served as a deputy director of the discipline inspection and supervision office at Shanghai Industrial (Holdings) Co., Ltd., office director of Shanghai Pharmaceuticals Holding Co., Ltd., general manager, deputy secretary and secretary to the Party Committee of Shanghai Traditional Chinese Medicine Co., Ltd., director of Shanghai Pharmaceuticals Holding Co., Ltd., deputy general manager and general manager of the audit department of Shanghai Pharmaceuticals Holding Co., Ltd. and general manager of the audit department at Shanghai Industrial Pharmaceuticals Investment Co., Ltd., manager of the business department at Shanghai Vision International Financial Advisory Co., Ltd., deputy general manager of the finance department at Shanghai Tongda Energy Group Co., Ltd. and clerk at the audit department of Shandong Agricultural University, etc.

Ma Jia

Mr. Ma Jia has obtained a master's degree and is a supervisor of the Company. Since June 2022, he has been serving as the chief financial officer of Yunnan Baiyao Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 000538). Since June 2023, he has concurrently served as the executive director of Yunnan Baiyao Group (Hainan) Co., Ltd.. He successively served as the head of financial management department of Beijing Panasonic Lighting Source Co., Ltd., a chief financial officer of the subsidiary of the Commonwealth of Independent States region of Huawei Technologies Co., Ltd., manager of IFS changing project (China region), a chief financial officer of Shandong representative office, a chief financial officer of BG Group Operator of China region, and China regional chief financial officer/China regional administrative team member, responsible for ICT operation and management, risk control, sales and finance, tax, subsidiaries, and other financial business and economic organization construction of China region (excluding Hong Kong, Macao and Taiwan).

Directors, Supervisors and Senior Management

Zhao Yong

Mr. Zhao Yong obtained a master degree in Laws from the International Politics Department of Fudan University, and is a graduate of Advanced Business Administration from Cheung Kong Graduate School of Business. He currently serves as the deputy secretary to the Party Committee and vice president of the Company and the chairman of Shanghai Medical Education and Training Co., Ltd. (上海醫藥教育培訓有限公司). He previously served as the vice president of Shanghai Labway Clinical Laboratory Co., Ltd., vice president of Shanghai Labway Investment Co., Ltd., deputy director of Shanghai Municipal Health and Family Planning Commission, deputy director and secretary to the Disciplinary Committee of Shanghai Municipal Population and Family Planning Commission, a director of Informationization Committee of Shanghai Changning District, deputy secretary to the Party Work Committee and director of the Office of Xianxia Xincun Street of Shanghai Changning District.

Mao Jianyi

Mr. Mao Jianyi graduated from medical faculty of Shanghai Second Medical University, and obtained an MBA degree from Shanghai PCEC East Asia College and a Ph.D. in economics from Shanghai University of Finance and Economics (International Open University of Washington in the United States of America (美國華盛頓國際公開大學)). Mr. Mao is a physician. He is currently a vice president of the Company. He served as the director of Shenzhen Kondarl (Group) Co. Ltd. (stock code 000048), general manager of Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd., general manager of Shanghai Zhong Xi Pharmaceutical Co., Ltd., general manager of No.1 Biochemical and Pharmaceutical Co., Ltd. of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd. and vice president of the prescription drug division of Shanghai Pharmaceutical (Group) Co., Ltd., etc.

Zhang Yaohua

Mr. Zhang Yaohua obtained a bachelor degree in Polymer Chemistry from Fudan University and a MPAcc degree from Shanghai National Accounting Institute – Shanghai University of Finance and Economics, is a senior 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.

Zhong Tao

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

Li Dongming

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

Shao Shuai

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

Directors, Supervisors and Senior Management

POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHAREHOLDER ENTITY

Name of personnel	Name of shareholder entities	Position held in the shareholder entity	Starting date of term of office	Expiry date of term of office
Yang Qihua	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice President	June 2021	Up to date
Xu Youli	Shanghai Industrial Investment (Holdings) Co., Ltd.	Vice President	April 2016	Up to date

POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN OTHER ENTITIES

Name of personnel	Name of shareholder entities	Position held in the shareholder entity	Starting date of term of office	Expiry date of term of office
Shen Bo	SPH Bio Therapeutics Co., LTD	Director	December 2010	August 2023
Shen Bo	SPH Keyuan Xinhai Pharmaceutical Co., Ltd.	Director	April 2011	August 2023
Shen Bo	Shanghai Pharma Northern Investment Co., Ltd.	Director	January 2012	August 2023
Shen Bo	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	Director	March 2013	August 2023
		Chairman	August 2023	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	August 2023
Shen Bo	Shanghai Industrial Group Pharmaceutical Co. Ltd.	Executive Director	October 2015	August 2023
Shen Bo	Shanghai Huarui Investment Co. Ltd.	Executive Director	October 2015	August 2023
Shen Bo	TECHPOOL Bio-Pharma Co., Ltd.	Director	May 2016	August 2023
		Chairman	August 2023	Up to date
Shen Bo	Zeus Investment Limited	Director	July 2016	August 2023
Shen Bo	SPH Changzhou Pharmaceutical Co., Ltd.	Chairman	August 2016	Up to date
		Director	June 2007	Up to date
Shen Bo	Shanghai Traditional Chinese Medicine Co., Ltd.	Chairman	December 2017	Up to date
Shen Bo	SPH Project Biocad Limited	Director	May 2019	August 2023
Shen Bo	SPH-Biocad (HK) Limited	Director	October 2019	Up to date
Shen Bo	Shanghai SPH Ruier Drugs Co., Ltd.	Vice Chairman	August 2020	August 2023
	(上海上藥睿爾藥品有限公司)	Executive Director	August 2023	Up to date
Shen Bo	Shanghai Medical Instruments Co., Ltd.	Chairman	January 2021	August 2023
Shen Bo	Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd.	Director	September 2022	August 2023
	(上海生物醫藥前沿產業創新中心有限公司)			
Shen Bo	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	Chairman	August 2023	Up to date

Directors, Supervisors and Senior Management

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
Shen Bo	SPH Qingdao Guofeng Pharmaceutical Co., Ltd.	Chairman	November 2023	Up to date
Li Yongzhong	Shanghai Pharmaceutical Co., Ltd.	Director	April 2010	August 2023
		Chairman	August 2023	Up to date
		General Manager	October 2012	Up to date
Li Yongzhong	China International Pharmaceutical (Holding) Corporation Limited	Director	August 2014	August 2023
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	January 2024
		Director	January 2012	January 2024
Li Yongzhong	Cardinal Health(L) Co.,Ltd	Director	January 2018	Up to date
Li Yongzhong	SPH Cardinal (Shanghai) Pharma Co., Ltd.	Chairman	January 2018	Up to date
Li Yongzhong	SPH Bio Therapeutics Co., LTD	Director	June 2018	August 2023
Yu Weidong	Shanghai Pharmaceutical Co., Ltd.	Supervisor	August 2016	Up to date
Yu Weidong	Shanghai Biomedical Industrial Equity Investment Fund Management Co Ltd.	Supervisor	October 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	August 2023
Zhao Yong	Shanghai Pharma Northern Investment Co., Ltd.	Executive Director	January 2024	Up to date
Zhang Yaohua	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Chairman	May 2017	Up to date
Zhang Yaohua	Shanghai Tsumura Pharmaceutical Co., Ltd.	Chairman	January 2018	Up to date
Zhang Yaohua	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Chairman	May 2019	Up to date
Zhang Yaohua	Shanghai SPH Biological Medicine Co., Ltd.	Director	June 2020	Up to date
Zhang Yaohua	SPH Materials Supply and Sales Co., Ltd.	Executive Director	February 2020	May 2022
		Chairman	May 2022	May 2023
Zhang Yaohua	SPH PHILILAB,INC	Director	March 2020	Up to date
Zhang Yaohua	SPH New Asia Pharmaceutical Co., Ltd.	Chairman	March 2021	Up to date
Zhang Yaohua	SPH Changzhou Kony Pharmaceutical Co., Ltd.	Executive Director	March 2015	Up to date
Zhang Yaohua	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Chairman	December 2023	Up to date

Directors, Supervisors and Senior Management

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
Zhong Tao	Shanghai Pharmaceuticals (HK) Investment Limited	Director, General Manager	July 2022	Up to date
Zhong Tao	Shanghai Pharmaceutical Grand Health Cloud Commerce Co., Ltd.	Director	July 2022	August 2023
Zhong Tao	Shanghai Ruijian Capital Management Co., Ltd.	Director	July 2022	Up to date
Zhong Tao	Shanghai Lianyi Investment Center	Member of the investment committee	July 2022	Up to date
Zhong Tao	Shanghai Biomedical Industrial Equity Investment Fund Management Co Ltd.	Director	July 2022	Up to date
Zhong Tao	SPH Bio Therapeutics Co., LTD	Director	March 2023	Up to date
Zhong Tao	Tianda Pharmaceuticals Limited (Hong Kong)	Non-Executive Director	August 2023	Up to date
Zhong Tao	SPH PROJECT BIOCAD Limited	Director	March 2023	Up to date
Zhong Tao	SPH Chromo AG	Director	March 2023	Up to date
Zhong Tao	Shanghai United International Limited	Director	August 2023	Up to date
Zhong Tao	Shanghai Industrial Group Pharmaceutical Co. Ltd.	Director	August 2023	Up to date
Zhong Tao	Shanghai Huarui Investment Co. Ltd.	Executive Director	August 2023	Up to date
Zhong Tao	SIIC Medical Science and Technology (Group) Limited (8018)	Director	August 2023	Up to date
Zhong Tao	SIMST Medical Science and Technology Development Limited	Director	August 2023	Up to date
Zhong Tao	World Honest Investments Limited	Director	August 2023	Up to date
Zhong Tao	Shanghai Industrial Medicine Research & Development Co., Ltd. (上實醫藥科研開發有限公司)	Director	August 2023	Up to date
Li Dongming	China International Pharmaceutical (Holding) Corporation Limited	General Manager	May 2022	Up to date
Li Dongming	Shanghai Pharmaceutical Imp. & Exp. Co., Ltd.	Chairman	May 2022	Up to date
Li Dongming	Zeus Investment Limited	Director	May 2022	Up to date
Li Dongming	CanSino SPH Biologics Inc.	Director, Vice Chairman	July 2022	Up to date
Li Dongming	Zynexis Healthcare Private Co., Ltd	Director	September 2022	Up to date
Li Dongming	Shanghai Biomedical Frontier Industry Innovation Center Co., Ltd. (上海生物醫藥前沿產業創新中心有限公司)	Director	September 2022	Up to date
Li Dongming	Shanghai Medical Instruments Co., Ltd.	Chairman	August 2023	Up to date
Li Dongming	Shanghai Pharmaceutical (USA), Inc.	Director	March 2023	Up to date

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change situation	Reasons for changes
Yang Qihua	Chairman, Executive Director	Election	Work re-arrangement
Chen Fashu	Non-Executive Director	Election	Election of the new session of the Board of Directors
Dong Ming	Executive Director	Election	Election of the new session of the Board of Directors
Wang Zhong	Independent Non-Executive Director	Election	Election of the new session of the Board of Directors
Yu Weidong	Employee Supervisor	Election	Election of the new session of the Board of Supervisors
Ma Jia	Supervisor	Election	Election of the new session of the Board of Supervisors
Zhou Jun	Chairman, Non-Executive Director	Resignation	Voluntary resignation
Yao Jiayong	Vice Chairman, Non-Executive Director	Resignation	Work re-arrangement
Ge Dawei	Vice Chairman, Non-Executive Director	Resignation	Expiry of the term of the Board of Directors
Cho Man	Executive Director, President	Resignation	Expiry of the term of the Board of Directors
Li An	Non-Executive Director	Resignation	Expiry of the term of the Board of Directors
Cai Jiangnan	Independent Non-Executive Director	Resignation	Expiry of the term of the Board of Directors
Hong Liang	Independent Non-Executive Director	Resignation	Expiry of the term of the Board of Directors
Huan Jianchun	Employee Supervisor	Resignation	Expiry of the term of the Board of Supervisors
Xin Keng	Supervisor	Resignation	Expiry of the term of the Board of Supervisors
Pan Deqing	Vice President	Resignation	Voluntary resignation

Save as disclosed in this report, there has been no change in the information of directors, supervisors and senior management which are required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

Corporate Governance Report

The board of directors is pleased to present the corporate governance report of the Group for the year ended 31 December 2023. The Company is committed to maintaining a high standard of corporate governance and believes that good and effective corporate governance is vital for the long term success and sustainability of Shanghai Pharmaceuticals’s business.

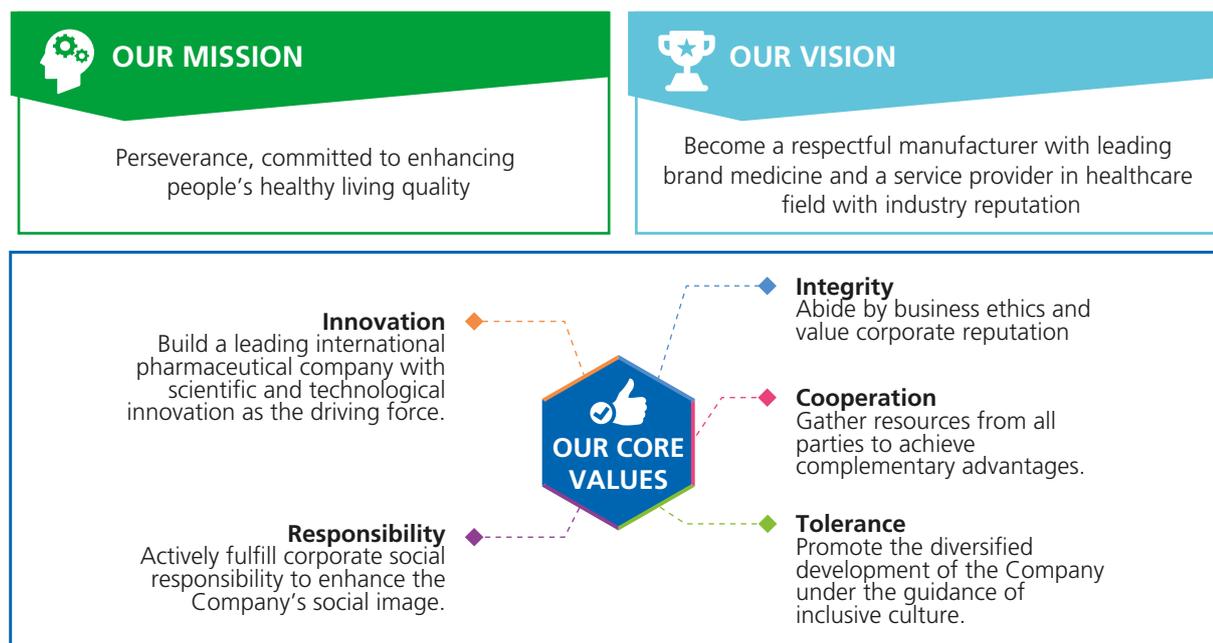
CORPORATE GOVERNANCE PRACTICE

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

As at the end of the Reporting Period, the corporate governance of the Company complied with the standardized operation requirements of listed companies, and did not significantly deviate from the requirements of relevant documents of the China Securities Regulatory Commission. At the same time, the Company complied with the principles and code provisions set forth in the Corporate Governance Code during the Reporting Period, except Rule 13.92 of the Hong Kong Listing Rules. As the term of office of Ms. Li An expired on 29 June 2023 (i.e. the date of the annual general meeting), she ceased to be the director of the Company. The board of directors was only of a single gender and failed to meet the requirement in relation to gender diversity of the board of directors. The board of directors is actively identifying suitable candidate(s) to comply with the requirement under Rule 13.92 of the Hong Kong Listing Rules.

CORPORATE CULTURE

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



BOARD OF DIRECTORS

Composition of the board of directors

The Company's board of directors comprises four executive directors, namely Mr. Yang Qihua (chairman), Mr. Shen Bo (also the president and the chief financial officer), Mr. Li Yongzhong (also the executive president) and Mr. Dong Ming; one non-executive director, namely Mr. Chen Fashu; and three independent non-executive directors, namely Mr. Gu Zhaoyang, Mr. Manson Fok and Mr. Wang Zhong. The biographical details of the directors are set out in the chapter headed "Directors, Supervisors and Senior Management" in this annual report.

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

Pursuant to the Articles of Association and Code Provision B.2.2, the term of office of the directors (including independent non-executive directors) is three years, renewable upon re-election at its expiry, provided that the term of office of the independent non-executive directors shall not exceed a consecutive period of six years.

Mr. Yang Qihua was appointed as an executive director on 19 March 2024. He has obtained the legal advice referred to in Rule 3.09D of the Hong Kong Listing Rules on Hong Kong law as regards the requirements under the Hong Kong Listing Rules that are applicable to him as a director of a listed issuer and the possible consequences of making a false declaration or giving false information to the Stock Exchange ("Hong Kong Legal Advice to Directors") on 19 March 2023, and he has confirmed that he understood his obligations as a director of a listed issuer.

BOARD AND EMPLOYEE DIVERSITY

The Company has adopted the board diversity policy. When assessing candidates for the Board, the Company will take into consideration of the diversity perspective set out in this policy, including but not limited to gender, age, the highest academic degree, professional fields and term of service, so as to achieve a proper balance in the composition of the Board of Directors. The Board of Directors reviewed the implementation and effectiveness of the board diversity policy during the Reporting Period and considered it was still valid. During the Reporting Period, the board of directors has basically achieved the expected goal of the member diversity policy and kept an appropriate balance of member structure, except in terms of the gender. Details are as follows:



In terms of employees, the ratio of male to female employees of the Group is 49.5:50.5. Among the 8 members of senior management, 7 are male and 1 is female, and different departments are led by different male and female employees. Therefore, the board of directors believes that the Company has achieved the expected goal in terms of gender diversity during the Reporting Period.

The Company values gender diversity and will continue to take steps to promote gender diversity at all levels of the Company, in particular at the Board level. At present, the Company does not have any director of a different gender. The Company will consider the matter based on its own circumstances and make relevant disclosures in accordance with the Hong Kong Listing Rules in due course. In addition, the Company is committed to providing career development and training opportunities for its staff who have the suitable experience, skills and knowledge with an aim to promote them to senior management or directors. The Company will also ensure that there is gender diversity in staff recruitment at mid to senior levels so as to develop a pipeline of potential successors to the board of directors.

Primary duties of the board of directors

The Company has complied with the provisions of the Corporate Governance Code and distinguished between the roles of the chairman and the chief executive officer. Mr. Yang Qihua is the current chairman of the Company and Mr. Shen Bo is the president of the Company. 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 conflict of interest), financial data, recruiting or dismissing senior management, corporate governance function as well as other functions and powers as authorized by laws, administrative regulations, departmental rules, Articles of Association or general meetings. The management is responsible for daily operations and implementation of relevant decisions.

Board meetings

In accordance with Code Provisions C.5.1 and C.2.7, during the Reporting Period, the board held at least four regular meetings every year, which were convened by the chairman and notices of board meetings were served on all directors and supervisors as required by relevant requirements; independent non-executive directors met with the chairman individually at least once.

During the Reporting Period, the board held a total of nine meetings, at which proposals were considered in relation to the Company's business results, financial accounts and budgets, policies formulation, profit distribution, grant of equity incentives, connected transactions, election of directors as well as the performance of the corporate governance function (including environmental, social and governance matters), etc.

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

DIRECTOR'S CONTINUOUS PROFESSIONAL DEVELOPMENT

During the Reporting Period, all directors participated in the continuing professional development program to develop and update their knowledge and skills. In July 2023, directors including Chen Fashu, Shen Bo, Li Yongzhong, Dong Ming, Gu Zhaoyang, Manson Fok and Wang Zhong participated in the training on continuous obligations and responsibilities for directors, supervisors and senior management of Hong Kong listed companies provided by Freshfields Bruckhaus Deringer. In October 2023, directors including Chen Fashu, Li Yongzhong and Dong Ming participated in the special training on the reform of independent director system organized by the Listed Companies Association of Shanghai. In November 2023, director Shen Bo participated in the training on the reform of independent director system of the listed companies organized by China Association for Public Companies. The resigned directors including Zhou Jun and Yao Jiayong participated in the training on continuous obligations and responsibilities for directors, supervisors and senior management of Hong Kong listed companies. The resigned director Mr. Yao Jiayong participated in the special training on the reform of independent director system. Resigned directors including Ge Dawei, Cho Man, Li An, Cai Jiangnan and Hong Liang read and studied the consultation conclusions on proposed expansion of paperless listing regime.

The Company regularly provides all the directors with monthly data summary, latest information regarding the corporate governance and directors' responsibilities under the listing rules of two places and other applicable laws and regulations, so that the directors are able to make informed decisions and discharge their responsibilities and duties as directors of the Company.

COMMITTEES UNDER THE BOARD

Remuneration and assessment committee

The remuneration and assessment committee under the board of directors of the Company consists of Mr. Wang Zhong (an independent non-executive director), acting as its convener/chairman, Mr. Yang Qihua (an executive director) and Mr. Gu Zhaoyang (an independent non-executive director). The remuneration and assessment committee is a special body established under the board of directors, mainly responsible for formulating and implementing the performance assessment standards for directors, the president and other senior management of the Company, and formulating and reviewing the remuneration policies and proposals for directors, the president and other senior management, and reviewing and/or approving matters relating to the share scheme described in Chapter 17 of the Hong Kong Listing Rules. For details of the remunerations of directors, supervisors and senior management, please refer to "Report of the Board of Directors" and "Directors, Supervisors and Senior Management" respectively.

During the Reporting Period, the remunerations of 8 members of senior management by band are as follows:

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

During the Reporting Period, the remuneration and assessment committee held four meetings, at which the performance review report on senior management, the grant of equity incentives and other matters were discussed.

Audit committee

The audit committee under the board of directors of the Company consists of Mr. Gu Zhaoyang (an independent non-executive director), acting as its convener/chairman, Mr. Manson Fok (an independent non-executive director) and Mr. Wang Zhong (an independent non-executive director). The audit committee is a body specifically set up under the board of directors, mainly responsible for the relationship between the Company and the external auditors, reviewing the financial information of the Company, supervising the financial reporting mechanism and risk management and internal control systems of the Company and considering and supervising the environmental, social and governance matters of the Company.

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

In accordance with Code Provision D.3.3 and 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 Mr. Yang Qihua (an executive director) acting as its convener/chairman, Mr. Chen Fashu (a non-executive director) and Mr. Wang Zhong (an independent non-executive director). The strategy committee is a special body established under the board of directors focusing on strategy study as entrusted by the board of directors, mainly responsible for conducting forward-looking study on corporate development strategy and related issues, performing evaluations and making recommendations.

During the Reporting Period, the strategy committee held one meeting, at which the implementation of the "14th Five" Operation and Development Plan Summary for the Company in 2023 was discussed.

Nomination committee

The nomination committee under the board of directors of the Company consists of Mr. Manson Fok (an independent non-executive director) acting as its convener/chairman, Mr. Shen Bo (an executive director) and Mr. Gu Zhaoyang (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 two meetings, mainly reviewed the structure, size and composition of the Board (including skill, knowledge and experience), evaluated the independence of independent non-executive directors and proposed to nominate the candidates for non-independent directors of the eighth session of the Board.

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

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

ATTENDANCE OF DIRECTORS AND COMMITTEE MEMBERS

The following table sets forth the attendance of each director during their terms of office at meetings of the Board and board committees and the Company's general meeting for the year ended 31 December 2023:

Name of Director	Attendance/Numbers of Meetings					
	Board of Directors	Remuneration and assessment committee	Audit committee	Strategy committee	Nomination committee	General Meeting
Non-executive directors						
Mr. Yao Jiayong ^{Note 1}	5/5	2/2				
Mr. Chen Fashu ^{Note 1}	4/5			1/1		
Mr. Zhou Jun ^{Note 3}	8/8					1/1
Mr. Ge Dawei ^{Note 2}	4/4	2/2				1/1
Ms. Li An ^{Note 2}	4/4					0/1
Executive directors						
Mr. Shen Bo	9/9				1/1	1/1
Mr. Li Yongzhong	9/9					1/1
Mr. Dong Ming ^{Note 1}	5/5					
Mr. Cho Man ^{Note 2}	4/4				1/1	1/1
Independent non-executive directors						
Mr. Gu Zhaoyang	9/9	4/4	5/5		1/1	1/1
Mr. Manson Fok	9/9		5/5		1/1	1/1
Mr. Wang Zhong ^{Note 1}	5/5	2/2	3/3	1/1		
Mr. Cai Jiangnan ^{Note 2}	4/4				1/1	1/1
Mr. Hong Liang ^{Note 2}	4/4	2/2	2/2		1/1	0/1

Note 1: Mr. Yao Jiayong, Mr. Chen Fashu, Mr. Dong Ming and Mr. Wang Zhong were elected to the eighth session of the board of directors at the 2023 annual general meeting of the Company and held relevant positions. Due to work reallocation, Mr. Yao Jiayong ceased to act as a non-executive director, vice chairman, a member of the Remuneration and Assessment Committee and all other positions since 19 March 2024.

Note 2: Mr. Ge Dawei, Mr. Cho Man, Ms. Li An, Mr. Cai Jiangnan and Mr. Hong Liang resigned upon the expiry of the term of the seventh session of the board of directors and no longer held relevant positions.

Note 3: Mr. Zhou Jun resigned from his relevant positions due to personal reasons with effect from 18 November 2023.

COMPLIANCE WITH THE MODEL CODE BY DIRECTORS AND SUPERVISORS

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

REMUNERATION OF AUDITORS

With reference to the Company's actual situation of business development, the audit fee payable to the auditors by Shanghai Pharmaceuticals for 2023 was set at RMB25.70 million (relevant disbursement and taxation expenses inclusive) while the audit fee for internal control was set at RMB1.70 million (relevant disbursement and taxation expenses inclusive) upon consultation and confirmation by the Company with the auditor of the Company, PricewaterhouseCoopers Zhong Tian LLP.

In 2023, a non-audit service fee of approximately RMB1.8485 million (taxation expense and disbursement inclusive) was paid by the Company to the affiliates or network members of the Company's auditors mainly for tax consulting services.

ACCOUNTABILITY AND AUDIT

Directors acknowledged their responsibility for preparation of financial statements of the Group for the year ended 31 December 2023.

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 2023, such system of the Company is considered operating effectively and adequately.

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

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

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

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

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

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

COMPANY SECRETARY

The primary responsibility of the company secretary of the Company is to ensure good information exchange between board members and the compliance with the policies and procedures of the board of directors as well as all applicable regulations. Mr. Zhong Tao and Ms. Wong Pui Kiu Ingrid (appointed on 20 February 2024) of Tricor Services Limited (external service provider) are the joint company secretaries of the Company. The main internal contact person of the Company of Ms. Wong Pui Kiu Ingrid is the vice president, board secretary and joint company secretary of the Company, Mr. Zhong Tao.

During the Reporting Period, Mr. Zhong Tao and Ms. Leung Shui Bing (resigned on 20 February 2024) are joint company secretaries of the Company and received relevant training of not less than 15 hours in 2023, which is in conformity with Rule 3.29 of the Hong Kong Listing Rules

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 convener 10 days before the holding of the general meeting. The convener shall include in the agenda of the meeting the issues raised in the proposals that fall within the scope of responsibility of the general meeting. For the contact information for shareholders to make inquiries or submit temporary proposals to the Company, please refer to the chapter headed "Corporate Information" in this annual report.

INVESTOR RELATIONS

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

The board of directors has reviewed the participation and communication activity of shareholders and investors conducted by the Company in 2023. During the Reporting Period, the information on the Company's website was updated in time, the investors' inquiries were answered on a regular basis, and shareholders had the opportunity to communicate with directors and senior management at the general meeting. Based on the above situation, the board of directors believed that the shareholder communication policy remained effective.

ARTICLES OF ASSOCIATION

The Proposal Regarding the Amendments to the Articles of Association and the Rules of the Procedures of Shareholders' General Meeting was considered and passed at the annual general meeting held by the Company on 29 June 2023. For details of amendments, please refer to the supplemental circular of the Company dated 14 June 2023.

ELECTRONIC DISSEMINATION OF CORPORATE COMMUNICATIONS

The Company is committed to reducing carbon emissions, to promote sustainable practices across our operations, we have adopted the new practice on disseminating the corporate communications electronically, to the extent permitted by the applicable Hong Kong Listing Rules, relevant laws and regulations (please refer to the Company's website). We expect these amendments will significantly reduce the use of paper and lessen our impact on the environment.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

Shanghai Pharmaceuticals Holding Co., Ltd.

Financial Statements
For the year ended 31 December 2023

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English Translation for Reference Only

Auditor's Report

PwC ZT Shen Zi (2024) 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 statements of financial position as at 31 December 2023;
- 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 2023, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

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

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

Key Audit Matters

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Goodwill impairment assessment</p> <p>Refer to notes 2(31)(a)(iii) (Critical accounting estimates and judgements) and notes 4(22) (Goodwill) to the financial statements.</p> <p>At 31 December 2023, Shanghai Pharmaceuticals had goodwill amounting to RMB13,258,594,341.93, against which a provision of RMB1,865,262,139.73 was set aside in the consolidated financial statements.</p> <p>In assessing the recoverable amounts of Shanghai Pharmaceuticals' cash generating unit (CGU) or CGUs which include goodwill, management engaged external valuation experts to assist in determining the discounted cash flows. Determination of discounted cash flows involved developing key assumptions, including:</p> <ul style="list-style-type: none"> • revenue compound annual growth rate within the budget period; • revenue growth rates beyond the budget period; • gross margin rate; and • pre-tax discount rate. <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 of Shanghai Pharmaceuticals over the goodwill.</p> <p>For the relevant CGU or CGUs, we compared the current year actual results (year 2023) with the forecast included in the prior year forecast to consider whether management's cash flow forecasts were reliable on sample basis.</p> <p>We compared the management's future cash flow forecasts with its historical data, budgets approved, and business plans developed on sample basis.</p> <p>With the assistance of our valuation experts, we performed the following procedures on sample basis:</p> <ul style="list-style-type: none"> • We assessed the valuation approaches and methodologies adopted by management in the cash flow forecasts by reference to industry practice; • Assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud of management's estimates involved in determining the recoverable amounts of its CGU or CGUs; • Comparing the compound annual growth rates within the budget period with the CGU or CGUs' historical growth rates and industry historical data; • Comparing the growth rates to extrapolate cash flows beyond the budget period with our independent expectation based on economic data;

Key Audit Matter	How our audit addressed the Key Audit Matter
	<ul style="list-style-type: none"> • Comparing the gross margin rate with past performance, taking into consideration of market trends; • Assessing the discount rate by considering and recalculating the weighted average cost of capital for the individual CGU or CGUs and comparable companies in the pharmaceutical industry, as well as considering territory specific factors; and • We tested the mathematical accuracy of the calculations of discounted cash flows. <p>We obtained the valuation reports issued by the external valuation experts engaged by the management and assessed the competence, capabilities and objectivity of these external valuation experts.</p> <p>Based on the procedures performed, we considered that management's judgements in the impairment assessment of goodwill were supported by the evidence we gathered.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of trade receivables</p> <p>Refer to notes 2(31)(a)(v) (Critical accounting estimates and judgements) and notes 4(5) (Trade receivables) to the financial statements.</p> <p>At 31 December 2023, Shanghai Pharmaceuticals held trade receivables amounting to RMB75,160,642,157.17, against which an impairment provision of RMB2,226,761,040.00 was set aside in the consolidated financial statements.</p> <p>Management applied expected credit losses (“ECL”) model under “Accounting standards for business enterprises No.22 – recognition and measurement of financial instruments” to measure the impairment against trade receivables at the reporting date.</p> <p>Management estimated the loss allowance of trade receivables based on the lifetime expected credit losses. For trade receivable balances with objective evidence of impairment, individual provision was made based on a probability-weighted estimation of the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive. Trade receivables without objective evidence of impairment are grouped based on shared credit risk characteristics. The collective provision was determined based on the historical credit loss rates to the respective aging category of gross carrying amount of trade receivables. The expected credit loss rates are adjusted to reflect current and forward-looking information.</p> <p>We 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 understood, evaluated and validated the controls which management adopted to monitor the recoverability of trade receivables, including controls over identification of objective evidence of impairment and calculation of the impairment.</p> <p>We checked the accuracy of aging of trade receivables prepared by management on sample basis and tested the IT general controls and automatic controls related to the maintenance of aging analysis where relevant.</p> <p>We independently assessed the recoverability of individually-impaired trade receivable balances on sample basis. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of these customers.</p> <p>We assessed management’s methodology of estimating collective provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers’ repayment pattern and market condition.</p> <p>With the assistance of our credit model experts, we performed the following procedures:</p> <ul style="list-style-type: none"> • Assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud of management’s estimates involved in determining the expected credit loss; and • Evaluating management’s assessment of the forward-looking information used to determine the expected credit losses by considering economic factors applied by the management. We also evaluated management’s assessment of the sensitivity of the forward-looking information based on reasonable possible changes of the related key assumptions. <p>Based on the procedures performed, we considered management’s judgments in assessing the recoverability of trade receivables were supported by the evidence we gathered.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Inventory provisions</p> <p>Refer to notes 2(31)(a)(iv) (Critical accounting estimates and judgements) and notes 4(9) (Inventories) to the financial statements.</p> <p>At 31 December 2023, Shanghai Pharmaceuticals held inventories amounting to RMB38,030,159,038.59, against which a provision of RMB1,406,765,108.52 was set aside in the consolidated financial statements.</p> <p>Inventories are carried at the lower of cost and net realisable value (NRV). For inventories managed with expiration date, management determined the provision for inventory based on the level of inventories close to expiration date taking into consideration of goods return arrangement with suppliers and estimated probability of selling.</p> <p>We identified inventory provisions as a key audit matter as of the magnitude of inventories balance, estimation uncertainty of provisions, subjectivity of estimated probability of selling and significance of management judgements applied.</p>	<p>We understood, evaluated and validated the controls which management adopted to monitor inventory close to expiration dates, analysis of aging report and in making estimation of the probability of selling such inventories. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and management bias or fraud.</p> <p>We checked the accuracy of aging report of inventories prepared by management on sample basis and tested the IT general controls and automatic controls related to the maintenance of inventory aging analysis where relevant.</p> <p>We tested inventories close to expiration dates for which no provision was made and examined the contracts or agreements with the suppliers for return arrangements on sample basis.</p> <p>We assessed appropriateness of the estimated probability of selling for inventories close to expiration dates by reviewing the historical sales pattern.</p> <p>We tested the mathematical accuracy of the calculations of inventory provisions.</p> <p>Based on the procedures performed, we considered the judgements applied 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 2023 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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Shanghai Pharmaceuticals to cease to continue as a going concern.
- Evaluate the overall presentation (including the disclosures), structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Shanghai Pharmaceuticals to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

28 March 2024

Signing CPA HE TING
(Engagement Partner)

Signing CPA ZHOU LINJIE

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 December 2023

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2023 Consolidated	31 December 2022 Consolidated	31 December 2023 Company	31 December 2022 Company
Current assets					
Cash at bank and on hand	4(1)	30,517,706,443.04	27,401,395,968.43	7,929,735,432.19	8,896,325,941.88
Derivative financial assets	4(3)	2,596,393.11	4,820,057.40	-	-
Financial assets held for trading	4(2)	10,152,154,821.92	9,613,554,659.84	10,152,154,821.92	9,613,554,659.84
Notes receivables	4(4)	1,908,648,955.48	1,799,584,411.55	-	-
Accounts receivables	4(5), 15(1)	72,933,881,117.17	66,759,853,950.45	-	-
Receivables financing	4(6)	2,320,106,012.96	1,627,386,138.71	-	-
Advances to suppliers	4(7)	3,190,044,307.40	3,867,582,698.57	9,910,030.01	9,345,489.16
Other receivables	4(8), 15(2)	3,381,133,896.89	2,574,814,141.06	16,750,885,576.08	14,647,589,803.23
Including: Interest receivable		-	-	78,428,967.69	79,135,672.14
Dividends receivable		239,065,993.48	54,397,245.21	636,322,615.73	843,498,975.48
Inventories	4(9)	36,623,393,930.07	34,460,216,765.02	-	-
Current portion of non-current assets	4(13)	77,420,057.49	185,619,908.99	9,220,824.69	10,366,305.70
Other current assets	4(10)	1,326,776,412.93	1,218,041,919.77	5,750,598.65	763,269.11
Total current assets		162,433,862,348.46	149,512,870,619.79	34,857,657,283.54	33,177,945,468.92
Non-current assets					
Long-term receivables	4(13)	227,939,569.60	212,299,836.32	30,139,660.73	37,320,278.77
Long-term equity investments	4(14), 15(3)	8,351,910,110.17	9,232,643,602.19	31,048,793,745.57	27,646,745,649.54
Other equity instrument investments	4(11)	55,416,725.20	101,487,525.55	-	-
Other non-current financial assets	4(12)	2,195,371,867.75	2,143,040,116.40	1,789,517,079.76	1,787,298,345.06
Investment properties	4(15)	314,673,077.66	246,415,460.32	3,521,820.72	-
Fixed assets	4(16)	12,155,054,666.68	11,539,289,437.00	97,358,529.12	100,582,376.49
Construction in progress	4(17)	3,569,629,053.37	2,777,363,094.05	29,960,877.39	35,354,623.28
Bearer biological assets	4(18)	133,427,150.06	137,191,760.75	-	-
Right-of-use assets	4(19)	2,148,311,132.06	1,868,659,922.65	55,991,662.93	86,593,287.17
Intangible assets	4(20)	6,050,835,947.46	6,244,139,954.44	50,789,086.95	68,262,180.37
Development costs	4(21)	310,509,650.32	342,605,253.63	60,552,179.35	76,703,026.05
Goodwill	4(22)	11,393,332,202.20	11,335,926,625.48	-	-
Long-term prepaid expenses	4(23)	474,711,155.94	462,438,552.91	43,736,768.68	18,064,854.14
Deferred tax assets	4(24)	1,716,858,058.26	1,534,728,993.68	-	-
Other non-current assets	4(26)	440,691,051.61	443,800,743.79	6,860,049.07	9,319,539.50
Total non-current assets		49,538,671,418.34	48,622,030,879.16	33,217,221,460.27	29,866,244,160.37
TOTAL ASSETS		211,972,533,766.80	198,134,901,498.95	68,074,878,743.81	63,044,189,629.29

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 December 2023 (CONTINUED)

(All amounts in RMB Yuan unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2023 Consolidated	31 December 2022 Consolidated	31 December 2023 Company	31 December 2022 Company
Current liabilities					
Short-term borrowings	4(27)	35,560,499,735.45	27,750,588,556.87	1,000,615,694.44	1,300,997,638.89
Derivative financial liabilities	4(3)	2,316,492.78	1,569,907.10	-	-
Notes payables	4(28)	6,717,443,536.29	5,961,723,663.49	-	-
Accounts payables	4(29)	47,915,010,730.47	45,603,805,328.17	50,296,941.37	61,884,185.13
Contract liabilities	4(30)	1,970,690,132.08	2,242,823,457.63	20,097,189.17	33,097,189.17
Employee benefits payable	4(31)	1,783,979,964.70	1,580,488,152.99	70,389,607.55	90,700,319.82
Taxes payable	4(32)	1,217,172,193.69	1,440,823,418.19	3,203,907.77	1,867,369.51
Other payables	4(33)	17,949,353,893.39	16,474,855,895.13	16,243,695,968.21	13,518,512,556.02
Including: Dividends payables		247,130,022.22	373,125,954.77	-	-
Current portion of non-current liabilities	4(35)	2,963,475,811.09	3,249,433,102.21	36,320,746.49	932,166,278.43
Other current liabilities	4(36)	6,291,936,544.95	6,384,934,548.00	6,051,321,311.48	6,060,361,643.84
Total current liabilities		122,371,879,034.89	110,691,046,029.78	23,475,941,366.48	21,999,587,180.81
Non-current liabilities					
Long-term borrowings	4(37)	5,786,154,730.58	6,259,799,370.32	4,363,420,000.00	139,360,000.00
Lease liabilities	4(38)	1,550,076,681.63	1,301,611,079.90	25,366,462.03	59,390,904.05
Long-term payables	4(39)	8,163,467.74	7,995,923.88	-	-
Provisions	4(34)	39,585,088.27	23,978,898.02	-	-
Deferred income	4(40)	633,481,321.72	534,581,050.48	103,982,549.86	83,641,136.76
Long-term employee benefits payable	4(41)	38,884,169.72	38,911,958.10	-	-
Deferred tax liabilities	4(24)	1,015,820,143.36	1,049,237,452.75	5,859,736.77	5,859,736.77
Other non-current liabilities	4(42)	202,396,163.96	225,288,678.29	-	-
Total non-current liabilities		9,274,561,766.98	9,441,404,411.74	4,498,628,748.66	288,251,777.58
Total liabilities		131,646,440,801.87	120,132,450,441.52	27,974,570,115.14	22,287,838,958.39
Owners' equity					
Share capital	4(43)	3,703,301,054.00	3,697,546,172.00	3,703,301,054.00	3,697,546,172.00
Capital surplus	4(44),15(4)	29,187,649,155.53	29,098,103,770.87	32,391,530,937.71	32,275,668,338.76
Other comprehensive income	4(45),15(5)	(496,089,430.12)	(371,323,663.92)	(390,780.10)	(302,235.46)
Surplus reserve	4(46)	2,306,949,383.63	2,158,807,271.16	1,931,158,581.45	1,783,016,468.98
Undistributed profits	4(47),15(6)	33,822,332,888.31	32,479,872,339.12	2,074,708,835.61	3,000,421,926.62
Total equity attributable to equity owners of the Company		68,524,143,051.35	67,063,005,889.23	40,100,308,628.67	40,756,350,670.90
Minority interests		11,801,949,913.58	10,939,445,168.20	Not applicable	Not applicable
Total owners' equity		80,326,092,964.93	78,002,451,057.43	40,100,308,628.67	40,756,350,670.90
TOTAL LIABILITIES AND OWNERS' EQUITY		211,972,533,766.80	198,134,901,498.95	68,074,878,743.81	63,044,189,629.29

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

Legal representative: Yang Qiuhua

Principal in charge of accounting: Shen Bo

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE YEAR ENDED 31 December 2023

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2023 Consolidated	2022 Consolidated	2023 Company	2022 Company
Revenue	4(48),15(7)	260,295,088,943.53	231,981,299,764.51	225,245,410.70	272,524,965.04
Less: Cost of sales	4(48),4(54), 15(7)	(228,966,947,001.24)	(201,494,923,087.47)	(61,412,367.19)	(91,813,141.57)
Taxes and surcharges	4(49)	(738,106,426.32)	(716,273,653.18)	(1,458,251.53)	(3,791,386.45)
Selling expenses	4(50),4(54)	(13,902,191,503.50)	(14,278,974,907.54)	-	-
General and administrative expenses	4(51),4(54)	(5,711,827,446.09)	(4,991,689,173.97)	(280,504,975.43)	(276,735,226.50)
Research and development expenses	4(52),4(54)	(2,204,033,687.43)	(2,112,197,580.39)	(443,000,558.45)	(414,459,913.62)
Financial expenses - net	4(53)	(1,485,757,647.45)	(1,313,192,468.06)	(229,673,655.75)	(142,838,866.60)
Including: Interest expenses		(1,884,984,092.73)	(1,689,278,922.64)	(324,197,189.75)	(296,683,048.19)
Interest income		461,833,287.29	438,297,667.03	86,564,170.48	111,809,549.99
Add: Other income	4(57)	793,161,586.35	393,760,191.69	23,719,544.45	20,972,385.30
Investment (loss)/income	4(58),15(8)	(68,122,676.68)	533,117,089.08	2,092,397,470.21	2,078,436,916.45
Including: Share of profit of associates and joint ventures		129,328,696.77	526,743,273.33	131,282,533.42	100,263,098.41
Derecognition of financial assets at amortised cost		(187,598,478.68)	(80,508,182.24)	-	-
Profit arising from changes in fair value	4(59)	404,731,380.72	218,737,860.49	315,459,526.82	249,266,541.68
Credit impairment losses	4(56)	(279,958,650.49)	(312,460,488.87)	(6,388,850.82)	(25,710,227.19)
Asset impairment losses	4(55)	(561,277,474.11)	(331,471,295.70)	(154,799,830.72)	-
Gains on disposals of assets	4(60)	92,475,307.03	1,438,918,138.68	3,222,694.87	-
Operating profit		7,667,234,704.32	9,014,650,389.27	1,482,806,157.16	1,665,852,046.54
Add: Non-operating income	4(61)	40,689,731.27	32,778,070.70	250,334.68	117,332.78
Less: Non-operating expenses	4(62)	(653,627,697.11)	(239,075,178.84)	(1,635,367.15)	(2,533,751.63)
Total profit		7,054,296,738.48	8,808,353,281.13	1,481,421,124.69	1,663,435,627.69
Less: Income tax expenses	4(63)	(1,887,726,454.22)	(1,816,338,512.58)	-	-
Net profit		5,166,570,284.26	6,992,014,768.55	1,481,421,124.69	1,663,435,627.69
Including: Net profit of the acquiree in a business combination under common control before the combination date		Not applicable	Not applicable	Not applicable	Not applicable
Classified by continuity of operations					
Net profit from continuing operations		5,166,570,284.26	6,992,014,768.55	1,481,421,124.69	1,663,435,627.69
Net profit from discontinued operations		-	-	-	-
Classified by ownership of the equity					
Attributable to equity owners of the Company		3,767,999,581.18	5,617,152,003.01	Not applicable	Not applicable
Minority interests		1,398,570,703.08	1,374,862,765.54	Not applicable	Not applicable
Other comprehensive income, net of tax	4(45)	(126,719,890.54)	(226,480,312.21)	(88,544.64)	(155,967.26)
Attributable to equity owners of the Company		(124,765,766.20)	(226,929,457.73)	(88,544.64)	(155,967.26)
Other comprehensive income that will not be reclassified to profit or loss		(46,070,800.35)	28,095,112.38	-	-
Changes in fair value of other equity instrument investments		(46,070,800.35)	28,095,112.38	-	-
Other comprehensive income that will be reclassified to profit or loss		(78,694,965.85)	(255,024,570.11)	(88,544.64)	(155,967.26)
Shares of other comprehensive income of the investee accounted for using equity method that will be reclassified to profit or loss		(133,309.97)	(234,871.05)	(88,544.64)	(155,967.26)
Allowance of debt investments at FVOCI		1,099,671.28	2,999,800.89	-	-
Effective portion of gains or losses on hedging instruments in a cash flow hedge		(2,167,445.98)	689,923.74	-	-
Translation differences on translation of foreign currency financial statements		(77,493,881.18)	(258,479,423.69)	-	-
Attributable to minority interests		(1,954,124.34)	449,145.52	-	-
Total comprehensive income		5,039,850,393.72	6,765,534,456.34	1,481,332,580.05	1,663,279,660.43
Attributable to equity owners of the Company		3,643,233,814.98	5,390,222,545.28	Not applicable	Not applicable
Attributable to minority interests		1,396,616,578.74	1,375,311,911.06	Not applicable	Not applicable
Earnings per share	4(64)				
Basic earnings per share (RMB)		1.02	1.61	Not applicable	Not applicable
Diluted earnings per share (RMB)		1.02	1.61	Not applicable	Not applicable

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

Legal representative: Yang Qihua

Principal in charge of accounting: Shen Bo

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 December 2023

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	2023 Consolidated	2022 Consolidated	2023 Company	2022 Company
Cash flows from/(used in) operating activities					
Cash received from sales of goods or rendering of services		283,639,391,269.47	249,910,618,787.16	206,151,815.58	292,808,799.91
Refund of taxes and surcharges		113,743,387.01	301,039,086.97	-	1,830,018.26
Cash received relating to other operating activities	4(65)(a)	3,030,275,784.49	2,185,485,346.00	391,630,682.93	393,267,818.20
Sub-total of cash inflows		286,783,410,440.97	252,397,143,220.13	597,782,498.51	687,906,636.37
Cash paid for goods and services		(251,978,264,993.59)	(218,783,372,902.25)	(299,196,642.42)	(293,524,488.66)
Cash paid to and on behalf of employees		(9,896,044,336.21)	(9,154,060,898.28)	(337,781,144.16)	(259,458,651.25)
Payments of taxes and surcharges		(7,497,835,891.88)	(7,900,017,746.47)	(1,405,873.53)	(3,760,235.82)
Cash paid relating to other operating activities	4(65)(b)	(12,179,745,492.19)	(11,816,330,491.26)	(337,830,910.98)	(349,695,120.82)
Sub-total of cash outflows		(281,551,890,713.87)	(247,653,782,038.26)	(976,214,571.09)	(906,438,496.55)
Net cash flows from/(used in) operating activities	4(66)(a)	5,231,519,727.10	4,743,361,181.87	(378,432,072.58)	(218,531,860.18)
Cash flows used in investing activities					
Cash received from disposal of investments	4(65)(c)	26,878,643,654.99	29,387,100,000.00	26,853,300,000.00	29,387,100,000.00
Cash received from returns on investments		982,754,122.37	879,943,189.71	2,408,968,613.12	2,018,249,457.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		179,147,386.52	160,338,007.81	-	-
Net cash received from disposal of subsidiaries and other business units		500,000.00	106,800,079.70	-	6,812,374.58
Cash received relating to other investing activities	4(65)(e)	1,268,304,839.07	1,164,683,198.93	3,676,972,050.15	6,122,137,579.36
Sub-total of cash inflows		29,309,350,002.95	31,698,864,476.15	32,939,240,663.27	37,534,299,411.63
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(2,970,610,219.58)	(2,684,863,778.16)	(70,552,556.28)	(68,505,699.33)
Cash paid to acquire investments	4(65)(d)	(27,376,650,000.00)	(39,683,750,000.00)	(27,376,650,000.00)	(39,683,750,000.00)
Net cash paid to acquire subsidiaries and other business units	4(66)(b)	(357,077,909.96)	(84,332,523.97)	(323,300,000.00)	(26,400,000.00)
Cash paid relating to other investing activities	4(65)(f)	(1,096,884,711.93)	(1,719,042,353.48)	(6,813,262,289.09)	(4,645,745,403.02)
Sub-total of cash outflows		(31,801,222,841.47)	(44,171,988,655.61)	(34,583,764,845.37)	(44,424,401,102.35)
Net cash flows used in investing activities		(2,491,872,838.52)	(12,473,124,179.46)	(1,644,524,182.10)	(6,890,101,690.72)
Cash flows from financing activities					
Cash received from capital contributions		354,277,173.14	14,123,275,110.13	106,419,433.12	13,981,730,821.02
Including: Cash received from capital contributions by minority shareholders of subsidiaries		247,857,740.02	141,544,289.11	-	-
Cash received from borrowings		64,196,587,074.89	48,651,964,571.21	7,726,260,000.00	1,659,360,000.00
Cash received from issuance of debentures		14,996,763,333.32	14,992,508,333.36	14,996,763,333.32	14,992,508,333.36
Cash received relating to other financing activities	4(65)(g)	164,138,149.09	513,362,703.56	873,044,067.25	3,138,145,240.36
Sub-total of cash inflows		79,711,765,730.44	78,281,110,718.26	23,702,486,833.69	33,771,744,394.74
Cash repayments of borrowings		(72,338,337,862.02)	(59,808,668,525.07)	(19,702,200,000.00)	(19,750,392,561.76)
Cash payments for distribution of dividends, profits or interest expenses		(4,915,917,995.46)	(3,768,832,770.38)	(2,584,869,621.77)	(1,854,974,479.22)
Including: Cash payments for distribution of dividends or profits to minority shareholders of subsidiaries		(934,712,519.71)	(674,941,095.70)	-	-
Cash payments relating to other financing activities	4(65)(h)	(2,225,658,982.23)	(2,565,015,310.92)	(59,164,560.43)	(1,172,114,276.29)
Sub-total of cash outflows		(79,479,914,839.71)	(66,142,516,606.37)	(22,346,234,182.20)	(22,777,481,317.27)
Net cash flows from financing activities		231,850,890.73	12,138,594,111.89	1,356,252,651.49	10,994,263,077.47
Effect of foreign exchange rate changes on cash and cash equivalents		(5,580,083.93)	(12,440,028.24)	112,041.57	(5,545,270.60)
Net increase/(decrease) in cash and cash equivalents	4(66)(a)	2,965,917,695.38	4,396,391,086.06	(666,591,561.62)	3,880,084,255.97
Add: Cash and cash equivalents at beginning of period		24,533,891,305.82	20,137,500,219.76	8,596,322,955.64	4,716,238,699.67
Cash and cash equivalents at end of period	4(66)(d)	27,499,809,001.20	24,533,891,305.82	7,929,731,394.02	8,596,322,955.64

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

Legal representative: Yang Qiuhua

Principal in charge of accounting: Shen Bo

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 December 2023

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Attributable to equity owners of the Company						Minority interests	Total owners' equity
		Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserves	Undistributed profits		
Balance at 1 January 2022		2,842,089,322.00	16,070,723,052.49	-	(144,394,206.19)	1,992,463,708.39	28,598,598,034.67	9,706,730,225.74	59,066,210,137.10
Movements for the year ended 31 December 2022		855,456,850.00	13,027,380,718.38	-	(226,929,457.73)	166,343,562.77	3,881,274,304.45	1,232,714,942.46	18,936,240,920.33
Total comprehensive income									
Net profit	4(47)	-	-	-	-	-	5,617,152,003.01	1,374,862,765.54	6,992,014,768.55
Other comprehensive income	4(45)	-	-	-	(226,929,457.73)	-	-	449,145.52	(226,480,312.21)
Total comprehensive income		-	-	-	(226,929,457.73)	-	5,617,152,003.01	1,375,311,911.06	6,765,534,456.34
Capital contribution and withdrawal by owners									
Capital contribution by owners	4(43)	855,456,850.00	13,137,901,293.19	-	-	-	-	148,247,211.08	14,141,605,354.27
Amount recorded in owners' equity arising from share-based payment arrangements	4(44)	-	12,907,658.39	-	-	-	-	-	12,907,658.39
Others	4(44)	-	(123,428,233.20)	-	-	-	-	350,337,700.32	226,909,467.12
Profit distribution									
Appropriation to surplus reserves	4(46)	-	-	-	-	166,343,562.77	(166,343,562.77)	-	-
Profit distribution to equity owners	4(47)	-	-	-	-	-	(1,552,494,013.56)	(624,924,107.71)	(2,177,418,121.27)
Others	4(47)	-	-	-	-	-	(17,040,122.23)	(16,257,772.29)	(33,297,894.52)
Balance at 31 December 2022		3,697,546,172.00	29,098,103,770.87	-	(371,323,663.92)	2,158,807,271.16	32,479,872,339.12	10,939,445,168.20	78,002,451,057.43
Balance at 1 January 2023		3,697,546,172.00	29,098,103,770.87	-	(371,323,663.92)	2,158,807,271.16	32,479,872,339.12	10,939,445,168.20	78,002,451,057.43
Movements for the year ended 31 December 2023		5,754,882.00	89,545,384.66	-	(124,765,766.20)	148,142,112.47	1,342,460,549.19	862,504,745.38	2,323,641,907.50
Total comprehensive income									
Net profit	4(47)	-	-	-	-	-	3,767,999,581.18	1,398,570,703.08	5,166,570,284.26
Other comprehensive income	4(45)	-	-	-	(124,765,766.20)	-	-	(1,954,124.34)	(126,719,890.54)
Total comprehensive income		-	-	-	(124,765,766.20)	-	3,767,999,581.18	1,396,616,578.74	5,039,850,393.72
Capital contribution and withdrawal by owners									
Capital contribution by owners	4(43)	5,754,882.00	134,654,278.37	-	-	-	-	231,857,740.02	372,266,900.39
Amount recorded in owners' equity arising from share-based payment arrangements	4(44)	-	(29,421,342.76)	-	-	-	-	-	(29,421,342.76)
Others	4(44)	-	(15,687,550.95)	-	-	-	-	51,157,482.28	35,469,931.33
Profit distribution									
Appropriation to surplus reserves	4(46)	-	-	-	-	148,142,112.47	(148,142,112.47)	-	-
Profit distribution to equity owners	4(47)	-	-	-	-	-	(2,258,992,103.23)	(799,090,919.87)	(3,058,083,023.10)
Others	4(47)	-	-	-	-	-	(18,404,816.29)	(18,036,135.79)	(36,440,952.08)
Balance at 31 December 2023		3,703,301,054.00	29,187,649,155.53	-	(496,089,430.12)	2,306,949,383.63	33,822,332,888.31	11,801,949,913.58	80,326,092,964.93

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

Legal representative: Yang Qiuhua

Principal in charge of accounting: Shen Bo

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

COMPANY STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 December 2023

(All amounts in RMB Yuan unless otherwise stated)

Item	Note	Share capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserves	Undistributed profits	Total owners' equity
Balance at 1 January 2022		2,842,089,322.00	19,094,211,080.76	-	(146,268.20)	1,616,672,906.21	3,055,823,875.26	26,608,650,916.03
Movements for the year ended 31 December 2022		855,456,850.00	13,181,457,258.00	-	(155,967.26)	166,343,562.77	(55,401,948.64)	14,147,699,754.87
Total comprehensive income								
Net profit	15(6)	-	-	-	-	-	1,663,435,627.69	1,663,435,627.69
Other comprehensive income	15(5)	-	-	-	(155,967.26)	-	-	(155,967.26)
Total comprehensive income		-	-	-	(155,967.26)	-	1,663,435,627.69	1,663,279,660.43
Capital contribution and withdrawal by owners								
Capital contribution by owners		855,456,850.00	13,137,901,293.19	-	-	-	-	13,993,358,143.19
Amount recorded in owners' equity arising from share-based payment arrangements	15(4)	-	12,907,658.39	-	-	-	-	12,907,658.39
Others	15(4)	-	30,648,306.42	-	-	-	-	30,648,306.42
Profit distribution								
Appropriation to surplus reserves	15(6)	-	-	-	-	166,343,562.77	(166,343,562.77)	-
Profit distribution to equity owners	15(6)	-	-	-	-	-	(1,552,494,013.56)	(1,552,494,013.56)
Balance at 31 December 2022		3,697,546,172.00	32,275,668,338.76	-	(302,235.46)	1,783,016,468.98	3,000,421,926.62	40,756,350,670.90
Balance at 1 January 2023		3,697,546,172.00	32,275,668,338.76	-	(302,235.46)	1,783,016,468.98	3,000,421,926.62	40,756,350,670.90
Movements for the year ended 31 December 2023		5,754,882.00	115,862,598.95	-	(88,544.64)	148,142,112.47	(925,713,091.01)	(656,042,042.23)
Total comprehensive income								
Net profit	15(6)	-	-	-	-	-	1,481,421,124.69	1,481,421,124.69
Other comprehensive income	15(5)	-	-	-	(88,544.64)	-	-	(88,544.64)
Total comprehensive income		-	-	-	(88,544.64)	-	1,481,421,124.69	1,481,332,580.05
Capital contribution and withdrawal by owners								
Capital contribution by owners		5,754,882.00	134,654,278.37	-	-	-	-	140,409,160.37
Amount recorded in owners' equity arising from share-based payment arrangements	15(4)	-	(29,421,342.76)	-	-	-	-	(29,421,342.76)
Others	15(4)	-	10,629,663.34	-	-	-	-	10,629,663.34
Profit distribution								
Appropriation to surplus reserves	15(6)	-	-	-	-	148,142,112.47	(148,142,112.47)	-
Profit distribution to equity owners	15(6)	-	-	-	-	-	(2,258,992,103.23)	(2,258,992,103.23)
Balance at 31 December 2023		3,703,301,054.00	32,391,530,937.71	-	(390,780.10)	1,931,158,581.45	2,074,708,835.61	40,100,308,628.67

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

Legal representative: Yang Qihua

Principal in charge of accounting: Shen Bo

Head of accounting department: Shen Bo

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

1 General information

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

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

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

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

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

For the year ended 31 December 2023, according to the share-based payment plan, the Company totally issued 8,584,936 shares listed (A shares), of which 8,315,190 shares at an exercise price of RMB18.41 per share and 269,746 shares at an exercise price of RMB20.16 per share.

On 31 December 2023, the Company's share capital was RMB3,703,301,054.00 with a total share capital of 3,703,301,054.00 shares, of which, 2,784,228,350 (A shares) RMB-denominated ordinary shares listed in China, and 919,072,704 (H shares) overseas listed foreign shares.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

1 General information (Cont'd)

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

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

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

The controlling shareholder of the Company is Shanghai Pharmaceutical Group. Shanghai Shangshi is the controlling shareholder of Shanghai Pharmaceutical Group. Shanghai Shangshi is a state-owned enterprise, and its actual controller is Assets Supervision and Administration Commission of Shanghai Municipal Government (“SASAC”). Shanghai Industrial (Holdings) Co., Ltd. (“Shangshi Holdings”) is registered in Hong Kong, and its actual controller is SASAC. Shangshi Holdings is authorised to manage Shanghai Shangshi by SASAC. Therefore, the ultimate holding company is Shangshi Holdings.

Significant subsidiaries which are included in the scope of consolidation in this period are disclosed in Note 5.

These financial statements are authorised for issue by the Board of Directors of the Company on March 28, 2024.

2 Significant accounting policies and accounting estimates

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

Significant judgements, accounting estimates and key assumptions to determine the critical accounting policies are disclosed in Note 2(31).

(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 (2023 Revised) 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 2023**

(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 2023 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 2023 and their financial performance, cash flows and other information for the year ended 31 December 2023.

(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 2023

(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.

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(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.

(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.

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(All amounts in RMB Yuan unless otherwise stated)

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

(8) Foreign currency translation (Cont'd)

(b) Translation of foreign currency financial statements

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

(9) Financial instruments

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

(a) Financial assets

(i) Classification and measurement

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

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

Debt instruments

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

Amortised cost

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

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(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.

(ii) Impairment

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

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

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(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 (Cont'd)

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

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

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 various types of financial assets that are calculated for expected credit losses on an individual basis have credit risk characteristics that are significantly different from those of other financial assets in the same category. In cases where the ECL of an individually assessed financial asset cannot be evaluated with reasonable cost, the Group categorizes the receivables into different groups based on their shared risk characteristics, and calculates the ECL for each group respectively. The basis for the determination of grouping and the method of provision are as follows:

Group 1	Account receivables aging, taken initial recognition time as aging calculation start
Group 2	Notes receivables - bank acceptance notes
Group 3	Notes receivables - trade acceptance notes
Group 4	Receivables financing
Group 5	Compensation receivable from suppliers
Group 6	Guarantees (including deposits)
Group 7	Other receivables
Group 8	Amount due from subsidiaries

For accounts receivables, notes receivables and receivables financing resulting from transactions of daily operations such as sales of goods and provision of services on grouping basis, the Group considers the historical credit loss experience, current situation and forecasts of economic conditions to measure the ECL based on exposure at default and lifetime ECL ratio.

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

Impairment losses (and reversal of impairment losses) are recognized 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.

(iii) Derecognition

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

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

(b) Financial liability

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

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

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

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

(9) Financial instruments (Cont'd)

(c) Determination of fair value of financial instruments

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

(10) Inventories

(a) Classification

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

(b) Costing of inventories

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

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

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. For inventories that are produced and sold in the same region and have the same or similar use, the Group makes a consolidated provision for inventory valuation. For finished goods, the Group makes provision for decline in value of inventories based on factors such as the period of near expiration, state of storage, historical sales discounts and expected future sales.

(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.

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

(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.

(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. Long-term equity investments acquired through the issuance of securities are recognized at initial investment cost based on the fair value of the 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.

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

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

(b) Subsequent measurement and recognition of related profit and loss(Cont'd)

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

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

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

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

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

(d) Impairment of long-term equity investments

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

(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 earning shared by investees when the equity method is terminated. For a portion of long-term equity investment accounted for using the equity method by the Group, the relevant other comprehensive income under equity method previously is determined as if the relevant assets or liabilities are derecognised directly by the Group if the equity method is applied to the residual part of the equity investments on a pro-rata basis according to the proportion of disposal; other owner's equity with the exception of net profit or loss, other comprehensive income and retained earning shared by investees is transferred to investment income in the current period on a pro-rata basis.

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

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

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

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

(12) Investment properties

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

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

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))

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

(13) Fixed assets

(a) Recognition and initial measurement of fixed assets

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

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

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

(b) Depreciation method of fixed assets

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

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

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

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

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

(d) Disposal of fixed assets

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

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

(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.

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.

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

(16) Biological assets (Cont'd)

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

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

(17) Intangible assets

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

(a) Land use rights

Land use rights are amortised on the straight-line basis over the useful lives of 30-50 years. The land use right is amortised evenly. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Business network

Business network acquired in a business combination are recognised at fair value at the acquisition date. Business network is amortised using the straight-line method over its estimated useful lives of 5-20 years.

(c) Brands and trademarks

Brands acquired in a business combination are recognised at fair value at the acquisition date. Brands have indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows. Brands with indefinite useful lives are not amortised are assessed for impairment on an annual basis. Trademarks are amortised using the straight-line method over their estimated useful lives of 10-20 years.

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

(17) Intangible assets (Cont'd)

(d) Know-how

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

(e) Patent rights

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

(f) Software

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

(g) Periodical review of useful life and amortisation method

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

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

(h) Research and development

The Group's research and development expenditures mainly include expenditures on materials consumed for the implementation of the Group's research and development activities, salaries of employees in the research and development department, depreciation and amortization of assets used in research and development, such as equipment and software, research and development inspection fees, outsourcing of licensing rights and research and development technical service fees.

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

(17) Intangible assets (Cont'd)

(h) Research and development (Cont'd)

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

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

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

(i) Impairment of intangible assets

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

(18) Long-term prepaid expenses

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

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

(19) Impairment of long-term assets

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

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

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

(20) Employee benefits

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

(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 employee benefits payable.

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

(21) Profit distribution

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

(22) Provisions

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

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

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

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

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

(23) Revenue recognition

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

(a) Sales of goods

Sales are recognised when the products have been shipped to the specific location in accordance with the sales contract and the customers have inspected and accepted the products. The sales are made with a credit term varied by customers' credit risk characteristics, which is consistent with market practices. Advance received from customers due from the obligation of transfer goods is presented as contract liabilities in the balance sheet.

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

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

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

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

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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 taxpayer within the Group and the same taxation authority; and,
- that taxpayer 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 conditions permitted by the Ministry of Finance are accounted for by applying the practical expedient. For a lease modification which decreases the scope of the lease or shortens the lease term, the Group decreases the carrying amount of the right-of-use asset and recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. For other leases which lead to the remeasurement of lease liabilities, the Group correspondingly adjusts the carrying amount of the right-of-use asset.

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

The Group as the lessor

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

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.

(a) Operating leases

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 charge 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) Debt restructurings

Debt restructuring refers to a transaction where the terms of debt repayment, such as timing, amount, or method, are renegotiated through an agreement between the creditor and debtor or a court ruling without changing the counterparty to the transaction.

The Group as creditor

For debtors to offset the debt of the group using non-financial assets such as inventory and fixed assets, the initial cost of the acquired non-financial assets is determined based on the fair value of the abandoned claims, as well as other costs directly attributable to the asset that occur before it reaches its current location and condition or its intended use, including taxes and other relevant expenses. The difference between the fair value and the book value of the claims abandoned by the group is recognized in the current period's profit or loss.

In addition, when debt restructuring is carried out by modifying other terms, resulting in the derecognition of the original claim, the group initially measures the restructured claim at fair value in accordance with the modified terms. The difference between the amount recognized for the restructured claim and the book value of the original claim on the derecognition date is recognized in the current period's profit or loss. If the modification of other terms does not lead to the derecognition of the original claim, the original claim continues to be measured subsequently in its original classification, and any gains or losses arising from the modification are recognized in the current period's profit or loss.

The Group as debtor

If the Group as debtor conducts debt restructuring through asset repayment of debts, it shall be terminated when the relevant assets and settled debts meet the termination recognition conditions. The difference between the book value of settled debts and the book value of transferred assets shall be recognized in profit or loss for the current period.

In addition, when debt restructuring is conducted by modifying other terms, leading to the derecognition of the original debt, the group initially measures the restructured debt at fair value in accordance with the modified terms. The difference between the amount recognized for the restructured debt and the book value of the original debt on the derecognition date is recognized in the current period's profit or loss. If the modification of other terms does not result in the derecognition of the original debt, the original debt continues to be measured subsequently in its original classification, and any gains or losses arising from the modification are recognized in the current period's profit or loss.

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

(28) 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)

(29) Held for sale and discontinued operations

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

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

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

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

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

(30) 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)

(31) Critical accounting estimates and judgements

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

(a) Critical accounting judgements and key assumptions

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

(i) Useful life of fixed assets

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

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

(ii) Useful lives of business network

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

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

(iii) Accounting estimates on impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups or groups of asset groups is the higher of fair value less the cost of disposal and the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 4(22)).

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

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

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

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

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion, selling expense and related tax. For inventories with expiration management, management determined the provision for inventory based on the level of inventories close to expiration date taking into consideration of good return arrangement with suppliers and estimated probability of selling. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(v) Measurement of expected credit loss

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

When considering forward-looking information, the Group takes into account different macroeconomic scenarios. The Group regularly monitors and reviews important macroeconomic assumptions and parameters related to the calculation of expected credit losses, including the risk of economic downturn, external market environment, technological environment, Gross Domestic Product ("GDP") and Consumer Price Index ("CPI"), etc. The key macroeconomic parameters are set differently in favourable, benchmark and unfavourable economic scenario. For the mostly used parameter GDP, are 5.65%, 4.40% and 3.00% respectively(2022: 6.25%, 4.90% and 2.75%). The Group monitors and reviews assumptions related to the calculation of expected credit losses on a regular basis. For the year ended 31 December 2023, the Group had considered the uncertainties arising from different macroeconomic scenarios and updated relevant assumptions and parameters accordingly.

(vi) Current and deferred income tax

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

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(All amounts in RMB Yuan unless otherwise stated)

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

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

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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(All amounts in RMB Yuan unless otherwise stated)

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

(31) 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

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

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

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

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	15%, 16.5%, 25%, 30%
Value-added tax ("VAT") (b)	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.

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(All amounts in RMB Yuan unless otherwise stated)

3 Taxation (Cont'd)

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

- (b) According to the Announcement on the Policy of Value Added Tax Deduction for Advanced Manufacturing Enterprises issued by the Ministry of Finance and the State Administration of Taxation (Announcement No. 43 of the Ministry of Finance and the State Administration of Taxation [2023]), our subsidiaries Shanghai Jinhe Biopharmaceutical Co., Ltd., Shanghai Shangyao Zhongxi Pharmaceutical Co., Ltd., Shanghai Zhongxi 3D Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Nantong Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Shangyao Shenxiang Health Pharmaceutical Co., Ltd., Shanghai Shangyao Xingling Technology Pharmaceutical Co., Ltd., Zhejiang Shangyao Jiuxu Pharmaceutical Co., Ltd., Shanghai Leiyunshang Pharmaceutical Co., Ltd., Shandong Xinyi Pharmaceutical Co., Ltd., Shanghai Hefeng Pharmaceutical Co., Ltd., and Shanghai Shangyao Xinyi Pharmaceutical Co., Ltd. Yi Pharmaceutical Co., Ltd., Shanghai Xinyi Jinzhu Pharmaceutical Co., Ltd., Shanghai Xinyi Tianping Pharmaceutical Co., Ltd., Shanghai Xinyi Wanxiang Pharmaceutical Co., Ltd., Shanghai Xinyi Yan'an Pharmaceutical Co., Ltd., Tianjin Xinyi Jinjin Pharmaceutical Co., Ltd., Shanghai Shangyao Xinya Pharmaceutical Co., Ltd., Shanghai Xinya Pharmaceutical Minhang Co., Ltd., Liaoning Meiya Pharmaceutical Co., Ltd., Shanghai Haichang Medical Plastics Co., Ltd Hangzhou Huqingyutang Pharmaceutical Co., Ltd., Liaoning Shangyao Haonurse Pharmaceutical (Group) Co., Ltd., Xiamen Traditional Chinese Medicine Factory Co., Ltd., Shangyao Dongying (Jiangsu) Pharmaceutical Co., Ltd., Zhengda Qingchun Bao Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Group Qingdao Guofeng Pharmaceutical Co., Ltd., Shangyao Kangli (Changzhou) Pharmaceutical Co., Ltd., Shanghai Shangyao First Biochemical Pharmaceutical Co., Ltd., Guangdong Tianpu Biochemical Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Changzhou Pharmaceutical Factory Co., Ltd., Nantong Changyou Pharmaceutical Technology Co., Ltd., as advanced manufacturing enterprises, from January 1, 2023 to December 31, 2027, according to the current deductible input, Add 5% to the tax amount to offset the value-added tax payable.

(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 2023 and 31 December 2022.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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3 Taxation (Cont'd)

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

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

Subsidiaries Shanghai Jinhe Biopharmaceutical Co., Ltd., Shanghai Shangyao Zhongxi Pharmaceutical Co., Ltd., Shanghai Zhongxi Sanwei Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Nantong Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd., Shanghai Shangyao Shenxiang Health Pharmaceutical Co., Ltd., Shanghai Shangyao Xingling Technology Pharmaceutical Co., Ltd., Zhejiang Shangyao Jiuxu Pharmaceutical Co., Ltd., Shanghai Leiyunshang Pharmaceutical Co., Ltd., Gansu Xinyi Tianshen Pharmaceutical Co., Ltd., Shandong Xinyi Pharmaceutical Co., Ltd., Shanghai Hefeng Pharmaceutical Co., Ltd., Shanghai Shangyao Xinyi Pharmaceutical Co., Ltd., Shanghai Xinyi Jinzhu Pharmaceutical Co., Ltd., Shanghai Xinyi Tianping Pharmaceutical Co., Ltd., Shanghai Xinyi Wanxiang Pharmaceutical Co., Ltd. Industry Co., Ltd., Shanghai Xinyi Yan'an Pharmaceutical Co., Ltd., Tianjin Xinyi Jinjin Pharmaceutical Co., Ltd., Shanghai Shangyao Xinya Pharmaceutical Co., Ltd., Shanghai Xinya Pharmaceutical Minhang Co., Ltd., Liaoning Meiya Pharmaceutical Co., Ltd., Shanghai Haichang Medical Plastics Co., Ltd., Haisilinke (Beijing) Information Technology Co., Ltd., Hangzhou Huqingyutang Pharmaceutical Co., Ltd., Liaoning Shangyao Haonurse Pharmaceutical (Group) Co., Ltd Xiamen Traditional Chinese Medicine Factory Co., Ltd., Shangyao Dongying (Jiangsu) Pharmaceutical Co., Ltd., Shanghai Pharmaceutical Group Qingdao Guofeng Pharmaceutical Co., Ltd., Shangyao Kangli (Changzhou) Pharmaceutical Co., Ltd., Shanghai Huantong Business Technology Co., Ltd., Guangdong Tianpu Biochemical Pharmaceutical Co., Ltd., Shanghai Shangyao First Biochemical Pharmaceutical Co., Ltd., Shanghai Ziyuan Pharmaceutical Co., Ltd., Changzhou Pharmaceutical Factory Co., Ltd., Nantong Changyou Pharmaceutical Technology Co., Ltd., and others have been recognized as high-tech enterprises. According to Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the applicable enterprise income tax rate for the company as of 2023 is 15%.

Subsidiary companies including Shanghai Pharmaceutical Science Park Xinhai Pharmaceutical (Enshi) Co., Ltd., Shanghai Pharmaceutical Holdings (Tongliao) Co., Ltd., Shanghai Pharmaceutical Kangdele (Chongqing) Pharmaceutical Co., Ltd., Sichuan Biological Products Co., Ltd., Qiannan Pharmaceutical Co., Ltd., Chifeng Aike Pharmaceutical Technology Co., Ltd., Chifeng Mengxin Pharmaceutical Co., Ltd., Yunnan Pharmaceutical Co., Ltd., Inner Mongolia Pharmaceutical Co., Ltd., Chongqing Medical Equipment Co., Ltd., and Chongqing Pharmaceutical Co., Ltd. have been recognized as encouraged enterprises in the western region. According to the Announcement of the State Administration of Taxation on the Measures for Handling Preferential Policies for Enterprise Income Tax (Announcement No. 23 of 2018), the applicable enterprise income tax rate for the company as of 2023 is 15%.

Subsidiary Shanghai Pharmaceutical Science Park Xinhai Hainan Co., Ltd. has been recognized as an encouraged industrial enterprise in Hainan Free Trade Port. According to the relevant provisions of the Notice on Preferential Policies for Enterprise Income Tax in Hainan Free Trade Port issued by the State Administration of Taxation (Caishui [2020] No. 31), the applicable enterprise income tax rate for the company as of 2023 is 15%.

Subsidiary companies such as Shangyao Group (Dali) Taxus Biology Co., Ltd., Dehua Traditional Chinese Medicine Products Co., Ltd., Sichuan Shangyao Shendu Traditional Chinese Medicine Co., Ltd., Shanghai Yutiancheng Traditional Chinese Medicine Decoction Co., Ltd., and Shanghai Huapu Traditional Chinese Medicine Decoction Co., Ltd. are engaged in forest cultivation and planting, as well as forest product collection. According to Article 86 (1) of the Implementation Regulations of the Enterprise Income Tax Law, the enterprise income tax can be exempted. As of 2023, the enterprise income tax rate applicable to the above-mentioned companies is 0%.

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(All amounts in RMB Yuan unless otherwise stated)

3 Taxation (Cont'd)

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

Subsidiaries include Shanghai Qiyi Dental Equipment Co., Ltd., Shanghai Shangyi Kangge Medical Equipment Co., Ltd., Changshu Shangchi Dental Materials Co., Ltd., Shanghai Wuzhou Medical Equipment Co., Ltd., Shanghai Leishan Fentang Traditional Chinese Medicine Outpatient Department Co., Ltd., Shangyao Huayu (Linyi) Traditional Chinese Medicine Resources Co., Ltd., Shandong Shangyao Traditional Chinese Medicine Decoction Co., Ltd., Shanghai Xinde Traditional Chinese Medicine Co., Ltd., and Shangyao Keyuan Health Pharmacy (Luoyang) Co., Ltd. Shaanxi Shangyao Medical Equipment Co., Ltd., Shangyao Keyuan Pharmacy Heilongjiang Co., Ltd., Beijing Xinhai Keyuan Pharmacy Co., Ltd., Beijing He'an Changtai Pharmacy Co., Ltd., Jilin Shangyao Keyuan Pharmacy Co., Ltd., Shangyao Keyuan Pharmacy Jilin Co., Ltd., Shangyao Keyuan Xinhai Medical Equipment Jilin Co., Ltd., Keyuan Pharmacy Jilin City Co., Ltd., Beijing Xinhai Chengkang Pharmacy Co., Ltd. Shangyao Keyuan Health Pharmacy (Henan) Co., Ltd., Shaanxi Shangyao Pharmacy Co., Ltd., Shangyao Keyuan Pharmacy (Hainan) Co., Ltd., Shangyao Keyuan Pharmacy Shijiazhuang Co., Ltd., Qingdao Yanhuang Yiyi Culture Communication Co., Ltd., Liaoning Shangyao Technology Development Co., Ltd., Shangyao Minhang (Shanghai) Pharmaceutical Co., Ltd., Shanghai Shangyao New Extra Large Pharmacy Co., Ltd., Ningbo Cishui Pharmacy Co., Ltd. Ningbo Haishu Xinzhi Pharmaceutical Retail Co., Ltd., Pingdu Shangyao Pharmacy Co., Ltd., Shanghai Yueyi Huashi Yutiancheng Outpatient Department Co., Ltd., Shanghai Huashi Western Pharmacy Co., Ltd., Shanghai Huashi Yimeijian Pharmacy Co., Ltd., Shanghai Huafen Cosmetics Co., Ltd., Shanghai Huashi North District Pharmacy Co., Ltd., Shanghai Leiyunshang Wuxing Traditional Chinese Medicine Outpatient Department Co., Ltd. Shanghai Leiyunshang Pingshun Traditional Chinese Medicine Outpatient Department Co., Ltd., Shanghai Yutiancheng Pharmaceutical Chain Co., Ltd., Shanghai Yunhu Pharmaceutical Chain Operation Co., Ltd., Shanghai Pharmaceutical Equipment (Hangzhou) Co., Ltd., Shanghai Pharmaceutical Science Park Xinhai Biological Products (Beijing) Co., Ltd., Shanghai Pharmaceutical Tongshan (Shenyang) Co., Ltd., Shanghai Pharmaceutical Tongshan (Panjin) Co., Ltd., and Wuhan Kehaiyuan Pharmacy Chain Co., Ltd. have been recognized as small and micro enterprises. According to the Announcement of the State Administration of Taxation on Further Implementing Preferential Policies for Small and Micro Enterprise Income Tax (State Administration of Taxation Announcement No. 13, 2022), the Announcement of the Ministry of Finance and the State Administration of Taxation on Clarifying Policies for Value Added Tax Reduction and Exemption for Small scale Taxpayers (State Administration of Taxation Announcement No. 1, 2023), and the Announcement on Preferential Policies for Income Tax of Small and Micro Enterprises and Individual Businesses According to the relevant provisions of Announcement No. 6 of the State Administration of Taxation in 2023, companies with monthly sales of less than 100,000 yuan (including the principal amount) are exempt from paying value-added tax; The portion of annual taxable income not exceeding 1 million yuan shall be reduced by 25% and included in the taxable income, and enterprise income tax shall be paid at a rate of 20%; For the portion of annual taxable income exceeding 1 million yuan but not exceeding 3 million yuan, a reduction of 25% shall be included in the taxable income, and enterprise income tax shall be paid at a rate of 20%.

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**NOTES TO THE FINANCIAL STATEMENTS
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4 Notes to consolidated financial statement items

(1) Cash at bank and on hand

	31 December 2023	31 December 2022
Cash on hand	2,848,490.78	5,257,740.96
Cash at bank	23,331,668,230.42	20,611,935,516.50
Financial company deposits	4,165,292,280.00	3,916,698,048.36
Others	3,017,897,441.84	2,867,504,662.61
	<u>30,517,706,443.04</u>	<u>27,401,395,968.43</u>
Including: cash at bank and on hand overseas	<u>1,077,184,992.12</u>	<u>713,212,994.19</u>

As at 31 December 2023, there was no restricted cash at bank and on hand in the cash at bank of the Group (31 December 2022: Nil); other cash balances of RMB1,798,948,552.14 were pledged as collateral by the Group for the purpose of bank acceptance notes (31 December 2022: RMB1,575,631,959.74); other cash balances of RMB23,067,390.21 were pledged as collateral by the Group for the purpose of letters of credit (31 December 2022: RMB47,581,074.67); other cash balances of RMB1,045,000,000.00 were time deposits due over three months (31 December 2022: RMB1,081,341,000.00); other restricted cash balances were RMB150,881,499.49 (31 December 2022: RMB162,950,628.20).

(2) Financial assets held for trading

	31 December 2023	31 December 2022
Structured deposit	<u>10,152,154,821.92</u>	<u>9,613,554,659.84</u>

(3) Derivative financial assets and derivative financial liabilities

	31 December 2023	31 December 2022
Derivative financial assets		
—forward foreign exchange contract(i)	<u>2,596,393.11</u>	<u>4,820,057.40</u>
Derivative financial liabilities		
—forward foreign exchange contract (i)	<u>2,316,492.78</u>	<u>1,569,907.10</u>

(i) As at 31 December 2023 and 31 December 2022, the derivatives financial assets and derivative financial liabilities were mainly forward foreign exchange contracts held by the Group(Note 12(1)(a)).

(4) Notes receivables

	31 December 2023	31 December 2022
Bank acceptance notes	1,433,396,793.80	1,303,310,018.04
Trade acceptance notes	487,807,463.65	506,739,521.68
Less: Provision for bad debts	(12,555,301.97)	(10,465,128.17)
	<u>1,908,648,955.48</u>	<u>1,799,584,411.55</u>

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

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

(4) Notes receivables (Cont'd)

- (a) As at 31 December 2023, notes receivable endorsed or discounted but unmatured for the Group were listed as follows:

	Not derecognised
Bank acceptance notes	285,069,419.68
Trade acceptance notes	56,044,838.10
	<u>341,114,257.78</u>

For the year ended 31 December 2023, 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 generated from business activities such as selling goods and providing services, regardless of whether there is a significant financing component, the Group calculates loss provisions in accordance with the expected credit losses throughout the lifetime.

The bad debt provision for accounts receivable is analysed by category as follows:

	31 December 2023				31 December 2022			
	Account Balance		Amount of bad debt provision		Account Balance		Amount of bad debt provision	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Provision for bad debts made on an individual basis (i)	-	-	-	-	-	-	-	-
Provision for bad debts made on a collective basis (ii)	1,921,204,257.45	100.00%	(12,555,301.97)	0.65%	1,810,049,539.72	100.00%	(10,465,128.17)	0.58%
	<u>1,921,204,257.45</u>	<u>100.00%</u>	<u>(12,555,301.97)</u>	<u>0.65%</u>	<u>1,810,049,539.72</u>	<u>100.00%</u>	<u>(10,465,128.17)</u>	<u>0.58%</u>

- (i) As at 31 December 2023, the Group had no notes receivable with individual provision for bad debts (December 31, 2022: none).
- (ii) As at 31 December 2023, notes receivable for which the related provision for bad debts were provided on the grouping basis were analysed as follows:

Group - Bank acceptance notes:

As at 31 December 2023, the Group measured the provision for bad debts of notes receivables based on the lifetime expected credit losses, and the related amount was RMB 10,752,539.85 (31 December 2022: RMB 5,641,014.86), included in the current profit and loss of RMB 5,111,524.99 (2022: RMB 1,791,042.71). The Group measured that there is no significant credit risk associated with the bank acceptance bills held in this portfolio, and there will be no significant losses due to bank defaults.

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

(4) Notes receivables (Cont'd)

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

(ii) Group - Trade acceptance notes:

As at 31 December 2023, the Group measured the provision for bad debts of notes receivables based on the lifetime expected credit losses. The related amount was RMB 1,802,762.12 (31 December 2022: RMB 4,824,113.31), and the amount of RMB (3,021,351.19) was included in the current profit and loss(2022: RMB 1,675,150.29).

(iii) The amount of bad debt provision made for the current year was RMB 2,090,173.80.

(iv) As at 31 December 2023, the Group had no notes receivable written off.

(5) Accounts receivables

	31 December 2023	31 December 2022
Accounts receivables	75,160,642,157.17	68,774,584,380.90
Less: Provision for bad debts	<u>(2,226,761,040.00)</u>	<u>(2,014,730,430.45)</u>
	<u>72,933,881,117.17</u>	<u>66,759,853,950.45</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.

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

	31 December 2023	31 December 2022
Within 1 year	71,650,272,850.62	66,016,263,778.32
1-2 years	2,346,935,563.50	1,699,867,768.66
Above 2 years	<u>1,163,433,743.05</u>	<u>1,058,452,833.92</u>
	<u>75,160,642,157.17</u>	<u>68,774,584,380.90</u>

(b) As at 31 December 2023, 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>4,124,811,062.78</u>	<u>(18,926,473.24)</u>	<u>5.49%</u>

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

For the year ended 31 December 2023, the Group conducted non-recourse factoring for a few accounts receivables, and almost all risks and rewards of ownership have been transferred to other parties. The balance of accounts receivables that was derecognised due to factoring without resource was RMB18,780,731,299.22 (31 December 2022: RMB11,349,646,517.88). The provision for bad debts was RMB454,748,660.49 (31 December 2022: RMB36,082,048.03), and related loss were RMB187,598,478.68 included in investment income (31 December 2022: RMB80,508,182.24) (Note 4(58)).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(5) 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.

The provision for bad debts on accounts receivables is analysed by category as below:

	31 December 2023				31 December 2022			
	Accounts balance		Provision for bad debts		Accounts balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Provision for bad debts made on an individual basis (i)	422,039,147.36	0.56%	(422,039,147.36)	100.00%	436,093,505.65	0.63%	(436,093,505.65)	100.00%
Provision for bad debts made on a collective basis(ii)	74,738,603,009.81	99.44%	(1,804,721,892.64)	2.41%	68,338,490,875.25	99.37%	(1,578,636,924.80)	2.31%
	<u>75,160,642,157.17</u>	<u>100.00%</u>	<u>(2,226,761,040.00)</u>	<u>2.96%</u>	<u>68,774,584,380.90</u>	<u>100.00%</u>	<u>(2,014,730,430.45)</u>	<u>2.93%</u>

(i) As at 31 December 2023, the analysis of provision for bad debts for individual accounts receivables is as follows:

	Accounts balance	Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Accounts receivable 1	121,103,445.32	100.00%	(121,103,445.32)	Through assessment, provision on an individual basis
Accounts receivable 2	32,217,861.48	100.00%	(32,217,861.48)	Through assessment, provision on an individual basis
Accounts receivable 3	31,916,220.45	100.00%	(31,916,220.45)	Through assessment, provision on an individual basis
Accounts receivable 4	11,546,794.10	100.00%	(11,546,794.10)	Through assessment, provision on an individual basis
Others	<u>225,254,826.01</u>	<u>100.00%</u>	<u>(225,254,826.01)</u>	Through assessment, provision on an individual basis
	<u>422,039,147.36</u>		<u>(422,039,147.36)</u>	

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

(5) Accounts receivables (Cont'd)

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

As at 31 December 2022, the analysis of provision for bad debts for individual accounts receivables is as follows:

	Accounts balance	Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Accounts receivable 1	121,103,445.32	100.00%	(121,103,445.32)	Through assessment, provision on an individual basis
Accounts receivable 2	32,217,861.48	100.00%	(32,217,861.48)	Through assessment, provision on an individual basis
Accounts receivable 3	31,916,220.45	100.00%	(31,916,220.45)	Through assessment, provision on an individual basis
Accounts receivable 4	11,546,794.10	100.00%	(11,546,794.10)	Through assessment, provision on an individual basis
Others	<u>239,309,184.30</u>	100.00%	<u>(239,309,184.30)</u>	Through assessment, provision on an individual basis
	<u>436,093,505.65</u>		<u>(436,093,505.65)</u>	

(ii) As at 31 December 2023 and 31 December 2022, the analysis of bad debt provisions of accounts receivables on grouping basis is as follows:

	31 December 2023		
	Accounts balance	Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount
Within 6 months	58,693,211,067.08	0.34%	(201,312,049.21)
6 – 12 months	12,930,789,281.73	2.11%	(272,989,443.87)
1 – 2 years	2,336,857,898.03	23.65%	(552,675,636.59)
Above 2 years	<u>777,744,762.97</u>	100.00%	<u>(777,744,762.97)</u>
	<u>74,738,603,009.81</u>		<u>(1,804,721,892.64)</u>
	31 December 2022		
	Accounts balance	Provision for bad debts	
	Amount	Expected credit loss rate throughout the lifetime	Amount
Within 6 months	55,343,835,021.98	0.47%	(261,901,871.13)
6 – 12 months	10,655,012,986.05	2.62%	(279,435,795.89)
1 – 2 years	1,671,623,974.41	22.09%	(369,280,364.97)
Above 2 years	<u>668,018,892.81</u>	100.00%	<u>(668,018,892.81)</u>
	<u>68,338,490,875.25</u>		<u>(1,578,636,924.80)</u>

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

(5) Accounts receivables (Cont'd)

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

(iii) For the year ended 31 December 2023, the provision for bad debts on an individual basis amounted to RMB19,595,788.74 (for the year ended 31 December 2022: RMB40,390,512.71). RMB33,269,287.85 (for the year ended 31 December 2022: RMB21,710,136.11) was collected or reversed, and the relevant balance was RMB33,269,287.85 (for the year ended 31 December 2022: RMB21,710,136.11). The significant amounts collected or reversed were as follows:

	Reasons for reversal/collection	Basis and appropriateness for determining the original provision for bad debts	Amount of reversal/collection	Collection method
Accounts receivable 1	Collection in the current year	Through assessment, provision on an individual basis	5,429,946.51	Cash
Accounts receivable 2	Collection in the current year	Through assessment, provision on an individual basis	4,054,325.21	Cash
Accounts receivable 3	Collection in the current year	Through assessment, provision on an individual basis	3,100,000.00	Cash
Others	Collection in the current year	Through assessment, provision on an individual basis	20,685,016.13	Cash
			<u>33,269,287.85</u>	

(e) For the year ended 31 December 2023, RMB17,674,919.01 accounts receivables were written off by the Group, and the relevant provision for bad debts amounted to RMB17,674,919.01, 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	4,867,780.84	Long aging and unable to collect	Management approval and special audit	No
Accounts receivable 2 Payment for goods	3,490,973.04	Long aging and unable to collect	Management approval and special audit	No
Others Payment for goods	9,316,165.13	Long aging and unable to collect	Management approval and special audit	No
	<u>17,674,919.01</u>			

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

(6) Receivables financing

	31 December 2023	31 December 2022
Bank acceptance notes	<u>2,320,106,012.96</u>	<u>1,627,386,138.71</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. In 2023, the Group terminated the recognition of bank acceptance bills with book values of RMB 6,072,770,237.14 and RMB 7,651,284,896.39 (2022: RMB 6,085,024,243.04 and RMB 5,859,810,285.35) due to the endorsement and discounting of bank acceptance bills, and almost all risks and rewards of ownership have been transferred to other parties. The related discounting losses amounted to RMB 56,522,117.60 and were included in investment income (2022: RMB 60,638,821.30) (Note 4 (58)).

As at 31 December 2023, the Group believes that the credit risk characteristics of the bank acceptance bills held are similar, and there is no bank acceptance bills for which provisions are made on an individual basis. In addition, the Group believes that the bank acceptance bills held do not pose significant credit risks and will not incur significant losses due to bank defaults. The Group measured the provision for bad debts based on the lifetime expected credit losses. The related amount was RMB 9,110,039.80 (31 December 2022: RMB 7,633,278.59), and the amount of RMB 1,476,761.21 was included in the current profit and loss (2022: RMB 2,808,577.02).

As at 31 December 2023, notes receivable endorsed or discounted but unmatured as shown in the receivables financing were as follows:

	Derecognised
Bank acceptance notes	<u>4,067,986,300.34</u>

As of December 31, 2023, the Group had no pledged accounts receivable financing.

There were no write-off of significant accounts receivable financing in the Group for the year of 2023 (2022: none).

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

(7) Advances to suppliers

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

	31 December 2023		31 December 2022	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	3,141,734,077.25	98.49%	3,797,016,905.05	98.18%
Above 1 year	48,310,230.15	1.51%	70,565,793.52	1.82%
	<u>3,190,044,307.40</u>	<u>100.00%</u>	<u>3,867,582,698.57</u>	<u>100.00%</u>

As at 31 December 2023, advances to suppliers aged over 1 year were RMB48,310,230.15 (31 December 2022: RMB70,565,793.52), which were mainly advances of raw materials.

(b) As at 31 December 2023, 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>252,152,035.78</u>	<u>7.90%</u>

(8) Other receivables

	31 December 2023	31 December 2022
Compensation receivable from suppliers	1,550,087,981.00	1,133,691,130.84
Guarantees (including deposits)	1,085,198,430.37	803,671,452.23
Receivables from enterprises	330,079,830.50	380,375,569.12
Dividends receivable	239,185,992.06	54,661,017.74
Reserves	50,084,485.48	58,115,897.52
Others	962,447,253.20	949,317,636.82
	<u>4,217,083,972.61</u>	<u>3,379,832,704.27</u>
Less: Provision for bad debts	<u>(835,950,075.72)</u>	<u>(805,018,563.21)</u>
	<u>3,381,133,896.89</u>	<u>2,574,814,141.06</u>

The Group has no funds pooled with other parties and classified as other receivables due to centralized fund management.

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

	31 December 2023	31 December 2022
Within 1 year	2,786,392,569.59	2,181,720,924.43
1-2 years	278,198,844.81	272,197,726.50
Above 2 years	1,152,492,558.21	925,914,053.34
	<u>4,217,083,972.61</u>	<u>3,379,832,704.27</u>

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

(8) Other receivables (Cont'd)

(b) Provision for bad debts and accounts balance movement

The provision for bad debts on other receivables is analyzed by category as below:

	31 December 2023				31 December 2022			
	Accounts balance		Provision for bad debts		Accounts balance		Provision for bad debts	
	Amount	% of total balance						
Provision for bad debts made on an individual basis (i)	565,416,462.73	13.41%	(565,416,462.73)	100.00%	484,630,874.18	14.34%	(484,630,874.18)	100.00%
Provision for bad debts made on a collective basis(ii)	3,651,667,509.88	86.59%	(270,533,612.99)	7.41%	2,895,201,830.09	85.66%	(320,387,689.03)	11.07%
	<u>4,217,083,972.61</u>	<u>100.00%</u>	<u>(835,950,075.72)</u>	<u>19.82%</u>	<u>3,379,832,704.27</u>	<u>100.00%</u>	<u>(805,018,563.21)</u>	<u>23.82%</u>

(i) As at 31 December 2023, 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	46,975,257.94	100.00%	(46,975,257.94)	Unable to collect
Other receivable 3	41,505,667.38	100.00%	(41,505,667.38)	Unable to collect
Other receivable 4	34,033,754.45	100.00%	(34,033,754.45)	Unable to collect
Others	322,901,782.96	100.00%	(322,901,782.96)	Unable to collect
	<u>565,416,462.73</u>		<u>(565,416,462.73)</u>	

As at 31 December 2022, the analysis of provision for bad debts for individual other receivables is as follows:

	Accounts balance	The third stage — Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Other receivable 1	120,000,000.00	100.00%	(120,000,000.00)	Unable to collect
Other receivable 2	41,505,667.38	100.00%	(41,505,667.38)	Unable to collect
Other receivable 3	34,033,754.45	100.00%	(34,033,754.45)	Unable to collect
Other receivable 4	33,375,018.03	100.00%	(33,375,018.03)	Unable to collect
Others	255,716,434.32	100.00%	(255,716,434.32)	Unable to collect
	<u>484,630,874.18</u>		<u>(484,630,874.18)</u>	

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

(8) Other receivables (Cont'd)

(ii) As at 31 December 2023, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

	31 December 2023			31 December 2022		
	Accounts balance	Provision for bad debts	% of	Accounts balance	Provision for bad debts	% of
	Amount	Amount	total balance	Amount	Amount	total balance
The first stage - Expected credit loss rate within the next 12 months on grouping basis						
Compensation receivable from suppliers	1,527,705,353.00	(10,530,096.69)	0.69%	1,088,022,216.03	(10,601,531.08)	0.97%
Guarantees (including deposits)	1,079,606,173.55	(13,237,592.44)	1.23%	800,017,364.10	(14,800,399.15)	1.85%
Dividends receivable	239,185,992.06	(119,998.58)	0.05%	54,661,017.74	(263,772.53)	0.48%
Receivables from enterprises	159,595,989.41	(683,868.54)	0.43%	239,072,890.55	(789,328.15)	0.33%
Reserves	48,749,582.94	(715,064.58)	1.47%	56,941,580.17	(844,329.29)	1.48%
Others	353,743,502.99	(7,528,615.81)	2.13%	366,620,663.89	(10,084,784.95)	2.75%
	<u>3,408,586,593.95</u>	<u>(32,815,236.64)</u>		<u>2,605,335,732.48</u>	<u>(37,384,145.15)</u>	

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

Receivables from enterprises	23,209,991.57	(22,999,596.98)	99.09%	23,906,329.02	(23,749,699.22)	99.34%
Compensation receivable from suppliers	22,382,628.00	(21,997,231.02)	98.28%	45,668,914.81	(45,004,876.16)	98.55%
Reserves	1,334,902.54	(1,296,963.72)	97.16%	1,174,317.35	(1,172,865.80)	99.88%
Others	196,153,393.82	(191,424,584.63)	97.59%	219,116,536.43	(213,076,102.70)	97.24%
	<u>243,080,915.93</u>	<u>(237,718,376.35)</u>		<u>289,866,097.61</u>	<u>(283,003,543.88)</u>	

As at 31 December 2023 and 31 December 2022, the Group has no other receivables in the second stage.

(c) For the year ended 31 December 2023, RMB6,292,926.55 and RMB29,184,869.15 were reversed and made separately in the provision for bad debts of other receivables in the first stage and the third stage, which were mainly about loss provision of other receivables newly included in the current year and the affects that other receivables transferring from the first stage to the third stage made to the ECL due to the changes of loss rate in the current year.

For the year ended 31 December 2023, the Group had reversal of provision for bad debts on an individual basis of RMB364,000.00, and the relevant balance was RMB364,000.00.

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

(8) Other receivables (Cont'd)

(c) (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	<u>364,000.00</u>	Cash

(d) For the year ended 31 December 2023, RMB6,315,551.87 other receivables were written off by the Group, and the relevant provision for bad debts amounted to RMB6,315,551.87 among which important accounts receivables analysis was as follows:

	Nature	Amount of written-off	Reasons for written-off	Process for written-off	Arise from related transaction
Other receivable 1	Current accounts	<u>6,315,551.87</u>	Long aging and unable to collect	Management approval and special audit	No

(e) As at 31 December 2023, 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	Dividends receivable	194,138,138.40	Within 1 year	4.60%	(524,172.97)
Other receivable 2	Guarantees	130,000,000.00	Above 3 years	3.08%	(395,000.00)
Other receivable 3	Others Receivables from enterprises	120,000,000.00	Above 5 years	2.85%	(120,000,000.00)
Other receivable 4	Compensation receivable	95,345,191.43	Within 1 year	2.26%	(171,621.34)
Other receivable 5	from suppliers	<u>74,628,645.00</u>	Within 1 year	<u>1.77%</u>	<u>(1,557,127.81)</u>
		<u>614,111,974.83</u>		<u>14.56%</u>	<u>(122,647,922.12)</u>

(f) As at 31 December 2023 and 31 December 2022, the Group had no overdue dividends receivable.

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

(9) Inventories

(a) The inventory is classified as follows:

	31 December 2023			31 December 2022		
	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	1,742,195,300.47	(154,331,731.94)	1,587,863,568.53	2,242,988,721.48	(120,150,132.64)	2,122,838,588.84
Turnover materials	56,028,639.30	-	56,028,639.30	58,529,181.11	-	58,529,181.11
Consigned processing materials	4,835,415.44	-	4,835,415.44	5,284,864.56	-	5,284,864.56
Work in progress	908,980,333.77	-	908,980,333.77	1,048,801,510.29	(21,024,219.48)	1,027,777,290.81
Finished goods	35,317,620,993.87	(1,252,433,376.58)	34,065,187,617.29	32,201,741,889.39	(977,101,002.43)	31,224,640,886.96
Consumable biological assets	498,355.74	-	498,355.74	21,145,952.74	-	21,145,952.74
	<u>38,030,159,038.59</u>	<u>(1,406,765,108.52)</u>	<u>36,623,393,930.07</u>	<u>35,578,492,119.57</u>	<u>(1,118,275,354.55)</u>	<u>34,460,216,765.02</u>

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

	31 December 2022	Provision/(Reversal) in the current year	Decrease in the current year	31 December 2023
Raw materials	120,150,132.64	39,271,848.10	(5,090,248.80)	154,331,731.94
Work in progress	21,024,219.48	(21,024,219.48)	-	-
Finished goods(i)	977,101,002.43	291,703,985.63	(16,371,611.48)	1,252,433,376.58
	<u>1,118,275,354.55</u>	<u>309,951,614.25</u>	<u>(21,461,860.28)</u>	<u>1,406,765,108.52</u>

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

(9) Inventories (Cont'd)

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

(i) Among which, the analysis of the provision for inventory obsolescence for finished goods within the near-term group is as follows:

	31 December 2023			31 December 2022		
	Accounts balance	Inventory obsolescence provision		Accounts balance	Inventory obsolescence provision	
	Amount	Provision for bad debts	Amount	Amount	Provision for bad debts	Amount
Within 1 year	3,647,501,720.68	26.19%	(955,122,136.60)	3,873,322,690.20	21.91%	(848,736,434.44)
Over 1 year	27,443,843,044.90	0.45%	(124,642,043.25)	24,677,075,359.75	0.57%	(139,582,252.70)
	<u>31,091,344,765.58</u>		<u>(1,079,764,179.85)</u>	<u>28,550,398,049.95</u>		<u>(988,318,687.14)</u>

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

(10) Other current assets

	31 December 2023	31 December 2022
Taxes prepaid and to be deducted	944,268,391.35	940,146,082.64
Input VAT to be certified	382,508,021.58	277,895,837.13
	<u>1,326,776,412.93</u>	<u>1,218,041,919.77</u>

(11) Other equity instrument investments

	31 December 2023	31 December 2022
Non-tradable equity instrument investments(i)	<u>55,416,725.20</u>	<u>101,487,525.55</u>

	31 December 2023	31 December 2022
Non-tradable equity instrument investments		
Listed shares		
—Tianda Pharmaceuticals Limited (“Tianda Pharma”)	<u>55,416,725.20</u>	<u>101,487,525.55</u>

	31 December 2023	31 December 2022
Tianda Pharma		
—Cost	87,851,852.85	87,851,852.85
—Accumulated changes in fair value	<u>(32,435,127.65)</u>	<u>13,635,672.70</u>
	<u>55,416,725.20</u>	<u>101,487,525.55</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.

(12) Other non-current financial assets

	31 December 2023	31 December 2022
Equity instrument investments		
—Listed common shares(a)	318,512,451.78	259,956,657.68
—Unlisted common shares(b)	<u>1,876,859,415.97</u>	<u>1,883,083,458.72</u>
	<u>2,195,371,867.75</u>	<u>2,143,040,116.40</u>

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

(12) Other non-current financial assets (Cont'd)

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

	31 December 2023	31 December 2022
(a) Listed common shares		
—Cost	333,091,877.16	356,895,977.16
—Accumulated changes in fair value	(4,445,183.63)	(84,306,662.18)
—Accumulated differences on translation of foreign currency financial statements	(10,134,241.75)	(12,632,657.30)
	<u>318,512,451.78</u>	<u>259,956,657.68</u>
(b) Unlisted common shares		
—Cost	1,704,351,014.16	1,704,351,014.16
—Accumulated changes in fair value	172,508,401.81	178,732,444.56
	<u>1,876,859,415.97</u>	<u>1,883,083,458.72</u>

(13) Long-term receivables

	31 December 2023	31 December 2022
Cost –		
Deposits receivable (Note)-total amount	187,277,584.30	257,134,608.10
Medical equipment receivable - total amount	145,520,888.66	152,096,738.34
Receivables from enterprises - total amount	43,268,960.00	54,086,200.00
Less: Provision for bad debts	(17,986,152.73)	(4,936,711.55)
Unrealised finance income	(52,721,653.14)	(60,461,089.58)
Current portion of long-term receivables	(77,420,057.49)	(185,619,908.99)
	<u>227,939,569.60</u>	<u>212,299,836.32</u>

Note: the amounts are deposits with over one year of collection period that the Group pays.

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

(13) Long-term receivables (Cont'd)

(a) Provision for bad debts and accounts balance movement

The analysis of the provision for bad debts on long-term receivables by category is as follows:

	31 December 2023				31 December 2022			
	Accounts balance		Provision for bad debts		Accounts balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Provision for bad debts made on an individual basis (i)	12,893,490.33	3.99%	(12,893,490.33)	100.00%	-	-	-	-
Provision for bad debts made on a collective basis(ii)	310,452,289.49	96.01%	(5,092,662.40)	1.64%	402,856,456.86	100.00%	(4,936,711.55)	1.23%
	<u>323,345,779.82</u>	<u>100.00%</u>	<u>(17,986,152.73)</u>	<u>5.56%</u>	<u>402,856,456.86</u>	<u>100.00%</u>	<u>(4,936,711.55)</u>	<u>1.23%</u>

(i) As at 31 December 2023, the analysis of provision for bad debts on individual basis of long-term receivables is as follows:

	Accounts balance	Lifetime ECL rates	Provision for bad debts	Reasons
Long-term receivable 1	<u>12,893,490.33</u>	100.00%	<u>(12,893,490.33)</u>	Unable to collect

(ii) As at 31 December 2023 and 31 December 2022, long-term receivables of the Group on grouping basis were all in the first stage.

(14) Long-term equity investments

	31 December 2023	31 December 2022
Joint ventures(a)	2,084,440,824.94	2,240,931,226.42
Associates(b)	<u>6,462,704,871.02</u>	<u>7,006,273,726.71</u>
Less: Provision for impairment of long-term equity investments	<u>(195,235,585.79)</u>	<u>(14,561,350.94)</u>
	<u>8,351,910,110.17</u>	<u>9,232,643,602.19</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

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

(a) Joint ventures

	31 December 2022	Changes during the current year							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	31 December 2023	31 December 2022	
SPH-BIOCAD(HK) Limited	1,309,290,703.86	-	-	(45,076,952.36)	-	-	-	-	21,985,092.75	1,286,198,844.25	-	-
Jiangxi Nanhua Medicines Co., Ltd	371,861,432.43	-	-	43,154,047.17	-	-	-	-	(318,162.61)	414,697,316.99	-	-
Shanghai Hutchison Pharmaceutical Co., Ltd.	492,233,933.68	-	-	332,033,803.99	-	-	(494,138,138.40)	-	(354,948.60)	329,774,650.67	-	-
Zhejiang Shangyao Jiuzhou biopharmaceutical Co., Ltd	38,256,979.07	-	-	(7,904,361.72)	-	-	-	-	-	30,352,617.35	-	-
Others	27,540,812.02	-	(4,545,680.80)	(1,063,477.03)	-	-	(261,623.87)	-	-	21,670,030.32	(1,747,365.36)	(1,747,365.36)
	<u>2,239,183,861.06</u>	<u>-</u>	<u>(4,545,680.80)</u>	<u>321,143,060.05</u>	<u>-</u>	<u>-</u>	<u>(494,399,762.27)</u>	<u>-</u>	<u>21,311,981.54</u>	<u>2,082,693,459.58</u>	<u>(1,747,365.36)</u>	<u>(1,747,365.36)</u>

Related information of equity in joint ventures of the Group is set forth in Note 5(2).

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

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

(b) Associates

	Changes during the current year										Impairment balance	
	31 December 2022	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	31 December 2023	31 December 2023	31 December 2022
Shanghai Roche Pharmaceutic als Ltd.	1,422,104,768.12	-	-	109,323,987.11	-	-	(50,357,464.59)	-	(1,014,687.11)	1,480,056,603.53	-	-
Shanghai Pharma Health Commerce Co., Ltd	1,410,470,639.68	-	-	(24,424,881.46)	-	-	-	-	1,279,860.74	1,387,325,618.96	-	-
Shanghai Fudan- Zhangjiang Bio- Pharmaceutical Co., Ltd. (ii)	460,900,272.71	-	-	22,029,630.23	(133,309.97)	10,025,307.40	(14,709,979.20)	-	-	478,111,921.17	-	-
Shanghai Industrial Group Finance Co., Ltd.	413,435,013.72	-	-	16,560,106.71	-	-	(9,071,223.10)	-	-	420,923,897.33	-	-
Beijing Lianxin Pharmaceutical Co., Ltd.	264,340,946.02	-	-	60,742,959.68	-	-	(21,000,000.00)	-	-	304,083,905.70	-	-
Shanghai Lianyi Investment Center (limited Partnership)	346,701,733.31	-	-	(1,682,399.39)	-	-	(41,956,127.99)	-	-	303,063,205.93	-	-
Shanghai Tsumura Pharmaceuticals Co., Ltd.	227,940,669.20	-	-	19,549,436.71	-	-	(1,931,200.00)	-	-	245,558,905.91	-	-
SINO-AMERICAN Shanghai Squibb Pharmaceutical Ltd.	226,957,900.40	-	-	86,256,393.83	-	-	(88,101,330.00)	-	1,194,582.60	226,307,546.83	-	-
Hangzhou Huqing Yutang Pharmaceutical Co., Ltd.	152,802,710.64	-	-	18,503,314.04	-	-	(9,116,000.00)	-	-	162,190,024.68	-	-
Chengdu Wesker Biomedical Co., Ltd.	134,516,503.88	-	-	(8,173,262.67)	-	-	-	-	-	126,343,241.21	-	-
Shanghai Bracco Sine Pharmaceutical Co., Ltd.	145,878,082.12	-	-	46,454,037.35	-	-	(66,000,000.00)	-	(590,872.43)	125,741,247.04	-	-

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)

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

(b) Associates (Cont'd)

	Changes during the current year									Impairment balance		
	31 December 2022	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 impairme nt	Others	31 December 2023	31 December 2023	31 December 2022
Shanghai Ajinomoto Amino Acid Co., Ltd.	120,812,041.40	-	-	12,024,761.04	-	-	(7,976,178.44)	-	-	124,860,624.00	-	-
Shanghai Good Health Captial LLP	118,792,074.53	-	-	(6,391,048.65)	-	-	(5,085,658.10)	-	-	107,315,367.78	-	-
Shanghai Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP	98,160,185.64	-	-	7,202,352.38	-	-	-	-	-	105,362,538.02	-	-
West China Precision Medicine Industrial Innovation Center	97,930,058.20	-	-	(77,405.18)	-	-	-	-	-	97,852,653.02	-	-
Shanghai Huiyong Medicine Research Co., Ltd.	106,819,543.85	-	-	(29,132,440.34)	-	-	-	-	-	77,687,103.51	-	-
Shanghai Leiyunshang Northern Area Medicine General Co., Ltd.	63,460,846.68	-	-	2,022,280.95	-	-	(2,433,200.00)	-	-	63,049,927.63	-	-
Sichuan Greentech Bio-technology Co., Ltd.	51,350,407.40	-	-	11,602,618.39	-	-	-	-	-	62,953,025.79	-	-
Chongqing Pharmaceuticals Shanghai Medicine Sales Co., Ltd.	56,877,750.79	-	-	4,859,680.24	-	-	(1,979,600.00)	-	-	59,757,831.03	-	-
Shanghai Huashi Pharmaceutical Storage & Transportation Co., Ltd.	56,316,619.05	-	-	(13,642.49)	-	-	-	-	-	56,302,976.56	-	-

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)

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

(b) Associates (Cont'd)

	31 December 2022	Changes during the current year								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	31 December 2023	31 December 2022	31 December 2022
Shanghai Chest Medical Instruments Co., Ltd.	47,327,495.74	-	-	3,775,062.03	-	-	-	-	-	51,102,557.77	-	-
Shanghai Xunyao Biotechnology Co., Ltd.	62,048,135.73	-	-	(23,264,331.83)	-	-	-	-	-	38,783,803.90	-	-
Shanghai Sine Promod Pharmaceutical Co., Ltd.	21,775,901.56	-	-	258,146.86	-	-	(722,211.16)	-	-	21,311,837.26	-	-
A.M.Pappas Life Science Venture V,LP	60,496,368.07	1,420,360.00	-	(31,655,465.17)	-	-	(10,758,803.58)	-	-	19,502,459.32	-	-
Oncternal Therapeutics, Inc. (iii)	57,020,447.41	-	-	(16,396,287.80)	-	(25,774,671.72)	-	-	900,372.84	15,749,860.73	-	-
Shangshi Commercial Factoring Co., Ltd.	159,722,784.90	-	-	(4,922,954.18)	-	-	-	(154,799,830.72)	-	-	(154,799,830.72)	-
Shanghai Shangyao kangxinuo biopharmaceutical Co., Ltd	498,728,280.24	-	-	(472,853,876.11)	-	-	-	(25,874,404.13)	-	-	(25,874,404.13)	-
Other investments	109,771,560.14	1,000,000.00	-	6,008,864.44	-	-	(8,862,458.60)	-	-	107,917,965.98	(12,813,985.58)	(12,813,985.58)
	6,993,459,741.13	2,420,360.00	-	(191,814,363.28)	(133,309.97)	(15,749,364.32)	(340,061,434.76)	(180,674,234.85)	1,769,256.64	6,269,216,650.59	(193,488,220.43)	(12,813,985.58)

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(14) 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 5(2).
- (ii) Shanghai Fudan-Zhangjiang Bio-pharmaceuticals Co., Ltd is a domestic and Hong Kong listed company. As at 31 December 2023, the market value of the equity investments held by the group amounted to RMB1,451,370,105.64.
- (iii) ONCTERNAL THERAPEUTICS, INC. is listed on NASDAQ. As at 31 December 2023, the market value of the equity investments held by the group amounted to RMB13,455,819.81.

(15) Investment properties

	Buildings	Land use rights	Total
Cost			
31 December 2022	471,359,790.23	25,835,071.05	497,194,861.28
Transfers from fixed assets	62,640,763.97	-	62,640,763.97
Transfers from construction in progress	26,212,531.17	-	26,212,531.17
Transfers to fixed assets	(5,754,841.18)	-	(5,754,841.18)
Translation difference	83,887.38	-	83,887.38
31 December 2023	<u>554,542,131.57</u>	<u>25,835,071.05</u>	<u>580,377,202.62</u>
Accumulated depreciation			
31 December 2022	(244,260,875.74)	(6,518,525.22)	(250,779,400.96)
Depreciation	(13,848,746.11)	(506,373.96)	(14,355,120.07)
Transfers from fixed assets	(3,701,579.26)	-	(3,701,579.26)
Transfers to fixed assets	3,166,225.83	-	3,166,225.83
Translation difference	(34,250.50)	-	(34,250.50)
31 December 2023	<u>(258,679,225.78)</u>	<u>(7,024,899.18)</u>	<u>(265,704,124.96)</u>
Closing net book amount			
31 December 2023	<u>295,862,905.79</u>	<u>18,810,171.87</u>	<u>314,673,077.66</u>
31 December 2022	<u>227,098,914.49</u>	<u>19,316,545.83</u>	<u>246,415,460.32</u>

For the year ended 31 December 2023, the depreciation and amortisation of investment properties amounted to RMB14,355,120.07 (for the year ended 31 December 2022: RMB11,968,285.33).

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

(16) Fixed assets

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
Cost						
31 December 2022	10,512,136,174.06	6,561,700,657.02	424,056,672.78	1,210,391,441.83	929,085,121.93	19,637,370,067.62
Increase in the current year						
Addition	4,243,024.50	247,517,159.04	32,339,723.55	70,647,432.56	91,582,402.67	446,329,742.32
Transfers from construction in progress	606,338,057.56	566,246,528.12	2,018,116.58	94,285,439.89	176,351,515.35	1,445,239,657.50
Business combinations involving enterprises not under common control	-	3,256,835.72	2,589,824.00	3,627,095.00	-	9,473,754.72
Transfers from investment properties	5,754,841.18	-	-	-	-	5,754,841.18
Translation difference	(1,185,273.38)	(1,129,465.32)	(757,064.71)	125,847.66	815,969.01	(2,129,986.74)
Decrease in the current year						
Disposals	(103,007,275.64)	(173,220,315.76)	(33,636,767.36)	(67,959,486.78)	(22,642,762.34)	(400,466,607.88)
Transfers to investment properties	(62,640,763.97)	-	-	-	-	(62,640,763.97)
Disposal of subsidiaries	(910,415.74)	(1,148,358.64)	(87,279.09)	(285,872.70)	-	(2,431,926.17)
31 December 2023	10,960,728,368.57	7,203,223,040.18	426,523,225.75	1,310,831,897.46	1,175,192,246.62	21,076,498,778.58
Accumulated depreciation						
31 December 2022	(3,008,505,162.23)	(3,244,936,774.83)	(308,113,266.93)	(812,955,364.47)	(610,467,908.02)	(7,984,978,476.48)
Increase in the current year						
Depreciation charge	(327,439,001.11)	(507,525,853.21)	(36,940,064.51)	(127,749,718.05)	(101,940,557.35)	(1,101,595,194.23)
Transfers from investment properties	(3,166,225.83)	-	-	-	-	(3,166,225.83)
Translation difference	182,775.81	(508,804.78)	286,927.12	(247,132.51)	(501,718.09)	(787,952.45)
Decrease in the current year						
Disposals	63,243,369.00	143,390,497.70	31,098,433.29	39,902,996.94	21,485,261.93	299,120,558.86
Transfers to investment properties	3,701,579.26	-	-	-	-	3,701,579.26
Disposal of subsidiaries	864,894.95	1,090,940.71	82,915.14	271,579.07	-	2,310,329.87
31 December 2023	(3,271,117,770.15)	(3,608,489,994.41)	(313,585,055.89)	(900,777,639.02)	(691,424,921.53)	(8,785,395,381.00)

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

(16) Fixed assets (Cont'd)

	Buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Other equipment	Total
Accumulated impairment						
31 December 2022	(42,107,191.41)	(45,410,205.05)	(956,699.83)	(22,432,216.33)	(2,195,841.52)	(113,102,154.14)
Increase in the current year						
Impairment charge	(14,584,956.15)	(20,957,297.45)	(53,787.79)	(1,446,919.57)	-	(37,042,960.96)
Decrease in the current year						
Disposal	1,302,607.57	1,979,844.53	28,931.35	10,771,865.90	13,134.85	14,096,384.20
31 December 2023	(55,389,539.99)	(64,387,657.97)	(981,556.27)	(13,107,270.00)	(2,182,706.67)	(136,048,730.90)
Carrying amount						
31 December 2023	7,634,221,058.43	3,530,345,387.80	111,956,613.59	396,946,988.44	481,584,618.42	12,155,054,666.68
31 December 2022	7,461,523,820.42	3,271,353,677.14	114,986,706.02	375,003,861.03	316,421,372.39	11,539,289,437.00

As at 31 December 2023, buildings, machinery and equipment with a carrying amount of RMB165,312,888.36 (a cost of RMB280,419,509.37) and 506,726.95 square metres of land use rights (a cost of RMB736,538,167.84, a carrying amount of RMB694,978,246.52) (Note 4(20)) were pledged as collateral for short-term borrowings of RMB231,400,000.00 (Note 4(27)(a)), long-term borrowings of RMB733,387,483.14 (Note 4(37)(a)), and long-term loan due within one year of RMB27,000,000.00 (Note 4 (35)).

As at 31 December 2022, buildings, machinery and equipment with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37) and 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) (Note 4(20)) were pledged as collateral for short-term borrowings of RMB348,100,000.00 (Note 4(27)(a)), long-term borrowings of RMB297,939,788.82 (Note 4(37)(a)).

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

(16) Fixed assets (Cont'd)

For the year ended 31 December 2023, depreciation charged to fixed assets amounted to RMB1,101,595,194.23 (for the year ended 31 December 2022: RMB1,115,602,707.99), of which RMB469,748,594.41, RMB170,853,186.53, RMB319,063,579.51 and RMB141,929,833.78 (for the year ended 31 December 2022: RMB468,475,719.83, RMB199,789,322.61, RMB333,137,251.82 and RMB114,200,413.73) were charged to cost of sales, selling expenses, general and administrative expenses and research and development expenses respectively.

For the year ended 31 December 2023, the costs of fixed assets transferred from construction in progress amounted to RMB1,445,239,657.50 (for the year ended 31 December 2022: RMB1,796,119,869.82).

(a) Temporarily idle fixed assets

As at 31 December 2023, the Group had no material temporarily idle fixed assets (31 December 2022: Nil).

(b) Fixed assets with pending certificates of ownership:

	Carrying amount	Reasons for not obtaining certificates of ownership yet
Buildings	<u>417,751,391.39</u>	Still in the process

(17) Construction in progress

	31 December 2023			31 December 2022		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Construction in progress	<u>3,586,893,382.26</u>	<u>(17,264,328.89)</u>	<u>3,569,629,053.37</u>	<u>2,780,460,842.89</u>	<u>(3,097,748.84)</u>	<u>2,777,363,094.05</u>

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

(17) Construction in progress (Cont'd)

(a) Changes in major construction projects

Names	Budget' 0000	31 Dec 2022	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2023	% of Budget	Project progress	Accumulativ e amount of capitalised borrowing costs	Capitalised borrowing costs in the current year	Capitalisati on rate in the current year	Sources of funds
Shanghai Pharma Biopharmaceutical Industry Base Construction Project	278,848.09	490,700,993.81	276,254,314.96	-	-	766,955,308.77	27.50%	27.50%	-	-	0.00%	Self- owned funds
Shandong Xinyi API, Tablet and Supporting Facilities Construction Project	51,171.00	135,599,329.56	191,107,163.13	-	-	326,706,492.69	63.85%	63.85%	-	-	0.00%	Self- owned funds
Suide Road Phase II Project of Shanghai Pharmaceutical Logistics Center	84,921.25	133,954,771.98	147,353,859.46	-	-	281,308,631.44	33.13%	33.13%	-	-	0.00%	Self- owned funds
Shanghai Pharmaceutical Xinyi Jiangchang West Road New Construction Project	76,799.00	123,002,922.69	123,853,946.49	-	-	246,856,869.18	32.14%	32.14%	-	-	0.00%	Self- owned funds
SPH No.1 Biochemical and Pharmaceutical Jinshan Green Pharmaceutical Quality Base	42,120.00	108,234,800.61	116,478,188.43	-	-	224,712,989.04	53.35%	53.35%	-	-	0.00%	Self- owned funds
SPH Lingang Phase I Project Shanghai Medical Instruments Co., Ltd. Baoshan Production Base Renovation Project	56,988.00	37,098,060.37	147,493,241.50	-	-	184,591,301.87	32.39%	32.39%	-	-	0.00%	Self- owned funds
Shanghai Pharmaceutical Xinya Industrial Layout Integration and Chuansha Road Base Renovation Project	13,572.09	91,874,978.66	31,453,641.24	(362,409.73)	(594,246.82)	122,371,963.35	90.87%	90.87%	-	-	0.00%	Self- owned funds
SPH No.1 Biochemical and Pharmaceutical elevated Warehouse Project	29,943.00	1,532,888.79	107,779,772.83	-	-	109,312,661.62	36.51%	36.51%	-	-	0.00%	Self- owned funds
Shanghai Pharmaceutical Xinyi Microecological Innovation Drug Transformation Center and Industrialization Project	19,039.20	88,958,088.07	93,514,368.46	(75,049,852.97)	(4,540,594.41)	102,882,009.15	95.84%	95.84%	-	-	0.00%	Self- owned funds
Huaxi Logistics Center Phase I Project	19,675.00	250,556.60	100,381,473.51	-	-	100,632,030.11	51.15%	51.15%	-	-	0.00%	Self- owned funds
	27,426.00	33,359,649.03	50,432,027.18	-	-	83,791,676.21	30.55%	30.55%	-	-	0.00%	Self- owned funds

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(17) Construction in progress (Cont'd)

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

Names	Budget' 0000	31 Dec 2022	Increase in the current year	Transfer to fixed assets	Others	31 Dec 2023	% of Budget	Project progress	Accumulativ e amount of capitalised borrowing costs	Capitalised borrowing costs in the current year	Capitalisati on rate in the current year	Sources of funds
Zhejiang Yongsheng Modern Medical Logistics Center Phase II Construction Project	22,973.00	-	59,718,457.73	-	-	59,718,457.73	26.00%	26.00%	-	-	0.00%	Self- owned funds
Liaoning Good Nurse Traditional Chinese Medicine Decoction Production Line Construction Project	14,530.00	14,493,285.72	54,399,558.88	-	(13,395,200.00)	55,497,644.60	47.41%	47.41%	-	-	0.00%	Self- owned funds
SPH Cloud Data Center Construction Project	17,850.00	17,613,454.11	15,656,490.03	(1,716,731.35)	-	31,553,212.79	20.05%	20.05%	-	-	0.00%	Self- owned funds
Shanghai Pharmaceutical Group Changzhou Pharmaceutical Business Center Building Installation of	60,575.00	137,564,320.27	298,906,984.29	(405,478,399.98)	(29,359,885.15)	1,633,019.43	72.05%	99.99%	-	-	0.00%	Self- owned funds
Northern Pharmaceuticals Phase II Project(i)	51,661.00	253,723,490.80	29,817,840.66	(273,344,455.53)	(10,196,875.93)	-	100.00%	100.00%	-	-	0.00%	Self- owned funds
Chinese Herbal Medicine Deep Processing Project(ii)	19,985.00	168,937,377.22	7,461,771.44	(171,883,402.59)	(4,515,746.07)	-	98.27%	100.00%	-	-	0.00%	Self- owned funds
Others	-	943,561,874.60	663,467,063.30	(517,404,405.35)	(201,255,418.27)	888,369,114.28			-	-		
		<u>2,780,460,842.89</u>	<u>2,515,530,163.52</u>	<u>(1,445,239,657.50)</u>	<u>(263,857,966.65)</u>	<u>3,586,893,382.26</u>			<u>-</u>	<u>-</u>		

(i) The Building Installation of Northern Pharmaceuticals Phase II Project, which was self-built by the Group, met the predetermined design requirements and reached the predetermined usable state after installation, commissioning and acceptance in 2023, and was transferred to fixed assets accordingly.

(ii) The Chinese Herbal Medicine Deep Processing Project, which was self-built by the Group, completed the completion acceptance and reached the predetermined usable state in 2023, and was transferred to fixed assets accordingly.

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)

(17) Construction in progress (Cont'd)

(b) Provision for impairment of construction in progress

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Others	<u>(3,097,748.84)</u>	<u>(14,166,580.05)</u>	<u>-</u>	<u>(17,264,328.89)</u>

(c) As at 31 December 2023, the progress of the construction in progress in the Group was estimated by the proportion of expenditures incurred to budgeted amount.

(18) Bearer biological assets

	Mature biological assets	Immature biological assets	Total
Cost			
31 December 2022	436,052,402.09	4,650,833.85	440,703,235.94
Increase in the current year	-	215,154.01	215,154.01
Disposals	-	(93,060.00)	(93,060.00)
31 December 2023	<u>436,052,402.09</u>	<u>4,772,927.86</u>	<u>440,825,329.95</u>
Accumulated depreciation			
31 December 2022	(45,218,518.43)	-	(45,218,518.43)
Depreciation charge	(3,886,704.70)	-	(3,886,704.70)
31 December 2023	<u>(49,105,223.13)</u>	<u>-</u>	<u>(49,105,223.13)</u>
Accumulated impairment			
31 December 2022	(258,292,956.76)	-	(258,292,956.76)
Impairment charge	-	-	-
31 December 2023	<u>(258,292,956.76)</u>	<u>-</u>	<u>(258,292,956.76)</u>
Carrying amount			
31 December 2023	<u>128,654,222.20</u>	<u>4,772,927.86</u>	<u>133,427,150.06</u>
31 December 2022	<u>132,540,926.90</u>	<u>4,650,833.85</u>	<u>137,191,760.75</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

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

(19) Right-of-use assets

	Buildings	Machinery and equipment	Total
Cost			
31 December 2022	4,214,036,249.35	22,554,117.97	4,236,590,367.32
Increase in the current year			
New lease contracts	1,047,971,595.08	15,321,326.72	1,063,292,921.80
Translation difference	5,985,937.49	-	5,985,937.49
Decrease in the current year			
Changes in leases	(430,446,513.97)	(3,916,954.09)	(434,363,468.06)
31 December 2023	4,837,547,267.95	33,958,490.60	4,871,505,758.55
Accumulated depreciation			
31 December 2022	(2,342,945,085.49)	(5,063,329.24)	(2,348,008,414.73)
Increase in the current year			
Depreciation charge	(682,555,512.06)	(4,135,052.33)	(686,690,564.39)
Translation difference	(3,043,072.54)	-	(3,043,072.54)
Decrease in the current year			
Changes in leases	329,069,249.56	3,916,954.09	332,986,203.65
31 December 2023	(2,699,474,420.53)	(5,281,427.48)	(2,704,755,848.01)
Accumulated impairment			
31 December 2022	(19,922,029.94)	-	(19,922,029.94)
Disposals	1,483,251.46	-	1,483,251.46
31 December 2023	(18,438,778.48)	-	(18,438,778.48)
Carrying amount			
31 December 2023	2,119,634,068.94	28,677,063.12	2,148,311,132.06
31 December 2022	1,851,169,133.92	17,490,788.73	1,868,659,922.65

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

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

(20) Intangible assets

	Land use rights	Business network	Trademarks and brands	Proprietary technology and patents	Software and Others	Total
Cost						
31 December 2022	4,694,289,728.78	2,353,121,748.78	634,322,589.79	1,045,254,660.21	767,636,107.23	9,494,624,834.79
Increase in the current year						
Purchase	43,878,000.00	-	-	22,275,186.77	51,926,527.98	118,079,714.75
Transfer from R&D expenditures	-	-	-	27,748,795.27	-	27,748,795.27
Business combinations involving enterprises not under common control	-	17,000,000.00	-	-	26,396,257.90	43,396,257.90
Transfer from construction in progress	14,069,915.80	-	-	-	66,344,888.26	80,414,804.06
Translation difference	-	1,203,316.31	14,974,530.81	1,495,706.56	277,988.06	17,951,541.74
Decrease in the current year						
Disposals	(14,833,903.22)	(13,700,000.00)	-	(9,424,905.70)	(12,991,527.56)	(50,950,336.48)
31 December 2023	4,737,403,741.36	2,357,625,065.09	649,297,120.60	1,087,349,443.11	899,590,241.87	9,731,265,612.03
Accumulated amortisation						
31 December 2022	(578,306,299.90)	(1,423,851,974.23)	(43,605,212.65)	(450,222,241.20)	(551,539,361.18)	(3,047,525,089.16)
Increase in the current year						
Amortization charge	(108,074,314.64)	(162,436,468.62)	(6,736,603.47)	(53,090,644.49)	(105,857,193.81)	(436,195,225.03)
Translation difference	-	(649,764.82)	(128,057.36)	(510,790.17)	(238,426.03)	(1,527,038.38)
Decrease in the current year						
Disposals	2,609,294.01	10,845,833.33	-	-	12,935,046.15	26,390,173.49
31 December 2023	(683,771,320.53)	(1,576,092,374.34)	(50,469,873.48)	(503,823,675.86)	(644,699,934.87)	(3,458,857,179.08)
Accumulated impairment						
31 December 2022	(16,650,838.77)	(2,854,166.67)	(29,508,388.00)	(151,583,377.04)	(2,363,020.71)	(202,959,791.19)
Increase in the current year						
Impairment charge	-	-	(19,442,084.00)	-	-	(19,442,084.00)
Translation difference	-	-	(842,595.97)	(1,182,181.00)	-	(2,024,776.97)
Decrease in the current year						
Disposals	-	2,854,166.67	-	-	-	2,854,166.67
31 December 2023	(16,650,838.77)	-	(49,793,067.97)	(152,765,558.04)	(2,363,020.71)	(221,572,485.49)
Carrying amount						
31 December 2023	4,036,981,582.06	781,532,690.75	549,034,179.15	430,760,209.21	252,527,286.29	6,050,835,947.46
31 December 2022	4,099,332,590.11	926,415,607.88	561,208,989.14	443,449,041.97	213,733,725.34	6,244,139,954.44

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

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

(20) Intangible assets (Cont'd)

For the year ended 31 December 2023, the amortization of intangible assets amounted to RMB436,195,225.03 (for year ended 31 December 2022: RMB444,645,603.56).

As at 31 December 2023, certificates of ownership for land use rights with a carrying amount of RMB742,278.00 (a cost of RMB3,340,802.00) (31 December 2022: a carrying amount of RMB836,789.40 (a cost of RMB3,340,802.00)) were still in progress.

As at 31 December 2023, 506,726.95 square metres of land use rights (a cost of RMB736,538,167.84, a carrying amount of RMB694,978,246.52) and buildings, machinery and equipment with a carrying amount of RMB165,312,888.36 (a cost of RMB280,419,509.37) (Note 4(16)) were pledged as collateral for short-term borrowings of RMB231,400,000.00 (Note 4(27)(a)), long-term borrowings of RMB733,387,483.14 (Note 4(37)(a)) and current portion of long-term borrowings RMB27,000,000.00 (Note 4(35)).

As at 31 December 2022, 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) and buildings, machinery and equipment with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37) (Note 4(16)) were pledged as collateral for short-term borrowings of RMB348,100,000.00 (Note 4(27)(a)), long-term borrowings of RMB297,939,788.82 (Note 4(37)(a)).

As of 31 December 2023, the proportion of intangible assets formed through internal research and development within the Group to the book value of intangible assets was 2.12% (31 December 2022: 2.04%).

(21) R&D expenditures

The total R&D expenditures of Group for the year 2023 is presented by nature as follows:

	For the year ended 31 December 2023		
	Research and development expenses	R&D expenditures	Total
Employee benefits expenses	845,114,503.58	7,540,525.92	852,655,029.50
Technical development expenses	583,580,058.82	37,329,510.96	620,909,569.78
Materials consumption fee	262,365,749.26	3,439,286.34	265,805,035.60
Depreciation and amortisation	205,264,096.40	-	205,264,096.40
Test fees	129,641,261.33	-	129,641,261.33
Others	178,068,018.04	3,906,676.64	181,974,694.68
	<u>2,204,033,687.43</u>	<u>52,215,999.86</u>	<u>2,256,249,687.29</u>

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

(21) R&D expenditures(Continued)

The total R&D expenditures of Group for the year 2022 is presented by nature as follows:

	For the year ended 31 December 2022		
	Research and development expenses	R&D expenditures	Total
Employee benefits expenses	751,507,894.36	7,099,654.71	758,607,549.07
Technical development expenses	539,019,443.33	119,416,698.62	658,436,141.95
Materials consumption fee	353,115,913.44	2,423,001.52	355,538,914.96
Depreciation and amortisation	172,161,378.82	-	172,161,378.82
Test fees	75,399,239.55	-	75,399,239.55
Others	220,993,710.89	451,967.72	221,445,678.61
	<u>2,112,197,580.39</u>	<u>129,391,322.57</u>	<u>2,241,588,902.96</u>

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

	31 December 2022	Investment this the current year	Transfer to intangible assets and other changes in the current year	31 December 2023
R&D project	<u>342,605,253.63</u>	<u>52,215,999.86</u>	<u>(84,311,603.17)</u>	<u>310,509,650.32</u>

For the year ended 31 December 2023, there was no impairment in the development expenditure projects of the Group(2022: Nil).

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

(22) Goodwill

	31 December 2022	Increase in the current year	Decrease in the current year	Others	31 December 2023
Goodwill -					
Shanghai Pharmaceutical Co., Ltd.'s subsidiaries	3,630,609,223.53	68,991,130.86	(14,106,008.35)	-	3,685,494,346.04
China Health System Ltd. and its subsidiaries	2,869,596,124.06	-	-	-	2,869,596,124.06
Shanghai Pharmaceuticals (HK) Investment Limited's subsidiaries	2,543,895,939.53	-	-	-	2,543,895,939.53
TECHPOOL Bio-Pharma Co., Ltd. and its subsidiaries	1,399,888,707.64	-	-	-	1,399,888,707.64
Zeus Investment Limited and its subsidiaries	983,905,833.57	-	-	28,094,896.94	1,012,000,730.51
Big Global Limited and its subsidiaries	445,109,447.21	-	-	-	445,109,447.21
Shanghai Traditional Chinese Medicine Co., Ltd.'s subsidiaries	322,265,997.71	-	-	-	322,265,997.71
Liaoning International Pharmaceutical Trading Co., Ltd. and its subsidiaries	230,431,952.94	-	-	-	230,431,952.94
Star Fountain Global Ltd. and its subsidiaries	188,057,733.96	-	-	-	188,057,733.96
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.'s subsidiaries	159,340,834.18	-	-	-	159,340,834.18
Shanghai Medical Instruments Co., Ltd.'s subsidiaries	138,131,837.94	-	-	-	138,131,837.94
SPH Kony (Changzhou) Co., Ltd.	107,285,726.91	-	-	-	107,285,726.91
Others	157,094,963.30	-	-	-	157,094,963.30
	<u>13,175,614,322.48</u>	<u>68,991,130.86</u>	<u>(14,106,008.35)</u>	<u>28,094,896.94</u>	<u>13,258,594,341.93</u>
Less: Provision for impairment (a) -					
Zeus Investment Limited and its subsidiaries	(896,038,474.32)	-	-	(25,585,892.22)	(921,624,366.54)
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	(5,644,782.47)	-	11,449.49	-	(5,633,332.98)
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.'s subsidiaries	(122,808,233.97)	-	-	-	(122,808,233.97)
Shanghai Traditional Chinese Medicine Co., Ltd.'s subsidiaries	(72,109,261.31)	-	-	-	(72,109,261.31)
Others	(109,919,763.76)	-	-	-	(109,919,763.76)
	<u>(1,839,687,697.00)</u>	<u>-</u>	<u>11,449.49</u>	<u>(25,585,892.22)</u>	<u>(1,865,262,139.73)</u>
	<u>11,335,926,625.48</u>	<u>68,991,130.86</u>	<u>(14,094,558.86)</u>	<u>2,509,004.72</u>	<u>11,393,332,202.20</u>

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

(22) 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 2023, the allocation of had no change and the goodwill allocated to the asset groups or groups of asset groups is summarised by operating segments (Note 6) as follows:

	31 December 2023		31 December 2022	
	Carrying amount	Provision for impairment	Carrying amount	Provision for impairment
Production- TECHPOOL Bio-Pharma Co., Ltd and its subsidiaries	1,399,888,707.64	-	1,399,888,707.64	-
Zeus Investment Limited and its subsidiaries	1,012,000,730.51	(921,624,366.54)	983,905,833.57	(896,038,474.32)
Big Global Limited and its subsidiary	445,109,447.21	(445,109,447.21)	445,109,447.21	(445,109,447.21)
Star Fountain Global Ltd. and its subsidiaries	188,057,733.96	(188,057,733.96)	188,057,733.96	(188,057,733.96)
Chongqing SPH Huiyuan Pharmaceutical Co., Ltd. and its subsidiaries	164,543,389.88	-	164,543,389.88	-
Shanghai Medical Instruments Co., Ltd.'s subsidiaries	138,131,837.94	-	138,131,837.94	-
Others	480,983,128.32	(222,851,133.60)	480,983,128.32	(222,851,133.60)
	<u>3,828,714,975.46</u>	<u>(1,777,642,681.31)</u>	<u>3,800,620,078.52</u>	<u>(1,752,056,789.09)</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(22) Goodwill (Cont'd)

(a) Impairment(Cont'd)

	31 December 2023		31 December 2022	
	Carrying amount	Provision for impairment	Carrying amount	Provision for impairment
Distribution-				
Distribution business of Shanghai Pharmaceutical Co., Ltd and Cardinal Health (L) Co., Ltd.	6,017,525,983.03	-	5,962,629,411.03	-
Distribution business of China Health System Ltd. and Liaoning International Pharmaceutical Trading Co., Ltd.	3,100,028,077.00	-	3,100,028,077.00	-
Others	75,421,257.56	(75,421,257.56)	75,432,707.05	(75,432,707.05)
	<u>9,192,975,317.59</u>	<u>(75,421,257.56)</u>	<u>9,138,090,195.08</u>	<u>(75,432,707.05)</u>
Retail and others	236,904,048.88	(12,198,200.86)	236,904,048.88	(12,198,200.86)
	<u>13,258,594,341.93</u>	<u>(1,865,262,139.73)</u>	<u>13,175,614,322.48</u>	<u>(1,839,687,697.00)</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 recognized in the current profit and loss.

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(All amounts in RMB Yuan unless otherwise stated)

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

(22) Goodwill (Cont'd)

(a) Impairment (Cont'd)

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

For the year ended 31 December 2023, the recoverable amounts of the relevant major asset group portfolios and the main assumptions applied in calculating discounted future cash flows are as follows:

	Production	Distribution
Growth rates within budget period	6%~24%	7%~10%
Growth rates beyond budget period	2%	2%
Gross margin rates	8%~78%	6%~7%
Discount rates before tax	13%~16%	13%~14%
Recoverable amounts ('000)	192,000~2,916,000	5,010,000~14,682,000

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

	Production	Distribution
Growth rates within budget period	5%~25%	7%~11%
Growth rates beyond budget period	1%~2%	2%
Gross margin rates	8%~76%	7%~8%
Discount rates before tax	12%~16%	13%~14%

(23) Long-term prepaid expenses

	31 December 2022	Increase in the current year	Amortisation in the current year	Others	31 December 2023
Improvement and maintenance expenditures of right-of-use assets	350,769,719.23	75,015,626.07	(41,479,008.34)	(744,133.67)	383,562,203.29
Others	<u>111,668,833.68</u>	<u>162,717,794.44</u>	<u>(150,849,510.28)</u>	<u>(32,388,165.19)</u>	<u>91,148,952.65</u>
	<u>462,438,552.91</u>	<u>237,733,420.51</u>	<u>(192,328,518.62)</u>	<u>(33,132,298.86)</u>	<u>474,711,155.94</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(24) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offset

	31 December 2023		31 December 2022	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment	3,673,293,628.38	842,596,205.79	3,095,355,206.81	730,148,184.87
Accrued expenses	2,061,481,407.77	494,008,564.88	1,777,787,197.53	429,890,062.83
Lease Liabilities	2,133,643,480.22	533,623,441.35	1,854,516,727.17	455,677,081.49
Elimination of intra-group unrealised profit	722,318,468.29	174,851,032.13	809,113,376.04	186,983,887.53
Changes in fair value of other non-current financial assets	37,506,349.51	9,376,587.38	101,938,493.06	25,484,623.27
Deductible losses	695,761,452.91	149,622,727.63	1,900,377,723.23	330,824,300.47
Others	403,332,422.31	82,646,804.09	330,321,215.76	67,067,651.65
	<u>9,727,337,209.39</u>	<u>2,286,725,363.25</u>	<u>9,869,409,939.60</u>	<u>2,226,075,792.11</u>
Including:				
Expected to be recovered within one year (inclusive)		1,507,194,826.99		1,342,427,669.34
Expected to be recovered after one year		<u>779,530,536.26</u>		<u>883,648,122.77</u>
		<u>2,286,725,363.25</u>		<u>2,226,075,792.11</u>

(b) Deferred tax liabilities before offset

	31 December 2023		31 December 2022	
	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	2,396,001,073.41	608,746,872.06	2,524,776,446.86	635,491,232.71
Right-of-use assets	2,148,311,132.06	540,381,112.98	1,868,659,922.65	459,584,559.02
Investment income arising from disposal of subsidiaries	963,536,131.47	240,884,032.87	987,961,013.01	246,990,253.24
Fixed assets depreciation	848,698,457.99	128,357,753.14	896,331,917.08	135,009,305.76
Changes in fair value of other non-current financial assets	154,134,189.98	38,533,547.50	157,901,285.02	39,475,321.26
Relocation allowances	-	-	1,376,551,362.27	206,482,704.34
Others	117,291,497.71	28,784,129.80	70,568,020.61	17,550,874.85
	<u>6,627,972,482.62</u>	<u>1,585,687,448.35</u>	<u>7,882,749,967.50</u>	<u>1,740,584,251.18</u>
Including:				
Expected to be recovered within one year (inclusive)		321,375,280.33		232,354,525.15
Expected to be recovered after one year		<u>1,264,312,168.02</u>		<u>1,508,229,726.03</u>
		<u>1,585,687,448.35</u>		<u>1,740,584,251.18</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

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

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

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

	31 December 2023	31 December 2022
Deductible losses	<u>7,701,356,421.82</u>	<u>6,488,570,580.04</u>

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

	31 December 2023	31 December 2022
2023	Not applicable	686,821,545.75
2024	901,917,874.95	923,443,934.39
2025	1,175,665,132.04	1,177,784,457.88
2026	1,820,615,563.20	1,820,990,427.80
2027	1,462,757,711.03	1,490,609,019.74
2028	1,626,337,573.13	82,078,197.96
2029 and after	<u>714,062,567.47</u>	<u>306,842,996.52</u>
	<u>7,701,356,421.82</u>	<u>6,488,570,580.04</u>

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

	31 December 2023		31 December 2022	
	Offsetting amount	Amount after offset	Offsetting amount	Amount after offset
Deferred tax assets	(569,867,304.99)	1,716,858,058.26	(691,346,798.43)	1,534,728,993.68
Deferred tax liabilities	569,867,304.99	1,015,820,143.36	691,346,798.43	1,049,237,452.75

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

(25) Asset impairment

	31 December 2022	Increase in the current year	Reverse in the current year	Others	31 December 2023
Provision for bad debts of notes receivables	10,465,128.17	12,082,997.58	(10,465,128.17)	472,304.39	12,555,301.97
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	10,465,128.17	12,082,997.58	(10,465,128.17)	472,304.39	12,555,301.97
Provision for bad debts of accounts receivables	2,014,730,430.45	274,555,923.94	(33,269,287.85)	(29,256,026.54)	2,226,761,040.00
Including: Provision for bad debts on individual basis	436,093,505.65	19,595,788.74	(33,269,287.85)	(380,859.18)	422,039,147.36
Provision for bad debts on grouping basis	1,578,636,924.80	254,960,135.20	-	(28,875,167.36)	1,804,721,892.64
Provisions for bad debts of receivables financing	7,633,278.59	9,110,039.80	(7,633,278.59)	-	9,110,039.80
Provision for bad debts of other receivables	805,018,563.21	22,891,942.60	(364,000.00)	8,403,569.91	835,950,075.72
Provision for bad debts of long-term receivables	4,936,711.55	13,049,441.18	-	-	17,986,152.73
Subtotal	<u>2,842,784,111.97</u>	<u>331,690,345.10</u>	<u>(51,731,694.61)</u>	<u>(20,380,152.24)</u>	<u>3,102,362,610.22</u>
Provision for decline in the value of inventories	1,118,275,354.55	309,951,614.25	-	(21,461,860.28)	1,406,765,108.52
Provision for impairment of long-term equity investment	14,561,350.94	180,674,234.85	-	-	195,235,585.79
Provision for impairment of fixed assets	113,102,154.14	37,042,960.96	-	(14,096,384.20)	136,048,730.90
Provision for impairment of construction in progress	3,097,748.84	14,166,580.05	-	-	17,264,328.89
Provision for impairment of intangible assets	202,959,791.19	19,442,084.00	-	(829,389.70)	221,572,485.49
Provision for impairment of goodwill	1,839,687,697.00	-	-	25,574,442.73	1,865,262,139.73
Provision for impairment of right-of-use assets	19,922,029.94	-	-	(1,483,251.46)	18,438,778.48
Provision for impairment of long-term prepaid expenses	2,179,075.47	-	-	(25,889.97)	2,153,185.50
Provision for impairment of bearer biological assets	258,292,956.76	-	-	-	258,292,956.76
Subtotal	<u>3,572,078,158.83</u>	<u>561,277,474.11</u>	<u>-</u>	<u>(12,322,332.88)</u>	<u>4,121,033,300.06</u>
	<u>6,414,862,270.80</u>	<u>892,967,819.21</u>	<u>(51,731,694.61)</u>	<u>(32,702,485.12)</u>	<u>7,223,395,910.28</u>

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

(25) Asset impairment (Cont'd)

	31 December 2021	Increase in the current year	Reverse in the current year	Others	31 December 2022
Provision for bad debts of notes receivables	6,998,935.17	10,162,606.41	(6,998,935.17)	302,521.76	10,465,128.17
Including: Provision for bad debts on individual basis	-	-	-	-	-
Provision for bad debts on grouping basis	6,998,935.17	10,162,606.41	(6,998,935.17)	302,521.76	10,465,128.17
Provision for bad debts of accounts receivables	1,894,174,256.45	295,483,718.36	(21,710,136.11)	(153,217,408.25)	2,014,730,430.45
Including: Provision for bad debts on individual basis	594,638,233.29	40,390,512.71	(21,710,136.11)	(177,225,104.24)	436,093,505.65
Provision for bad debts on grouping basis	1,299,536,023.16	255,093,205.65	-	24,007,695.99	1,578,636,924.80
Provisions for bad debts of receivables financing	4,824,701.57	7,633,278.59	(4,824,701.57)	-	7,633,278.59
Provision for bad debts of other receivables	779,355,712.09	41,843,971.66	(11,684,978.73)	(4,496,141.81)	805,018,563.21
Provision for bad debts of long-term receivables	2,381,046.12	2,555,665.43	-	-	4,936,711.55
Subtotal	2,687,734,651.40	357,679,240.45	(45,218,751.58)	(157,411,028.30)	2,842,784,111.97
Provision for decline in the value of inventories	1,151,609,131.65	8,677,878.68	-	(42,011,655.78)	1,118,275,354.55
Provision for impairment of long-term equity investment	77,375,103.08	-	-	(62,813,752.14)	14,561,350.94
Provision for impairment of fixed assets	125,835,727.26	26,930,415.50	-	(39,663,988.62)	113,102,154.14
Provision for impairment of construction in progress	3,097,748.84	-	-	-	3,097,748.84
Provision for impairment of intangible assets	186,897,537.64	17,479,703.00	-	(1,417,449.45)	202,959,791.19
Provision for impairment of goodwill	1,958,833,482.32	-	-	(119,145,785.32)	1,839,687,697.00
Provision for impairment of right-of-use assets	8,786,206.58	19,685,524.20	-	(8,549,700.84)	19,922,029.94
Provision for impairment of long-term prepaid expenses	4,427,663.58	404,817.56	-	(2,653,405.67)	2,179,075.47
Provision for impairment of bearer biological assets	-	258,292,956.76	-	-	258,292,956.76
Subtotal	3,516,862,600.95	331,471,295.70	-	(276,255,737.82)	3,572,078,158.83
	6,204,597,252.35	689,150,536.15	(45,218,751.58)	(433,666,766.12)	6,414,862,270.80

The Group performs impairment tests on long-lived assets for which there are indications of impairment as at the balance sheet date, and assesses the recoverable amount of the asset taking into account the current usage of the asset and the future business plan. If the results of the impairment test indicate that the recoverable amount of an asset is less than its carrying amount, a provision for impairment is made for the difference and recognized as an asset impairment loss.

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

(26) Other non-current assets

	31 December 2023	31 December 2022
Prepayment for construction and equipment costs	272,317,103.97	219,934,953.80
Others	168,373,947.64	223,865,789.99
	<u>440,691,051.61</u>	<u>443,800,743.79</u>

(27) Short-term borrowings

	31 December 2023	31 December 2022
Mortgaged (a)	231,400,000.00	348,100,000.00
Pledged (b)	753,461,119.18	1,155,280,052.88
Guaranteed (c)	185,636,119.43	227,784,134.97
Credit	34,318,435,303.26	25,961,398,906.77
Interest accrued	71,567,193.58	58,025,462.25
	<u>35,560,499,735.45</u>	<u>27,750,588,556.87</u>

- (a) As at 31 December 2023, short-term borrowings of RMB 231,400,000.00 and long-term borrowings of RMB 733,387,483.14 (Note 4(37)(a)) and Current portion of long-term borrowings of RMB 27,000,000.00 (Note 4(35)) were secured by buildings, and machinery and equipment (Note 4(16)) with a carrying amount of RMB 165,312,888.36 (a cost of RMB 280,419,509.37), and 506,726.95 square metres of land use rights (a cost of RMB 736,538,167.84, a carrying amount of RMB 694,978,246.52) (Note 4(20));

As at 31 December 2022, short-term borrowings of RMB348,100,000.00 and long-term borrowings of RMB297,939,788.82 (Note 4(37)(a)) were secured by buildings, and machinery and equipment (Note 4(16)) with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37), and 295,477.63 square metres of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB369,999,785.41) (Note 4(20));

- (b) As at 31 December 2023, pledged bank borrowings of RMB 753,461,119.18 were secured by accounts receivables with a carrying amount of RMB 731,994,277.93 and bank acceptance notes with a carrying amount of RMB 133,923,501.96 (Note 4(4)) and trade acceptance notes with a carrying amount of RMB 55,401,213.10 (Note 4(4)); RMB 10,000,000.00 (Note 4(37)) short-term borrowings are secured by the equity of the subsidiary companies within this group.

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

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

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

- (c) As at 31 December 2023, guaranteed borrowings of RMB185,636,119.43 (31 December 2022: RMB227,784,134.97) were mainly secured by the minority shareholders of subsidiaries of the Group.
- (d) As at 31 December 2023, the group had no overdue short-term borrowings, and the range of interest rate of short-term borrowings was 0.80% to 5.75% (31 December 2022: 1.50% to 4.70%).

(28) Notes payables

	31 December 2023	31 December 2022
Trade acceptance	782,923,768.37	599,332,497.28
Bank acceptance	<u>5,934,519,767.92</u>	<u>5,362,391,166.21</u>
	<u>6,717,443,536.29</u>	<u>5,961,723,663.49</u>

As of December 31, 2023, there were no overdue unpaid notes payable in the Group (December 31, 2022: nil).

(29) Accounts payables

	31 December 2023	31 December 2022
Purchase payable	<u>47,915,010,730.47</u>	<u>45,603,805,328.17</u>

- (i) As at 31 December 2023, accounts payables aged over one year were RMB2,297,271,341.56 (31 December 2022: RMB2,436,589,508.92).
- (ii) The aging analysis of accounts payables is as follows:

	31 December 2023	31 December 2022
Within 1 year	45,617,739,388.91	43,167,215,819.25
1-2 years	1,163,664,769.18	1,336,005,508.45
Above 2 years	<u>1,133,606,572.38</u>	<u>1,100,584,000.47</u>
	<u>47,915,010,730.47</u>	<u>45,603,805,328.17</u>

(30) Contract liabilities

	31 December 2023	31 December 2022
Advance received from customers	<u>1,970,690,132.08</u>	<u>2,242,823,457.63</u>

For the year ended 31 December 2023, contract liabilities included in the period beginning with carrying amount of RMB2,186,920,793.82(31December 2022: RMB1,251,723,320.04) were transferred to revenue, all of which were income from sales of goods.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

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

(31) Employee benefits payable

	31 December 2023	31 December 2022
Short-term employee benefits payable(a)	1,709,022,350.31	1,542,964,975.04
Defined contribution plans payable(b)	31,424,238.91	33,154,651.29
Termination benefits payable(c)	43,533,375.48	4,368,526.66
	<u>1,783,979,964.70</u>	<u>1,580,488,152.99</u>

(a) Short-term employee benefits payable

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Wages and salaries, bonus, allowances and subsidies	1,341,068,826.02	7,621,326,502.82	(7,473,128,884.77)	1,489,266,444.07
Staff welfare	-	356,442,404.18	(356,442,404.18)	-
Social security contributions	18,426,655.54	448,961,197.23	(451,053,489.72)	16,334,363.05
Including: Medical insurance	17,256,895.98	417,736,970.44	(419,778,774.42)	15,215,092.00
Work injury insurance	402,609.55	21,715,593.98	(21,693,566.86)	424,636.67
Maternity insurance	767,150.01	9,508,632.81	(9,581,148.44)	694,634.38
Housing funds	5,530,067.46	456,075,961.94	(457,370,086.95)	4,235,942.45
Labor union funds and employee education funds	52,716,967.04	149,161,649.22	(132,909,895.41)	68,968,720.85
Others	125,222,458.98	117,916,332.15	(112,921,911.24)	130,216,879.89
	<u>1,542,964,975.04</u>	<u>9,149,884,047.54</u>	<u>(8,983,826,672.27)</u>	<u>1,709,022,350.31</u>

(b) Defined contribution plans payable

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Basic pensions	32,073,345.93	800,794,196.51	(802,700,947.71)	30,166,594.73
Unemployment insurance	1,081,305.36	24,624,284.44	(24,447,945.62)	1,257,644.18
	<u>33,154,651.29</u>	<u>825,418,480.95</u>	<u>(827,148,893.33)</u>	<u>31,424,238.91</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 2023	31 December 2022
Termination benefits payable (current portion)	<u>43,533,375.48</u>	<u>4,368,526.66</u>

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

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

(32) Taxes payable

	31 December 2023	31 December 2022
Enterprise income tax payable	809,797,698.63	781,362,182.64
Unpaid VAT	285,822,460.74	485,284,539.78
Withholding of personal income tax for employees	33,366,903.65	34,692,313.76
Educational surcharge payable	23,883,680.98	29,405,854.38
Property tax payable	19,944,158.13	16,833,270.25
City maintenance and construction tax payable	14,152,459.13	38,281,010.65
Others	30,204,832.43	54,964,246.73
	<u>1,217,172,193.69</u>	<u>1,440,823,418.19</u>

(33) Other payables

	31 December 2023	31 December 2022
Accrued expenses	8,479,562,832.44	7,368,374,863.87
Accounts received from other companies	3,314,708,320.27	3,267,586,187.96
Deposits and guarantees payable	2,796,923,121.88	2,718,233,818.31
Payables for equity acquisition	608,365,519.88	661,779,365.34
Engineering equipment expenses payable	604,099,495.80	540,307,567.99
Dividends payable to minority shareholders	247,130,022.22	373,125,954.77
Others	1,898,564,580.90	1,545,448,136.89
	<u>17,949,353,893.39</u>	<u>16,474,855,895.13</u>

(a) As at 31 December 2023, other payables aged over one year were RMB3,774,468,784.45 (31 December 2022: RMB3,660,548,464.41).

(34) Provisions

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Pending litigations	18,235,700.93	13,758,808.96	-	31,994,509.89
Others	5,743,197.09	1,847,381.29	-	7,590,578.38
	<u>23,978,898.02</u>	<u>15,606,190.25</u>	<u>-</u>	<u>39,585,088.27</u>

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

(35) Current portion of non-current liabilities

	31 December 2023	31 December 2022
Current portion of long-term borrowings (Note 4(37))	2,366,216,452.37	2,648,734,849.49
Current portion of lease liabilities (Note 4(38))	596,669,544.27	580,679,136.35
Current portion of long-term payables (Note 4(39))	589,814.45	20,019,116.37
	<u>2,963,475,811.09</u>	<u>3,249,433,102.21</u>

(36) Other current liabilities

	31 December 2023	31 December 2022
Super & Short-term Commercial Paper ("SCP") (a)	6,051,321,311.48	6,060,361,643.84
Output tax to be recognized	240,615,233.47	324,572,904.16
	<u>6,291,936,544.95</u>	<u>6,384,934,548.00</u>

(a) Details of the SCP are as follows:

	31 December 2022	Issue for the year	Interest accrued	Amortisation of discount	Repayment for the year	31 December 2023
2022 SCP stage 3	3,036,328,767.13	-	7,726,027.39	-	(3,044,054,794.52)	-
2022 SCP stage 5	3,024,032,876.71	-	2,515,068.50	-	(3,026,547,945.21)	-
2023 SCP stage 1	-	2,999,608,333.33	16,533,698.63	391,666.67	(3,016,533,698.63)	-
2023 SCP stage 2	-	2,999,495,833.33	20,984,383.56	504,166.67	(3,020,984,383.56)	-
2023 SCP stage 3	-	2,999,542,500.00	33,750,000.00	457,500.00	(3,033,750,000.00)	-
2023 SCP stage 4	-	2,998,883,333.33	35,257,377.05	1,116,666.67	-	3,035,257,377.05
2023 SCP stage 5	-	2,999,233,333.33	16,063,934.43	766,666.67	-	3,016,063,934.43
	<u>6,060,361,643.84</u>	<u>14,996,763,333.32</u>	<u>132,830,489.56</u>	<u>3,236,666.68</u>	<u>(15,141,870,821.92)</u>	<u>6,051,321,311.48</u>

	Face value	Issuing date	Debenture maturity	Issuing amount	Coupon rate	Default or Not
2023 SCP stage 1	3,000,000,000.00	January 13, 2023	94 days	2,999,608,333.33	2.14%	N
2023 SCP stage 2	3,000,000,000.00	February 14, 2023	121 days	2,999,495,833.33	2.11%	N
2023 SCP stage 3	3,000,000,000.00	April 12, 2023	183 days	2,999,542,500.00	2.25%	N
2023 SCP stage 4	3,000,000,000.00	June 13, 2023	268 days	2,998,883,333.33	2.14%	N
2023 SCP stage 5	3,000,000,000.00	October 10, 2023	184 days	2,999,233,333.33	2.39%	N

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

(37) Long-term borrowings

	31 December 2023	31 December 2022
Mortgaged (a)	760,387,483.14	297,939,788.82
Credit	7,244,570,761.56	8,375,034,720.06
Pledged (b)	144,092,782.18	225,871,295.77
Interest accrued	3,320,156.07	9,688,415.16
	<u>8,152,371,182.95</u>	<u>8,908,534,219.81</u>
Less: Current portion of long-term borrowings		
Mortgaged (a)	(27,000,000.00)	-
Credit	(2,244,183,000.00)	(2,601,000,000.00)
Pledged (b)	(91,843,538.18)	(38,220,597.24)
Interest accrued	(3,189,914.19)	(9,514,252.25)
	<u>(2,366,216,452.37)</u>	<u>(2,648,734,849.49)</u>
	<u>5,786,154,730.58</u>	<u>6,259,799,370.32</u>

- (a) As at 31 December 2023, short-term borrowings of RMB 231,400,000.00 (Note 4(27)(a)) and long-term borrowings of RMB 733,387,483.14 and Current portion of long-term borrowings of RMB 27,000,000.00 (Note 4(35)) were secured by buildings, and machinery and equipment with a carrying amount of RMB 165,312,888.36 (a cost of RMB 280,419,509.37) (Note 4(16)), and 506,726.95 square meters of land use rights (a cost of RMB 736,538,167.84, a carrying amount of RMB 694,978,246.52) (Note 4(20)).

As at 31 December 2022, short-term borrowings of RMB348,100,000.00 (Note 4(27)(a)) and long-term borrowings of RMB297,939,788.82 were secured by buildings, and machinery and equipment with a carrying amount of RMB196,577,371.63 (a cost of RMB366,933,152.37) (Note 4(16)), and 295,477.63 square meters of land use rights (a cost of RMB388,592,688.22, a carrying amount of RMB 369,999,785.41) (Note 4(20)).

- (b) As at 31 December 2023, pledged bank borrowings of RMB52,249,244.00 and current portion of long-term borrowings RMB 89,991,032.94 (Note 4(35)) were secured by account receivables with a carrying amount of RMB142,240,276.94. Current portion of long-term borrowings of RMB1,852,505.24 (Note 4(35)) were secured by shares of subsidiaries of the Group.

As at 31 December 2022, pledged bank borrowings of RMB113,997,532.00 and current portion of long-term borrowings RMB27,993,620.94 (Note 4(35)) were secured by account receivables with a carrying amount of RMB141,991,152.94. Pledged bank borrowings of RMB73,653,166.53 and current portion of long-term borrowings of RMB10,226,976.30 (Note 4(35)) were secured by shares of subsidiaries of the Group.

- (c) As at 31 December 2023, the group had no overdue long-term borrowings and the range of interest rate of long-term borrowings was 2.10% to 5.00% (31 December 2022: 2.35% to 5.62%).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(38) Lease liabilities

	31 December 2023	31 December 2022
Lease liabilities	2,146,746,225.90	1,882,290,216.25
Less: Current portion of non-current liabilities (Note4(35))	<u>(596,669,544.27)</u>	<u>(580,679,136.35)</u>
	<u>1,550,076,681.63</u>	<u>1,301,611,079.90</u>

(a) As at 31 December 2023 and 31 December 2022, 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 2023, there are no payments for leases not yet commenced to which the Group was committed (31 December 2022: nil).
- (ii) As at 31 December 2023, 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 RMB142,794,303.86 and RMB856,360.90 respectively (31 December 2022: RMB174,992,055.97 and RMB819,252.69), which would be due within one year.

(39) Long-term payables

	31 December 2023	31 December 2022
Payables for forest use rights	8,753,282.19	8,491,874.12
Long-term payables for acquisition of subsidiaries	<u>-</u>	<u>19,523,166.13</u>
	<u>8,753,282.19</u>	<u>28,015,040.25</u>
Less: Current portion of long-term payables(Note4(35))	<u>(589,814.45)</u>	<u>(20,019,116.37)</u>
	<u>8,163,467.74</u>	<u>7,995,923.88</u>

(40) Deferred income

	31 December 2022	Increase in the current period	Decrease in the current period	31 December 2023
Compensation for demolition and construction	67,837,059.52	-	(440,347.00)	67,396,712.52
Government grants	<u>466,743,990.96</u>	<u>188,391,417.78</u>	<u>(89,050,799.54)</u>	<u>566,084,609.20</u>
(a)				
Total	<u>534,581,050.48</u>	<u>188,391,417.78</u>	<u>(89,491,146.54)</u>	<u>633,481,321.72</u>

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

(40) Deferred income (Cont'd)

(a) Government grants

	31 December 2022	Increase in the current year	Amount included in other income	31 December 2023
Asset related government grants	267,580,569.54	30,202,611.20	(31,265,209.21)	266,517,971.53
Income related government grants	<u>199,163,421.42</u>	<u>158,188,806.58</u>	<u>(57,785,590.33)</u>	<u>299,566,637.67</u>
Total	<u>466,743,990.96</u>	<u>188,391,417.78</u>	<u>(89,050,799.54)</u>	<u>566,084,609.20</u>

(41) Long-term employee benefits payable

	31 December 2023	31 December 2022
Termination benefits payable	40,417,545.20	43,280,484.76
Less: To be paid within one year	<u>(1,533,375.48)</u>	<u>(4,368,526.66)</u>
	<u>38,884,169.72</u>	<u>38,911,958.10</u>

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

(42) Other non-current liabilities

	31 December 2023	31 December 2022
Medical reserve funds	128,474,728.99	131,787,555.63
Shares repurchase payable	53,714,908.75	69,251,366.25
Others	<u>20,206,526.22</u>	<u>24,249,756.41</u>
	<u>202,396,163.96</u>	<u>225,288,678.29</u>

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

(43) Share capital

	31 December 2022	Change in the current year			Subtotal	31 December 2023
		Issue new shares(a)	Unlock non-tradable shares	Others		
Shares subject to trading restriction - Ordinary shares denominated in RMB	852,708,396.00	-	-	-	-	852,708,396.00
Shares not subject to trading restriction - Ordinary shares denominated in RMB	1,925,765,072.00	5,754,882.00	-	-	5,754,882.00	1,931,519,954.00
Foreign shares listed overseas	919,072,704.00	-	-	-	-	919,072,704.00
	<u>2,844,837,776.00</u>	<u>5,754,882.00</u>	<u>-</u>	<u>-</u>	<u>5,754,882.00</u>	<u>2,850,592,658.00</u>
	<u>3,697,546,172.00</u>	<u>5,754,882.00</u>	<u>-</u>	<u>-</u>	<u>5,754,882.00</u>	<u>3,703,301,054.00</u>

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

(43) Share capital (Cont'd)

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

- (a) For the year ended 31 December 2023, the increase of the share capital was the total par value of shares issued according to the share-based payment plan.
- (b) Pursuant to the document "Approval for the Non-public Issuance of Shares by Shanghai Pharmaceutical Group Co., Ltd." (Zheng Jian Xu Ke [2022] No. 584) issued by CSRC on March 22, 2022, the Company was approved to issue 852,626,796 A shares to Yunnan Baiyao Group Co., Ltd. and Shanghai Tandong Enterprise Consulting Service Co., Ltd. at RMB16.39 per share. As of 25 March 2022, Yunnan Baiyao and Shanghai Tandong has completed the non-public issuance payment. PricewaterhouseCoopers Zhong Tian LLP has issued an report, PwC ZT Yan Zi (2022) No. 0271, for capital verification. The total funds raised amounted to RMB13,974,553,186.44, and the Company's share capital increased by RMB852,626,796.00. After deducting the issuance cost of RMB42,380,810.90, the remaining RMB13,079,545,579.54 was included in the capital surplus (share capital premium).

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

(44) Capital surplus

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Share premium(a)	29,331,688,434.18	134,716,091.74	-	29,466,404,525.92
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method(b)	316,625,156.93	-	(15,749,364.32)	300,875,792.61
Share-based payment(c)	80,214,210.71	4,568,384.49	(33,989,727.25)	50,792,867.95
Others	(630,424,030.95)	-	-	(630,424,030.95)
	<u>29,098,103,770.87</u>	<u>139,284,476.23</u>	<u>(49,739,091.57)</u>	<u>29,187,649,155.53</u>
	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Share premium(a)	16,353,739,672.84	13,137,901,293.19	(159,952,531.85)	29,331,688,434.18
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method(b)	280,100,858.28	36,524,298.65	-	316,625,156.93
Share-based payment(c)	67,306,552.32	21,992,131.73	(9,084,473.34)	80,214,210.71
Others	(630,424,030.95)	-	-	(630,424,030.95)
	<u>16,070,723,052.49</u>	<u>13,196,417,723.57</u>	<u>(169,037,005.19)</u>	<u>29,098,103,770.87</u>

- (a) For the year ended 31 December 2023, the increase of the capital surplus was mainly the difference between the funds raised less the total par value of shares issued according to the share-based payment plan.

For the year ended 31 December 2022, the increase of the capital surplus was mainly the difference between the funds raised less issuance cost of non-public issuance of A shares and the total par value of shares issued. The decrease of the capital surplus was mainly the difference between the consideration paid in transaction of the Group and its minority shareholders and identifiable net assets of the subsidiaries based on continuous calculation from the acquisition date at proportion of shareholding after transaction.

- (b) For the year ended 31 December 2023 and 2022, the increase of the capital surplus was mainly the share of changes in equity other than comprehensive income and profit distribution of investees under the equity method.
- (c) Share-based payment
- (i) Summary

According to the 2019 Stock Option Incentive Plan of Shanghai Pharmaceuticals Holding Co., Ltd. ("Incentive Plan") approved by the resolution of the 2019 first extraordinary shareholders' meeting held on 18 December 2019, the Company would grant stock options to its directors, senior management, middle management and core technical and business backbones ("incentive recipients"), and it was estimated that approximately 28,420,000.00 stock options would be granted. On 19 December 2019, 25,680,000.00 stock options were granted for the first time ("First Granting").

Pursuant to the Proposal of Granting Reserved Stock Options to Incentive Recipients approved by resolutions of the 15th meeting of the 7th Board of Directors and the 12th meeting of the 7th Board of Supervisors held on 15 December 2020, the Company granted a total of 2,730,000.00 stock options to incentive recipients ("Reserved Granting").

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

(44) Capital surplus (Cont'd)

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

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

Pursuant to the Announcement on Adjusting the List of Incentive Objects and the Quantity of Options in the 2019 A-Share Stock Option Incentive Plan and Cancelling of Part of Options approved by resolutions of the 36th meeting of the 7th Board of Directors held on 9 January 2023, the Company adjusted a total of 22,735,520.00 stock options First Granting, and a total of 2,290,000.00 stock options Reserved Granting.

Pursuant to the Announcement on Cancellation of Expired and Unexercised Stock Options of the first exercise period First Granting of the Company's 2019 A-share Stock Option Incentive Plan approved by resolutions of the 37th meeting of the 7th Board of Directors held on 30 March 2023, the Company cancelled a total of 4,324,659.00 expired and unexercised stock options of the first exercise period First Granting.

Pursuant to the Announcement on Adjusting the List of Incentive Objects and the Quantity of Options in the 2019 A-Share Stock Option Incentive Plan and Cancelling of Part of Options approved by resolutions of the 5th meeting of the 8th Board of Directors held on 21 December 2023, the Company adjusted stock options First Granting in the third exercise period from 7,646,600.00 to 6,976,800.00.

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

	2023	2022
Number of outstanding stock options issued at the beginning of the year	23,158,066.00	28,330,000.00
Number of stock options exercised in the current year	(5,754,882.00)	(2,830,054.00)
Number of stock options expired in the current year	<u>(5,957,059.00)</u>	<u>(2,341,880.00)</u>
Number of outstanding stock options issued at the end of the year	<u>11,446,125.00</u>	<u>23,158,066.00</u>
Among which: stock options that met the exercisable conditions at year-end	10,667,525.00	4,837,166.00
Share-based payment expenses in the current year	4,568,384.49	21,992,131.73
Accumulated share-based payment expenses	93,867,068.54	89,298,684.05

For the year ended 31 December 2023, RMB4,568,384.49 share-based payment expense was included in the general and administrative expense (for the year ended 31 December 2022: RMB21,992,131.73).

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

(44) Capital surplus (Cont'd)

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

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

The outstanding stock options issued at the end of the year are those from First Granting and Reserved Granting. The exercise price of stock options from First Granting is RMB18.41 and those will expire on 13 February 2025, remaining 1 year. The exercise price of stock options from Reserved Granting is RMB20.16 and those will expire on 7 February 2026, remaining 2 years.

The weighted average price of the stock options exercised in 2023 is RMB18.49, calculated using the price on the exercise day.

(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:

	Reserved Granting	First Granting
Exercise price of stock options	RMB20.16	RMB18.41
Current price of the underlying stocks at the grant date	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)

(45) Other comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2023 income statement				
	31 December 2022	Converted from OCI into retained earnings	31 December 2023	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								
Changes in fair value of other equity instrument investments	13,635,672.70	-	(32,435,127.65)	(46,070,800.35)	-	-	(46,070,800.35)	-
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	(571,770.70)	-	(705,080.67)	(133,309.97)	-	-	(133,309.97)	-
Effective part of profit and loss of cash flow hedging	11,837,636.72	-	9,670,190.74	(2,167,445.98)	-	-	(2,167,445.98)	-
Provision for impairment of receivables financing	5,372,868.99	-	6,472,540.27	6,849,630.20	(5,372,868.99)	(375,340.50)	1,099,671.28	1,749.43
Differences arising from translation of foreign currency financial statements	(401,598,071.63)	-	(479,091,952.81)	(79,449,754.95)	-	-	(77,493,881.18)	(1,955,873.77)
	<u>(371,323,663.92)</u>	<u>-</u>	<u>(496,089,430.12)</u>	<u>(120,971,681.05)</u>	<u>(5,372,868.99)</u>	<u>(375,340.50)</u>	<u>(124,765,766.20)</u>	<u>(1,954,124.34)</u>

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

(45) Other comprehensive income (Cont'd)

	Other comprehensive income in the balance sheet		Other comprehensive income for the year ended 31 December 2022 income statement					
	31 December 2021	Converted from OCI into retained earnings	31 December 2022	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	Attributable to the Company after tax	Attributable to minority shareholders
Other comprehensive income items which will not be reclassified to profit or loss								
Changes in fair value of other equity instrument investments	(14,459,439.68)	-	13,635,672.70	28,095,112.38	-	-	28,095,112.38	-
Other comprehensive income items which will be reclassified to profit or loss								
Share of the other comprehensive income of the investee accounted for using equity method which will be reclassified to profit and loss	(336,899.65)	-	(571,770.70)	(234,871.05)	-	-	(234,871.05)	-
Effective part of profit and loss of cash flow hedging	11,147,712.98	-	11,837,636.72	689,923.74	-	-	689,923.74	-
Provision for impairment of receivables financing	2,373,068.10	-	5,372,868.99	2,808,577.02	-	(76,856.43)	2,999,800.89	(268,080.30)
Differences arising from translation of foreign currency financial statements	(143,118,647.94)	-	(401,598,071.63)	(257,762,197.87)	-	-	(258,479,423.69)	717,225.82
	<u>(144,394,206.19)</u>	<u>-</u>	<u>(371,323,663.92)</u>	<u>(226,403,455.78)</u>	<u>-</u>	<u>(76,856.43)</u>	<u>(226,929,457.73)</u>	<u>449,145.52</u>

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

(46) Surplus reserve

	31 December 2022	Increase in the current year (a)	Decrease in the current year	31 December 2023
Statutory surplus reserve	2,041,044,143.60	148,142,112.47	-	2,189,186,256.07
Discretionary surplus reserve	117,763,127.56	-	-	117,763,127.56
	<u>2,158,807,271.16</u>	<u>148,142,112.47</u>	<u>-</u>	<u>2,306,949,383.63</u>
	31 December 2021	Increase in the current year (a)	Decrease in the current year	31 December 2022
Statutory surplus reserve	1,874,700,580.83	166,343,562.77	-	2,041,044,143.60
Discretionary surplus reserve	117,763,127.56	-	-	117,763,127.56
	<u>1,992,463,708.39</u>	<u>166,343,562.77</u>	<u>-</u>	<u>2,158,807,271.16</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 RMB148,142,112.47 at 10% of net profit of 2023 (for the year ended 31 December 2022: 10% of net profit, RMB166,343,562.77).

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

(47) Undistributed profits

	For the year ended 31 December 2023 Amount	For the year ended 31 December 2022 Amount
Undistributed profits at the beginning of the year	32,479,872,339.12	28,598,598,034.67
Add: net profit attributable to shareholders of the Company	3,767,999,581.18	5,617,152,003.01
Less: appropriation to statutory surplus reserve	(148,142,112.47)	(166,343,562.77)
Dividends declared(a)	(2,258,992,103.23)	(1,552,494,013.56)
Others	(18,404,816.29)	(17,040,122.23)
Undistributed profits at the end of the year	<u>33,822,332,888.31</u>	<u>32,479,872,339.12</u>

- (a) On 29 June 2023, through consideration and approval at the Company's Annual General Meeting of year 2022, based on the total share capital on the date of equity distribution registration, cash dividends of RMB0.61 per share(including tax) were distributed to all shareholders at RMB2,258,992,103.23.

In accordance with the resolution of the Board of Directors dated on 28 March 2024, the Company proposed a cash dividend to the shareholders at RMB4.10 per 10 shares (including tax). The above resolution is pending for approval of the shareholders' meeting (Note 10).

(48) Revenue and cost of sales

	For the year ended 31 December 2023	For the year ended 31 December 2022
Main operations revenue	259,152,062,088.95	231,240,057,495.84
Other operations revenue	<u>1,143,026,854.58</u>	<u>741,242,268.67</u>
	<u>260,295,088,943.53</u>	<u>231,981,299,764.51</u>
	For the year ended 31 December 2023	For the year ended 31 December 2022
Main operations cost	228,317,991,473.91	201,022,670,054.58
Other operations cost	<u>648,955,527.33</u>	<u>472,253,032.89</u>
	<u>228,966,947,001.24</u>	<u>201,494,923,087.47</u>

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(All amounts in RMB Yuan unless otherwise stated)

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

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

(a) Main operations revenue and main operations cost

	For the year ended 31 December 2023		For the year ended 31 December 2022	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Domestic sales	255,966,774,117.46	226,189,307,279.26	228,382,072,809.44	199,060,538,681.76
Foreign sales	3,185,287,971.49	2,128,684,194.65	2,857,984,686.40	1,962,131,372.82
	<u>259,152,062,088.95</u>	<u>228,317,991,473.91</u>	<u>231,240,057,495.84</u>	<u>201,022,670,054.58</u>

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

	For the year ended 31 December 2023		For the year ended 31 December 2022	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Production	26,256,792,197.75	10,898,239,514.39	26,757,644,586.87	11,091,527,989.93
Distribution	233,759,541,445.32	219,000,048,725.26	205,732,892,503.17	192,190,257,130.75
Retail	9,110,750,928.61	8,020,903,244.25	8,263,524,277.58	7,220,101,457.49
Others	284,529,321.63	249,504,887.00	144,093,222.59	120,987,569.86
Elimination	(10,259,551,804.36)	(9,850,704,896.99)	(9,658,097,094.37)	(9,600,204,093.45)
	<u>259,152,062,088.95</u>	<u>228,317,991,473.91</u>	<u>231,240,057,495.84</u>	<u>201,022,670,054.58</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.

The Group and its subsidiaries primarily generate other operations revenue from services provided to third parties, which is recognized over a period of time based on the progress of the completed services.

(49) Taxes and surcharges

	For the year ended 31 December 2023	For the year ended 31 December 2022	Tax base
City maintenance and construction tax	261,641,792.20	281,617,211.84	Please refer to Note 3(1)
Education surcharges	207,432,465.64	221,591,846.58	
Stamp duty	139,402,483.04	115,212,838.60	
Real estate tax	94,293,900.21	67,425,987.61	
Land use tax	26,357,585.17	21,093,984.25	
Others	8,978,200.06	9,331,784.30	
	<u>738,106,426.32</u>	<u>716,273,653.18</u>	

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

(50) Selling expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Promotion and advertising costs	6,407,368,584.11	6,922,049,413.84
Employee benefits expenses	4,362,479,584.94	4,116,737,158.05
Travelling and meeting expenses	1,050,660,290.64	1,120,504,035.29
Amortisation of right-of-use assets	340,570,610.86	328,880,764.47
Storage costs	206,117,103.61	176,731,068.89
Amortisation of intangible assets	184,019,582.25	197,832,083.25
Rental fees	182,053,754.58	186,992,756.02
Depreciation of fixed assets	170,853,186.53	199,789,322.61
Office expenses	162,356,525.19	207,980,235.90
Others	835,712,280.79	821,478,069.22
	<u>13,902,191,503.50</u>	<u>14,278,974,907.54</u>

(51) General and administrative expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Employee benefits expenses	3,390,798,053.41	2,963,801,735.38
Depreciation of fixed assets	319,063,579.51	333,137,251.82
Travelling and meeting expenses	252,879,540.30	182,494,934.02
Amortisation of right-of-use assets	213,001,729.37	197,782,748.74
Office expenses	170,779,152.60	159,577,659.35
Amortisation of intangible assets	124,675,079.26	127,846,915.76
Maintenance expenses	87,235,091.12	97,797,603.97
Rental fees	77,522,079.52	74,653,069.44
Others	1,075,873,141.00	854,597,255.49
	<u>5,711,827,446.09</u>	<u>4,991,689,173.97</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

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

(52) Research and development expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Employee benefits expenses	845,114,503.58	751,507,894.36
Technical development expenses	583,580,058.82	539,019,443.33
Materials consumption fee	262,365,749.26	353,115,913.44
Depreciation and amortisation	205,264,096.40	172,161,378.82
Test fees	129,641,261.33	75,399,239.55
Others	178,068,018.04	220,993,710.89
	<u>2,204,033,687.43</u>	<u>2,112,197,580.39</u>

(53) Finance expenses-net

	For the year ended 31 December 2023	For the year ended 31 December 2022
Loan interest expenses(i)	1,663,554,793.96	1,411,675,940.38
Debenture interest expenses	135,851,668.83	183,367,320.56
Lease liabilities interest expenses	85,577,629.94	94,235,661.70
	<u>1,884,984,092.73</u>	<u>1,689,278,922.64</u>
Less: Interest income	(461,833,287.29)	(438,297,667.03)
Exchange gains or losses	(11,406,560.75)	(21,511,140.31)
Others	74,013,402.76	83,722,352.76
	<u>1,485,757,647.45</u>	<u>1,313,192,468.06</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(27)), 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)

(54) 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 2023	For the year ended 31 December 2022
Raw materials, merchandise and consumables used	226,743,414,178.46	204,013,607,504.16
Changes in inventories of finished goods and work in progress	(2,793,701,991.01)	(6,806,602,514.65)
Employee benefits expenses	10,001,178,927.68	9,315,728,603.67
Promotion and advertising costs	6,407,368,584.11	6,922,049,413.84
Transportation costs	1,424,648,476.30	1,243,350,648.16
Travelling and meeting expenses	1,351,590,206.83	1,324,162,246.75
Depreciation of fixed assets	1,101,595,194.23	1,115,602,707.99
Amortisation of right-of-use assets	686,690,564.39	696,609,062.58
Energy and utilities	583,248,219.06	499,098,139.24
Regular maintenance expenses of fixed assets (i)	437,745,982.63	408,458,417.17
Amortisation of intangible assets	380,603,239.09	388,911,416.21
Office expenses	351,375,120.65	381,263,418.09
Rental fees (ii)	311,851,139.68	319,629,391.96
Auditor's remuneration - Audit services	27,205,802.29	27,383,171.08
Auditor's remuneration - Non-audit services	1,848,481.57	659,698.34
Others	3,768,337,512.30	3,027,873,424.78
	<u>250,784,999,638.26</u>	<u>222,877,784,749.37</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 2023, the amount was RMB311,851,139.68 (for the year ended 31 December 2022: RMB319,629,391.96).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(55) Asset impairment losses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Impairment loss for inventory	309,951,614.25	8,677,878.68
Impairment losses on long-term equity investments	180,674,234.85	-
Impairment loss for fixed assets	37,042,960.96	26,930,415.50
Impairment loss for intangible assets	19,442,084.00	17,479,703.00
Impairment losses on construction in progress	14,166,580.05	-
Impairment loss for bearer biological assets	-	258,292,956.76
Impairment loss for right-of-use assets	-	19,685,524.20
Impairment loss for long-term prepaid expenses	-	404,817.56
	<u>561,277,474.11</u>	<u>331,471,295.70</u>

(56) Credit impairment losses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Impairment loss of accounts receivables	241,286,636.09	273,773,582.25
Impairment loss of other receivables	22,527,942.60	30,158,992.93
Impairment loss of long-term receivables	13,049,441.18	2,555,665.43
Impairment loss of notes receivables	1,617,869.41	3,163,671.24
Impairment loss of receivables financing	1,476,761.21	2,808,577.02
	<u>279,958,650.49</u>	<u>312,460,488.87</u>

(57) Other income

	For the year ended 31 December 2023	For the year ended 31 December 2022
Government grants		
—Asset related	31,265,209.21	83,015,734.32
—Income related	761,896,377.14	310,744,457.37
	<u>793,161,586.35</u>	<u>393,760,191.69</u>

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

(58) Investment (loss)/income

	For the year ended 31 December 2023	For the year ended 31 December 2022
Long-term equity investment income calculated by equity method	129,328,696.77	526,743,273.33
Dividend income gained when other non-current financial assets are held	34,154,812.53	6,917,500.33
Gain on disposal of subsidiaries and other business units	(4,159,027.10)	138,644,227.41
Dividend income gained when other equity instrument investments are held	672,457.09	1,910,813.80
Loss on discount of financing receivables	(56,522,117.60)	(60,638,821.30)
Loss on factoring of accounts receivables (i)	(187,598,478.68)	(80,508,182.24)
Others	16,000,980.31	48,277.75
	<u>(68,122,676.68)</u>	<u>533,117,089.08</u>

- (i) As stated in Notes4(5)(c), for the year ended 31 December 2023, the Group factored and derecognised a few accounts receivable. The loss included in investment income was RMB187,598,478.68 (for the year ended 31 December 2022: RMB80,508,182.24).

(59) Gains arising from changes in fair value

	For the year ended 31 December 2023	For the year ended 31 December 2022
Structural deposits	313,240,792.12	232,299,060.33
Other non-current financial assets	75,176,890.17	(30,062,348.23)
Other non-current liabilities	15,536,457.50	16,501,148.39
Forward contract	777,240.93	-
	<u>404,731,380.72</u>	<u>218,737,860.49</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

(60) Gains on disposals of assets

	For the year ended 31 December 2023	For the year ended 31 December 2022	Amount classified to non-recurring profit or loss for the year ended 31 December 2023
Gain on disposal of fixed assets and intangible assets	83,178,377.80	1,432,476,042.88	83,178,377.80
Others	9,296,929.23	6,442,095.80	9,296,929.23
	<u>92,475,307.03</u>	<u>1,438,918,138.68</u>	<u>92,475,307.03</u>

(61) Non-operating income

	For the year ended 31 December 2023	For the year ended 31 December 2022	Amount classified to non-recurring profit or loss for the year ended 31 December 2023
Penalty and compensation from suppliers	3,645,427.24	7,690,026.89	3,645,427.24
Others	37,044,304.03	25,088,043.81	37,044,304.03
	<u>40,689,731.27</u>	<u>32,778,070.70</u>	<u>40,689,731.27</u>

(62) Non-operating expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022	Amount classified to non-recurring profit or loss for the year ended 31 December 2023
Penalty expenses	484,217,172.52	38,740,190.46	484,217,172.52
Donation	46,443,810.20	64,901,111.38	46,443,810.20
Litigation compensation	12,693,922.26	37,384,927.83	12,693,922.26
Others	110,272,792.13	98,048,949.17	110,272,792.13
	<u>653,627,697.11</u>	<u>239,075,178.84</u>	<u>653,627,697.11</u>

(63) Income tax expenses

	For the year ended 31 December 2023	For the year ended 31 December 2022
Current income tax calculated according to tax law and related regulations	2,087,834,383.92	1,948,354,024.43
Deferred income tax	(200,107,929.70)	(132,015,511.85)
	<u>1,887,726,454.22</u>	<u>1,816,338,512.58</u>

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

(63) 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 2023	For the year ended 31 December 2022
Total profit	7,054,296,738.48	8,808,353,281.13
Income tax expenses calculated at applicable tax rate	1,763,574,184.62	2,202,088,320.26
Effect of favourable tax rates	(313,803,594.28)	(435,306,923.25)
Income not subject to tax	(41,460,896.63)	(168,654,694.89)
Costs, expenses and losses not deductible for tax purposes	299,231,799.78	149,159,945.40
Additional deduction	(241,221,402.59)	(321,143,234.08)
Utilisation of previously tax losses not recognised as deferred tax assets	(12,967,889.65)	(20,258,012.61)
Tax losses for which no deferred income tax asset was recognised	434,374,252.97	410,453,111.75
Income tax expenses	<u>1,887,726,454.22</u>	<u>1,816,338,512.58</u>

(64) 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 2023	For the year ended 31 December 2022
Consolidated net profit attributable to ordinary shareholders of the Company	3,767,999,581.18	5,617,152,003.01
Weighted average numbers of ordinary shares outstanding	<u>3,701,294,432.42</u>	<u>3,482,739,827.00</u>
Basic earnings per share	<u>1.02</u>	<u>1.61</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 2023, the potentially diluted common stock of the Company is the stock option first granted (for the year ended 31 December 2022: the potentially diluted common stock of the Company is the stock option first granted). The diluted earnings per share and the basic earnings per share are 1.02.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

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

(65) Notes to the consolidated cash flow statement

The Group's significant cash flow items are set out below:

(a) Cash received relating to other operating activities

	For the year ended 31 December 2023	For the year ended 31 December 2022
Deposits, guarantees, current accounts and advances	1,631,290,449.46	1,252,204,563.62
Specific funds and government grants	864,320,496.80	459,767,193.97
Interest income	442,024,427.18	406,804,928.43
Other non-operating income	32,891,351.51	22,497,843.10
Others	59,749,059.54	44,210,816.88
	<u>3,030,275,784.49</u>	<u>2,185,485,346.00</u>

(b) Cash paid relating to other operating activities

	For the year ended 31 December 2023	For the year ended 31 December 2022
Daily expenses	10,455,666,807.45	10,607,959,941.78
Payments for current accounts and advances	1,050,373,567.19	949,460,554.45
Non-operating expenses	551,341,170.31	123,134,799.97
Bank charge	73,807,671.80	78,683,138.01
Others	48,556,275.44	57,092,057.05
	<u>12,179,745,492.19</u>	<u>11,816,330,491.26</u>

(c) Cash received from disposal of investments

	For the year ended 31 December 2023	For the year ended 31 December 2022
Cash received from Structural deposits	26,853,300,000.00	29,387,100,000.00
Other non-current financial assets	25,343,654.99	-
	<u>26,878,643,654.99</u>	<u>29,387,100,000.00</u>

(d) Cash paid to acquire investments

	For the year ended 31 December 2023	For the year ended 31 December 2022
Cash paid for purchasing Structural deposits	27,376,650,000.00	38,913,750,000.00
Other non-current financial assets	-	770,000,000.00
	<u>27,376,650,000.00</u>	<u>39,683,750,000.00</u>

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(All amounts in RMB Yuan unless otherwise stated)

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

(65) Notes to the consolidated cash flow statement (Cont'd)

(e) Cash received relating to other investing activities

	For the year ended 31 December 2023	For the year ended 31 December 2022
Withdrawal of time deposits due over three months	1,108,193,112.10	992,800,316.66
Advance receipts of demolition compensation	127,968,965.00	-
Related party loan recovery	21,317,271.12	-
Notes pledge recovery	-	171,882,882.27
Others	10,825,490.85	-
	<u>1,268,304,839.07</u>	<u>1,164,683,198.93</u>

(f) Cash paid relating to other investing activities

	For the year ended 31 December 2023	For the year ended 31 December 2022
Increase of time deposits due over three months	1,045,000,000.00	1,009,341,000.00
Loans to related parties	50,463,300.00	-
Capital increase in associates	1,420,360.00	172,622,180.00
Demolition expenses	-	362,740,707.28
Notes pledge	-	169,545,376.99
Others	1,051.93	4,793,089.21
	<u>1,096,884,711.93</u>	<u>1,719,042,353.48</u>

(g) Cash received relating to other financing activities

	For the year ended 31 December 2023	For the year ended 31 December 2022
Subsidiaries borrowed from their minority shareholders	163,596,190.00	363,036,955.50
Related party transactions	-	150,000,000.00
Others	541,959.09	325,748.06
	<u>164,138,149.09</u>	<u>513,362,703.56</u>

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

(65) Notes to the consolidated cash flow statement (Cont'd)

(h) Cash paid relating to other financing activities

	For the year ended 31 December 2023	For the year ended 31 December 2022
Refund from subsidiaries to their minority shareholders	1,324,665,453.34	394,846,268.44
Repayment for lease liabilities	781,944,517.32	748,584,498.24
Acquisition of minority shares in a subsidiary	71,396,733.46	205,746,089.00
Repayment of related party transactions	47,652,278.11	1,085,838,455.24
Return of non-public issuance pledge	-	130,000,000.00
	<u>2,225,658,982.23</u>	<u>2,565,015,310.92</u>

For the year ended 31 December 2023, total cash outflows for leases paid by the Group amounted to RMB1,093,795,657.00 (for the year ended 31 December 2022: RMB1,068,213,890.20), 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)

(66) 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 2023	For the year ended 31 December 2022
Net profit	5,166,570,284.26	6,992,014,768.55
Add: Provisions for asset impairment	561,277,474.11	331,471,295.70
Credit impairment provision	279,958,650.49	312,460,488.87
Amortisation of right-of-use assets	686,690,564.39	696,609,062.58
Depreciation of fixed assets and investment properties	1,115,950,314.30	1,127,570,993.32
Amortisation of intangible assets	380,603,239.09	388,911,416.21
Amortisation of long-term prepaid expenses	192,328,518.62	195,186,464.20
Depreciation of bearer biological assets	3,886,704.70	9,349,391.02
Gain on disposal of fixed assets, intangible assets and other long-term assets	(92,475,307.03)	(1,438,918,138.68)
Profit arising from changes in fair value	(404,731,380.72)	(218,737,860.49)
Finance expenses	1,862,945,397.89	1,701,718,950.88
Investment income	(175,997,919.60)	(674,264,092.62)
Increase in deferred tax assets	(146,609,422.15)	(157,928,578.59)
(Decrease)/Increase in deferred tax liabilities	(48,181,370.15)	25,989,923.17
Increase in inventories	(2,303,791,595.46)	(7,111,704,594.73)
Increase in operating receivables	(6,432,413,771.71)	(10,081,417,120.75)
Increase in operating payables	4,585,509,346.07	12,645,048,813.23
Net cash flows from operating activities	<u>5,231,519,727.10</u>	<u>4,743,361,181.87</u>

Significant operating, investing and financing activities that do not involve cash receipts and payments

	For the year ended 31 December 2023	For the year ended 31 December 2022
Purchase of inventories by bank acceptance notes	7,253,511,446.56	3,295,098,261.55
Purchase of long-term assets by bank acceptance notes	346,910,033.45	164,037,223.58
Increase in right-of-use assets in the current period	1,063,292,921.80	622,418,165.20
	<u>8,663,714,401.81</u>	<u>4,081,553,650.33</u>

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

(66) Notes to the consolidated cash flow statement (Cont'd)

(a) Notes to the consolidated cash flow statement (Cont'd)

Net increase in cash and cash equivalents

	For the year ended 31 December 2023	For the year ended 31 December 2022
Cash and cash equivalents at the end of the year	27,499,809,001.20	24,533,891,305.82
Less: Cash and cash equivalents at the beginning of the year	<u>(24,533,891,305.82)</u>	<u>(20,137,500,219.76)</u>
Net increase in cash and cash equivalents	<u>2,965,917,695.38</u>	<u>4,396,391,086.06</u>

(b) Acquisition of subsidiaries

	For the year ended 31 December 2023
Cash and cash equivalents paid for company combination this year	326,525,600.00
Including: SPH Hunan Pharmaceutical Biologics Co.,Ltd	149,000,000.00
SPH Holdings (Lianyungang) Co., Ltd	81,000,000.00
SPH Holdings (Suzhou) Co., Ltd	61,485,600.00
SPH Zhongwei (Hangzhou) Pharmaceutical Co., Ltd	35,040,000.00
Less: Cash and cash equivalents held by the subsidiaries on the date of purchase	(13,861,240.42)
Including: SPH Hunan Pharmaceutical Biologics Co.,Ltd	(10,702,081.34)
SPH Holdings (Lianyungang) Co., Ltd	(1,988,356.48)
SPH Holdings (Suzhou) Co., Ltd	(358,820.49)
SPH Zhongwei (Hangzhou) Pharmaceutical Co., Ltd	(811,982.11)
Add: Cash and cash equivalents paid for company combination in the earlier stage	43,413,550.38
Including: Jiangsu Runtian Biochemical Medicine Co., Ltd.	36,000,000.00
SPH Keyuan Xinhai Gansu Pharmaceutical Co., Ltd.	5,670,000.00
SPH Holdings (Qujing) Co., Ltd	1,743,550.38
Net cash outflow for acquiring the subsidiaries	356,077,909.96
Price of acquiring the subsidiaries for the year ended 31 December 2023	
SPH Hunan Pharmaceutical Biologics Co.,Ltd	149,000,000.00
SPH Holdings (Lianyungang) Co., Ltd	81,000,000.00
SPH Holdings (Suzhou) Co., Ltd	61,485,600.00
SPH Zhongwei (Hangzhou) Pharmaceutical Co., Ltd	<u>35,040,000.00</u>
	<u>326,525,600.00</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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

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

(66) Notes to the consolidated cash flow statement (Cont'd)

(b) Acquisition of subsidiaries (Cont'd)

Price of acquiring the subsidiaries in the earlier stage

Jiangsu Runtian Biochemical Medicine Co., Ltd.	360,000,000.00
SPH Holdings (Qujing) Co., Ltd	37,964,600.00
SPH Keyuan Xinhai Gansu Pharmaceutical Co., Ltd.	15,672,979.87
Other subsidiaries	55,907,020.13
	<u>469,544,600.00</u>

Net assets of subsidiaries at acquisition date in 2023

For the year ended
31 December 2023

Current assets	1,675,743,759.25
Non - current assets	98,961,810.76
Current liabilities	(1,366,621,870.87)
Non - current liabilities	(20,562,753.23)
	<u>387,520,945.91</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

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

(66) Notes to the consolidated cash flow statement (Cont'd)

(c) Changes in liabilities arising from financing activities

	Bank loan (Including within one year)	Super & Short-term Commercial Paper ("SCP") (Including within one year)	Lease liabilities (Including within one year)	Total
31 December 2022	36,659,122,776.68	6,060,361,643.84	1,882,290,216.25	44,601,774,636.77
Cash inflows from financing activities	64,196,587,074.89	14,996,763,333.32	-	79,193,350,408.21
Cash outflows from financing activities	(58,918,680,412.62)	(15,141,870,821.92)	(781,944,517.32)	(74,842,495,751.86)
Interest accrued	1,663,554,793.96	136,067,156.24	85,577,629.94	1,885,199,580.14
Changes that do not involve cash inflows and outflows(Note (66)(a))	-	-	1,063,292,921.80	1,063,292,921.80
Others	112,286,685.49	-	(102,470,024.77)	9,816,660.72
31 December 2023	<u>43,712,870,918.40</u>	<u>6,051,321,311.48</u>	<u>2,146,746,225.90</u>	<u>51,910,938,455.78</u>

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)

(66) Notes to the consolidated cash flow statement (Cont'd)

(d) Cash and cash equivalents

	31 December 2023	31 December 2022
Cash	27,499,809,001.20	24,533,891,305.82
Including: Cash on hand	2,848,490.78	5,257,740.96
Cash at bank that can be readily drawn on demand	27,496,960,510.42	24,528,633,564.86
Cash and cash equivalents at the end of the year	<u>27,499,809,001.20</u>	<u>24,533,891,305.82</u>

As in Note 4(1), on December 31, 2023, other cash of RMB3,017,897,441.84 (December 31, 2022: RMB2,867,504,662.61), were not classified as cash and cash equivalents.

(67) Foreign currency items

	31 December 2023		
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand—			
USD	24,398,905.77	7.0827	172,810,129.90
HKD	3,182,449.05	0.9062	2,883,935.33
AUD	5,203,491.28	4.8484	25,228,607.12
EUR	3,182,449.05	7.8592	25,011,503.57
Others	389,030,134.44	—	5,184,192.27
			<u>231,118,368.19</u>
Accounts receivables—			
USD	17,378,045.59	7.0827	123,083,483.50
HKD	1,997,491.99	0.9062	1,810,127.24
AUD	15,986,162.50	4.8484	77,507,310.27
NZD	12,337,306.63	4.4991	55,506,776.26
EUR	398,500.00	7.8592	3,131,891.20
Others	2,367,562,490.52	—	29,078,066.42
			<u>290,117,654.89</u>
Other receivables—			
USD	37,853,928.69	7.0827	268,108,020.73
HKD	4,646,720.84	0.9062	4,210,858.43
Others	880,796,810.86	—	10,763,659.03
			<u>283,082,538.19</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

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

(67) Foreign currency items (Cont'd)

	31 December 2023		
	Foreign currency balance	Exchange rate	RMB balance
Short-term borrowings—			
USD	850,000.00	7.0827	6,020,295.00
NZD	943,109.10	4.4991	4,243,142.15
			<u>10,263,437.15</u>
Accounts payables—			
USD	18,525,606.19	7.0827	131,211,310.96
HKD	16,531,735.31	0.9062	14,981,058.54
AUD	2,624,410.93	4.8484	12,724,193.95
NZD	9,464,056.70	4.4991	42,579,737.50
EUR	842,440.44	7.8592	6,620,907.91
Others	434,762,815.99	—	21,768,815.18
			<u>229,886,024.04</u>
Other payables—			
USD	179,114,481.86	7.0827	1,268,614,140.67
HKD	61,985,103.05	0.9062	56,170,900.38
AUD	64,541,759.52	4.8484	312,924,266.86
NZD	13,433,365.79	4.4991	60,438,056.03
Others	259,904,527.12	—	3,066,873.43
			<u>1,701,214,237.37</u>
Current portion of lease liabilities—			
USD	394,982.62	7.0827	2,797,543.40
HKD	2,479,942.12	0.9062	2,247,323.55
AUD	1,045,576.73	4.8484	5,069,374.22
NZD	2,284,841.57	4.4991	10,279,730.71
Others	1,311,552.00	—	272,015.88
			<u>20,665,987.76</u>
Long-term borrowings—			
NZD	55,102,635.58	4.4991	<u>247,912,267.74</u>
Lease liabilities—			
USD	380,331.95	7.0827	2,693,777.10
AUD	249,995.53	4.8484	1,212,078.33
NZD	60,173,687.51	4.4991	270,727,437.48
Others	2,411,006.35	—	500,042.72
			<u>275,133,335.63</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 12(1)(a)).

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

5 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
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
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

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

5 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	
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	327,000,000	99.21%	0.79%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Kony (Changzhou) Co., Ltd. (上藥康麗(常州)藥業有限公司)	Changzhou	Changzhou	Pharmaceutical products manufacture and trading	14,946,380	100.00%	-	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Lei Yun Shang Pharmaceutical Co., Ltd. (上海雷允上藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	465,070,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Sine Tianping Pharmaceutical Company Ltd. (上海信誼天平藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	154,700,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control

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(All amounts in RMB Yuan unless otherwise stated)

5 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	50,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Sine Wanxiang Pharmaceutical Co., Ltd. (上海信誼萬象藥業股份有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	100,000,000	-	89.92%	Subsidiaries obtained through business combinations involving enterprises under common control
SHANDONG SINE PHARMACEUTICAL CO LTD (山東信誼製藥有限公司)	Dezhou	Dezhou	Pharmaceutical products manufacture and trading	177,406,159	-	67.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
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	300,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
Shanghai Zhongxi Pharmaceutical Co., Ltd. (上海上藥中西製藥有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	148,200,000	-	90.00%	Subsidiaries established through establishment or investment
Shanghai Huayu Pharmaceutical Co., Ltd. (上海上藥華宇藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	270,060,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
SPH Shenxiang Health Pharmaceutical Co., Ltd. (上海上藥神象健康藥業有限公司)	Shanghai	Shanghai	Pharmaceutical products manufacture and trading	150,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises under common control
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. (浙江上藥九旭藥業有限公司)	Jinhua	Jinhua	Pharmaceutical products manufacture and trading	25,000,000	-	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control

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

5 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	Research and 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
SPH Guangdong 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 Shandong Pharmaceutical Co., Ltd. (上藥控股山東有限公司)	Jinan	Jinan	Distribution of pharmaceutical products	200,000,000	-	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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(All amounts in RMB Yuan unless otherwise stated)

5 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 Huaxi (Sichuan) Pharmaceutical Co., Ltd. (上藥華西(四川)醫藥有限公司)	Chengdu	Chengdu	Distribution of pharmaceutical products	36,734,700	-	51.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Huashi Pharmacy CO., LTD. (上海華氏大藥房有限公司)	Shanghai	Shanghai	Distribution of pharmaceutical products	350,000,000	-	100.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
Shanghai Pharmaceutical Holding Yunnan Co., Ltd. (上藥控股雲南有限公司)	Kunming	Kunming	Distribution of pharmaceutical products	53,333,333	-	70.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
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
SPH Keyuan Xinhai Pharmaceutical Henan Co., Ltd. (上藥科園信海河南醫藥有限公司)	Zhengzhou	Zhengzhou	Distribution of pharmaceutical products	100,000,000	-	70.00%	Subsidiaries obtained through business combinations involving enterprises not under common control
China Medical Foreign Trading Liao Ning Co., Ltd. (遼寧省醫藥對外貿易有限公司)	Shenyang	Shenyang	Distribution of pharmaceutical products	282,012,500	53.86%	-	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 49%, 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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5 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests

The Group has comprehensively considered factors such as whether the subsidiary is a listed company, the proportion of minority shareholder equity to the consolidated shareholder equity of the Group, and the proportion of minority shareholder gains and losses to the consolidated net profit of the Group. The subsidiaries with significant minority shareholder equity are determined as follows:

Name of significant subsidiaries	Shareholding proportion of minority interests	Comprehensive income attributable to minority interests for the year ended 31 December 2023	Dividends distributed to minority interests for the year ended 31 December 2023(i)	Minority interests for the year ended 31 December 2023
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	24.11%	120,929,714.34	47,557,431.00	1,126,143,801.00
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	49.00%	38,798,085.90	53,893,386.58	1,084,931,732.16

(i) All dividends declared to minority shareholders in fiscal 2023 were paid in the year.

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

	31 December 2023					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	3,504,411,258.51	1,729,813,774.97	5,234,225,033.48	(2,211,362,165.00)	(86,292,878.91)	(2,297,655,043.91)
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	2,609,700,461.63	489,976,967.17	3,099,677,428.80	(832,380,185.30)	(67,225,939.37)	(899,606,124.67)

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5 Equity in other subjects (Cont'd)

(1) Equity in significant subsidiaries (Cont'd)

(b) Subsidiaries with significant minority interests (Cont'd)

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

Note 1: As for the year 2023, the equity and net comprehensive income of SPH Changzhou Pharmaceutical Co., Ltd. to minority interests presented in the consolidated financial statement were approximately RMB550,977,436.44 and RMB76,277,155.88.

Note 2: As for the year 2023, the equity and net comprehensive income of SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. to minority interests presented in the consolidated financial statement were approximately RMB13,523,123.79 and RMB1,735,046.85.

	For the year ended 31 December 2023			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	6,309,922,700.24	261,480,633.52	261,480,633.52	258,473,793.03
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	4,140,896,478.00	77,366,831.99	77,373,902.06	(11,571,052.22)
	For the year ended 31 December 2022			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
SPH Changzhou Pharmaceutical Co., Ltd. and its subsidiaries	6,099,656,982.44	243,264,871.41	243,264,871.41	374,844,280.09
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd. and its subsidiaries	3,651,101,929.62	95,642,482.15	95,642,482.15	123,952,408.79

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

5 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates

(a) Summarised basic information of significant joint ventures and associates

The Group identifies significant joint ventures and associates by taking into account factors such as whether the joint ventures and associates are listed companies, the proportion of their carrying amounts to the Group's consolidated total assets, and the proportion of the income from long-term equity investments accounted for under the equity method to the Group's consolidated net profit, as set out below:

	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 2023 RMB'000	31 December 2022 RMB'000
	Shanghai Hutchison Pharmaceutical Co., Ltd.	Shanghai Hutchison Pharmaceutical Co., Ltd.
Current assets	1,439,088	1,481,305
Including: Cash and cash equivalents	137,836	234,886
Non-current assets	531,492	565,854
Total assets	<u>1,970,580</u>	<u>2,047,159</u>
Current liabilities	1,286,189	1,030,381
Non-current liabilities	24,841	32,311
Total liabilities	<u>1,311,030</u>	<u>1,062,692</u>
Minority interests		
Equity attributable to shareholders of the company	<u>659,550</u>	<u>984,467</u>
Share of net assets in proportion of shareholdings(i)	329,775	492,234
Carrying amount of investments in joint ventures	<u>329,775</u>	<u>492,234</u>
Fair value of the investment in joint ventures with quoted price	Not applicable	Not applicable

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5 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 2023 RMB'000 Shanghai Hutchison Pharmaceutical Co., Ltd.	For the year ended 31 December 2022 RMB'000 Shanghai Hutchison Pharmaceutical Co., Ltd.
Revenue	2,702,384	2,461,963
Finance expenses	4,476	5,102
Income tax expenses	(117,928)	(109,652)
Net profit	663,358	652,991
Total comprehensive income	663,358	652,991
Dividends declared by the joint ventures to the Group	494,138	300,000

- (i) The Group calculates share of assets in proportion of the shareholdings based on the amount attributable to the parent company of joint ventures in their consolidated financial statements. The amount in the consolidated financial statements of joint ventures considers the impacts of fair value of identifiable assets and liabilities of joint ventures at the time of acquisition and the unification of accounting policies. None of the assets involved in transactions between the Group and its joint ventures constitute business.

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(All amounts in RMB Yuan unless otherwise stated)

5 Equity in other subjects (Cont'd)

(2) Equity in joint ventures and associates (Cont'd)

(c) Summarised financial information of significant associates

	31 December 2023		31 December 2022	
	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	6,762,399	1,143,361	7,877,338	1,081,057
Non-current assets	1,980,700	439,180	2,501,362	533,746
Total assets	<u>8,743,099</u>	<u>1,582,541</u>	<u>10,378,700</u>	<u>1,614,803</u>
Current liabilities	3,747,627	826,176	5,068,548	857,104
Non-current liabilities	61,949	2,007	569,803	1,173
Total liabilities	<u>3,809,576</u>	<u>828,183</u>	<u>5,638,351</u>	<u>858,277</u>
Equity attributable to shareholders of the company	<u>4,933,523</u>	<u>754,358</u>	<u>4,740,349</u>	<u>756,526</u>
Share of net assets in proportion of shareholdings(i)	1,480,057	226,308	1,422,105	226,958
Carrying amount of investments in associate	<u>1,480,057</u>	<u>226,308</u>	<u>1,422,105</u>	<u>226,958</u>
Fair value of the investment in associates with quoted price	Not applicable	Not applicable	Not applicable	Not applicable

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(All amounts in RMB Yuan unless otherwise stated)

5 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 2023		For the year ended 31 December 2022	
	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	10,943,807	1,896,146	12,655,752	2,008,411
Net profit	361,031	291,503	335,716	293,671
Total comprehensive income	361,031	291,503	335,716	293,671
Dividends declared by the associates to the Group	50,357	88,101	108,035	95,973

- (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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5 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 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Joint ventures –		
Carrying amount of investments in total	1,752,919	1,746,950
Aggregate of the following items in proportion		
Net profit (i)	(10,891)	(15,505)
Total comprehensive income	(10,891)	(15,505)
Associates –		
Carrying amount of investments in total	4,562,853	5,418,296
Aggregate of the following items in proportion		
Net profit (i)	(387,395)	24,283
Other comprehensive income (i)	(133)	(235)
Total comprehensive income	(387,528)	24,048

(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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(All amounts in RMB Yuan unless otherwise stated)

6 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.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

6 Segment Information (Cont'd)

(1) Segment information as at 31 December 2023 and for the year ended 31 December 2023 is as follows:

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	26,256,792,197.75	233,759,541,445.32	9,110,750,928.61	1,816,495,297.76	(10,648,490,925.91)	260,295,088,943.53
Including: External revenue	21,707,541,655.63	228,347,232,463.47	9,052,814,448.62	1,187,500,375.81	-	260,295,088,943.53
Inter-segment revenue	4,549,250,542.12	5,412,308,981.85	57,936,479.99	628,994,921.95	(10,648,490,925.91)	-
Less: Cost of sales	(10,898,239,514.40)	(219,000,048,725.26)	(8,020,903,244.25)	(1,053,495,491.07)	10,005,739,973.74	(228,966,947,001.24)
Taxes and surcharges	(265,569,139.91)	(436,595,795.21)	(18,068,851.72)	(17,872,639.48)	-	(738,106,426.32)
Selling expenses	(8,477,144,784.79)	(4,729,731,844.60)	(737,552,836.15)	(144,858,835.34)	187,096,797.38	(13,902,191,503.50)
General and administrative expenses	(2,332,174,318.92)	(2,787,979,431.74)	(242,154,060.19)	(512,087,189.91)	162,567,554.67	(5,711,827,446.09)
Research and development expenses	(2,204,033,687.43)	-	-	-	-	(2,204,033,687.43)
Segment profit	2,079,630,752.30	6,805,185,648.51	92,071,936.30	88,181,141.96	(293,086,600.12)	8,771,982,878.95
Unallocated:						
Finance expenses-net						(1,485,757,647.45)
Asset impairment losses						(561,277,474.11)
Credit impairment losses						(279,958,650.49)
Add: Profit arising from changes in fair value						404,731,380.72
Investment income						(68,122,676.68)
Other income						793,161,586.35
Gains on disposals of assets						92,475,307.03
Operating profit						<u>7,667,234,704.32</u>
Depreciation and amortisation	1,141,942,965.09	1,018,943,291.38	137,527,185.47	136,637,885.10	-	2,435,051,327.04
Capital expenditures	1,981,670,908.02	566,340,233.45	25,273,896.06	624,548,295.19	-	3,197,833,332.72
Investment in associates-net	3,514,675,670.37	1,767,622,019.12	1,308,395.75	985,610,565.35	-	6,269,216,650.59
Investment in joint ventures -net	1,667,764,533.03	414,928,926.55	-	-	-	2,082,693,459.58
Other assets	44,189,432,486.61	149,136,840,310.29	3,069,237,809.12	66,265,386,910.23	(60,757,131,917.88)	201,903,765,598.37
Unallocated:						
Deferred tax assets						1,716,858,058.26
Total assets						<u>211,972,533,766.80</u>
Liabilities	20,991,758,023.66	110,232,298,164.43	2,488,888,305.59	31,243,596,406.17	(35,135,717,939.97)	129,820,822,959.88
Unallocated:						
Deferred tax liabilities						1,015,820,143.36
Income tax payable						809,797,698.63
Total liabilities						<u>131,646,440,801.87</u>

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6 Segment Information (Cont'd)

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

	Production segment	Distribution segment	Retail segment	Others	Elimination	Total
Revenue	26,757,644,586.87	205,732,892,503.17	8,263,524,277.58	1,349,100,581.71	(10,121,862,184.82)	231,981,299,764.51
Including: External revenue	22,313,073,226.15	200,754,729,935.87	8,234,580,747.01	678,915,855.48	-	231,981,299,764.51
Inter-segment revenue	4,444,571,360.72	4,978,162,567.30	28,943,530.57	670,184,726.23	(10,121,862,184.82)	-
Less: Cost of sales	(11,091,527,989.93)	(192,190,257,130.75)	(7,220,101,457.49)	(855,712,202.84)	9,862,675,693.54	(201,494,923,087.47)
Taxes and surcharges	(271,983,726.38)	(410,138,162.18)	(18,194,224.17)	(15,957,540.45)	-	(716,273,653.18)
Selling expenses	(9,160,461,098.82)	(4,409,009,303.74)	(699,556,869.09)	(108,944,741.52)	98,997,105.63	(14,278,974,907.54)
General and administrative expenses	(2,109,347,624.74)	(2,321,997,210.85)	(256,605,137.92)	(442,557,974.17)	138,818,773.71	(4,991,689,173.97)
Research and development expenses	(2,112,197,580.39)	-	-	-	-	(2,112,197,580.39)
Segment profit	2,012,126,566.61	6,401,490,695.65	69,066,588.91	(74,071,877.27)	(21,370,611.94)	8,387,241,361.96
Unallocated:						
Finance expenses-net						(1,313,192,468.06)
Asset impairment losses						(331,471,295.70)
Credit impairment losses						(312,460,488.87)
Add: Profit arising from changes in fair value						218,737,860.49
Investment income						533,117,089.08
Other income						393,760,191.69
Gains on disposals of assets						1,438,918,138.68
Operating profit						9,014,650,389.27
Depreciation and amortisation	1,052,243,907.44	1,094,832,786.05	149,178,894.73	177,105,926.46	-	2,473,361,514.68
Capital expenditures	2,249,023,550.99	561,639,721.07	23,529,111.10	144,134,769.56	-	2,978,327,152.72
Investment in associates-net	3,987,055,471.35	1,781,735,036.32	1,714,525.50	1,222,954,707.96	-	6,993,459,741.13
Investment in joint ventures -net	1,861,915,122.36	377,268,738.70	-	-	-	2,239,183,861.06
Other assets	43,835,430,654.86	135,011,503,072.97	2,904,345,605.52	56,934,545,695.29	(51,318,296,125.56)	187,367,528,903.08
Unallocated:						
Deferred tax assets						1,534,728,993.68
Total assets						198,134,901,498.95
Liabilities	19,397,187,447.11	97,881,548,359.37	2,330,511,132.75	18,002,568,470.72	(19,309,964,603.82)	118,301,850,806.13
Unallocated:						
Deferred tax liabilities						1,049,237,452.75
Income tax payable						781,362,182.64
Total liabilities						120,132,450,441.52

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7 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 2022	Increase in the current year	Decrease in the current year	31 December 2023
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 2023		31 December 2022	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Shanghai Pharma Group	19.35%	19.35%	19.38%	19.38%

(2) Significant subsidiaries

For basic and related information of significant subsidiaries, please refer to Note 5(1).

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7 Related parties and related party transactions (Cont'd)

(3) Joint ventures and associates

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

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

(4) Other related parties

	Relationship with the Group
Yunnan Baiyao Group Co., Ltd. and its subsidiaries (雲南白藥集團股份有限公司及其子公司)	Shareholder with more than 5% of the Company's shares
Shanghai 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
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 Shiyu Urban Construction Management Co., Ltd. (上海實譽城市建設管理有限公司)	Controlled by Shanghai Pharma Group
Chongqing Quanzhidao Pharmaceutical Co., Ltd. (重慶全之道醫藥有限公司)	Controlled by Shanghai Pharma Group
Shanghai Biomedical Industry Equity Investment Fund Partnership(Limited Partnership) 上海生物醫藥產業股權投資基金合夥企業(有限合夥)	Significant influence by Shanghai Pharma Group

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7 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 transaction	Pricing policies	Amount of transactions approved RMB'000	Exceeding the transaction limit	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Roche Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	NA	NA	1,689,678.23	1,771,904.78
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	460,000.00	NO	405,843.81	242,627.65
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	Purchase of goods	By negotiation	NA	NA	388,390.65	359,109.99
Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	NA	NA	318,979.47	325,215.74
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	NA	NA	156,321.10	171,001.57
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Purchase of goods	By negotiation	NA	NA	151,381.57	183,816.18
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	NA	NA	84,757.66	88,734.86
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	Purchase of goods	By negotiation	NA	NA	74,603.39	117,931.71
Wing Fat Printing Limited and its subsidiaries	Purchase of goods	By negotiation	90,000.00	NO	52,244.81	46,376.44
Jiangxi Nanhua Medicines Co., Ltd. and its subsidiaries	Purchase of goods	By negotiation	NA	NA	32,523.31	89,591.84
Shanghai Sine Promod Pharmaceutical Corp., Ltd. and its subsidiaries	Purchase of goods	By negotiation	NA	NA	24,901.27	38,465.98
Others	Purchase of goods and services	By negotiation	NA	NA	88,330.03	89,124.78
			<u>550,000.00</u>		<u>3,467,955.30</u>	<u>3,523,901.52</u>

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7 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(a) Purchase and sales of goods, vender and purchase of services (Cont'd)

Sales of goods and services:

	Related transaction	Pricing policies	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Jiangxi Nanhua Medicines Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	3,945,402.62	3,827,181.38
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	1,905,473.86	1,002,081.47
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	615,537.71	447,658.19
Beijing Lianxin Pharmaceutical Co., Ltd.	Sales of goods	By negotiation	149,557.69	124,476.15
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd and its subsidiaries.	Sales of goods	By negotiation	99,661.80	84,387.50
Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	Sales of goods	By negotiation	91,429.36	78,376.45
Chongqing Medicines Shanghai Pharma Sales Co., Ltd.	Sales of goods	By negotiation	76,819.83	61,500.44
Others	Sales of goods and vender of services	By negotiation	79,677.66	62,629.82
			<u>6,963,560.53</u>	<u>5,688,291.40</u>

(b) Lease

The rental income recognised by the Group as the lessor:

Lessee	Leased asset	Rental income recognised for the year ended 31 December 2023 RMB'000	Rental income recognised for the year ended 31 December 2022 RMB'000
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	Building	7,504.62	10,476.42
Shanghai Yingdalai Property Co., Ltd.	Building	4,410.00	4,806.90
		<u>11,914.62</u>	<u>15,283.32</u>

The Group is the lessee:

Lessor	Leased asset	Lease payable for the year ended 31 December 2023 RMB'000	Lease payable for the year ended 31 December 2022 RMB'000
Shanghai Yingdalai Property Co., Ltd.	Building	16,557.89	4,066.74
Shanghai Pharma Group	Building	16,253.05	21,251.27
Shanghai Indu-Land Property Co., Ltd	Building	11,272.78	19,040.21
		<u>44,083.72</u>	<u>44,358.22</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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(All amounts in RMB Yuan unless otherwise stated)

7 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 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Yingdalai Property Co., Ltd.	Building	21,884.31	-
Shanghai Pharma Group	Building	4,314.83	42,509.02
		<u>26,199.14</u>	<u>42,509.02</u>

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

Lessor	Leased asset	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Pharma Group	Building	1,534.98	1,439.74
Shanghai Yingdalai Property Co., Ltd.	Building	461.72	-
		<u>1,996.70</u>	<u>1,439.74</u>

Rental expense for short-term leases and low-value leases that are recognized directly in profit or loss by the Group as the lessee:

Lessor	Leased asset	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Yingdalai Property Co., Ltd.	Building	6,397.48	4,066.74
Shanghai Pharma Group	Building	2,625.00	-
		<u>9,022.48</u>	<u>4,066.74</u>

(c) R&D expenditures

		For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
	Pricing policies		
Shanghai Huiyong Medicine Research Co., Ltd.	By negotiation	<u>5,330.19</u>	<u>17,830.19</u>

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7 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(d) Guarantee

The Group is the Guarantor

Guaranteed party	Guarantee amount RMB'000	Starting date	Ending date	Completed or not
Chongqing Medicines Pharma Sales Co., Ltd.	614.21	2022.9.19	2023.3.19	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	2,559.95	2022.9.26	2023.3.26	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	6,616.11	2022.10.24	2023.1.24	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	289.07	2022.10.24	2023.4.24	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	5,224.88	2022.12.20	2023.3.20	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	2,669.90	2022.12.20	2023.6.20	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	400.30	2022.10.24	2023.4.24	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	33.88	2022.12.6	2023.3.6	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	5,029.58	2023.2.22	2023.5.22	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	70.31	2023.2.22	2023.8.22	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	3,665.87	2023.6.16	2023.9.12	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	331.19	2023.7.26	2023.10.26	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	3,127.42	2023.6.16	2023.12.12	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	99.10	2023.8.10	2023.11.10	Yes
Chongqing Medicines Pharma Sales Co., Ltd.	3,329.78	2023.7.26	2024.1.26	NO
Chongqing Medicines Pharma Sales Co., Ltd.	4,892.78	2023.7.26	2024.1.26	NO
Chongqing Medicines Pharma Sales Co., Ltd.	2,571.01	2023.8.10	2024.2.10	NO
	<u>41,525.34</u>			

(e) Assets sales

	Related transaction	Pricing policies	For the year ended	For the year ended
			31 December 2023	31 December 2022
			RMB'000	RMB'000
Zhejiang Shangyao Jiuzhou Biopharmaceutical Co., Ltd.	Assets sales	By negotiation	<u>13,000.00</u>	<u>-</u>

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(All amounts in RMB Yuan unless otherwise stated)

7 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(f) Key management compensation

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Salary, bonus and other compensation	46,708.13	46,100.82
Stock options	<u>929.57</u>	<u>2,480.87</u>
	<u>47,637.70</u>	<u>48,581.69</u>

(g) Interest

Interest income

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>12,678.83</u>	<u>13,528.41</u>

Interest expense

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>111,318.51</u>	<u>94,632.22</u>

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

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Shanghai Industrial Group Finance Co., Ltd.	<u>944.57</u>	<u>703.03</u>

(i) Deposits and borrowings

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Net increase of the deposit balance		
Shanghai Industrial Group Finance Co., Ltd.	<u>246,359.01</u>	<u>1,021,097.79</u>
Loan received from related parties		
Shanghai Industrial Group Finance Co., Ltd.	<u>3,958,399.12</u>	<u>2,590,697.52</u>

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(All amounts in RMB Yuan unless otherwise stated)

7 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(i) Deposits and borrowings(Cont'd)

Loan repayment to
related parties

Shanghai Industrial Group Finance Co., Ltd.	3,045,700.00	2,386,470.00
SPH- BIOCAD(HK)Limited	47,652.28	84,723.21
	<u>3,093,352.28</u>	<u>2,471,193.21</u>

Loan lent to related
parties

Shanghai Shangyao CanSino Biopharmaceutical Co., Ltd.	50,463.30	-
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Repayment
received from
related parties

Shanghai Shangyao CanSino Biopharmaceutical Co., Ltd.	20,665.79	-
Shanghai Huaren Pharmaceutical Co., Ltd.	651.49	-
	<u>21,317.28</u>	<u>-</u>

(j) Discount of bank acceptance notes

For the year ended 31 December 2023	For the year ended 31 December 2022
RMB'000	RMB'000

Discount amount

Shanghai Industrial Group Finance Co., Ltd.	102,007.07	62,030.83
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(All amounts in RMB Yuan unless otherwise stated)

7 Related parties and related party transactions (Cont'd)

(5) Related party transactions (Cont'd)

(k) Bank acceptance notes issued

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Issued amount		
Shanghai Industrial Group Finance Co., Ltd.	97,007.07	53,822.95

(6) Balance of receivables and payables of related parties

Amounts due from related parties

		31 December 2023		31 December 2022	
		Acoounts balance RMB'000	Provision for bad debts RMB'000	Acoounts balance RMB'000	Provision for bad debts RMB'000
Acoounts					
receivables	Jiangxi Nanhua Medicines Co., Ltd. and its subsidiaries	805,755.95	(2,998.49)	628,336.86	(1,557.57)
due from:	Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	136,824.29	(1,509.43)	115,797.01	(362.77)
	Yunnan Baiyao Group Co., Ltd. and its subsidiaries	60,976.45	(369.28)	75,013.51	(511.03)
	Shanghai Hutchison Pharmaceutical Co., Ltd.	28,083.71	(115.73)	9,872.96	(40.69)
	Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. and its subsidiaries	21,176.72	(661.47)	23,556.05	(685.44)
	Chongqing Pharmaceuticals Shanghai Medicine Sales Co., Ltd.	15,706.27	(2,296.22)	10,529.87	(2,259.74)
	Others	13,678.83	(1,646.08)	5,619.33	(629.96)
		<u>1,082,202.22</u>	<u>(9,596.70)</u>	<u>868,725.59</u>	<u>(6,047.20)</u>
Receivables					
financing:	Yunnan Baiyao Group Co., Ltd. and its subsidiaries	-		2,690.48	
Other					
receivables	Shanghai Hutchison Pharmaceutical Co., Ltd.	194,138.14	-	-	-
due from:	Sino-American Shanghai Squibb Pharmaceuticals Ltd.	43,101.33	(116.37)	47,973.16	(129.53)
	Shanghai Shangyao CanSino Biopharmaceutical Co., Ltd.	30,006.31	(29,883.64)	-	-
	Shanghai Roche Pharmaceutical Co., Ltd.	19,965.85	(91.53)	15,942.37	(396.43)
	Others	24,853.15	(7,639.28)	29,964.79	(5,157.44)
		<u>312,064.78</u>	<u>(37,730.82)</u>	<u>93,880.32</u>	<u>(5,683.40)</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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7 Related parties and related party transactions (Cont'd)

(6) Balance of receivables and payables of related parties (Cont'd)

	31 December 2023 RMB'000	31 December 2022 RMB'000
Prepayments due from: Yunnan Baiyao Group Co., Ltd. and its subsidiaries	50,212.55	50,540.96
Shanghai Huayu Saffron Planting Professional Cooperative	14,050.17	-
Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	4,220.76	10,231.67
Others	4,429.69	1,561.63
	<u>72,913.17</u>	<u>62,334.26</u>
Accounts payables due to:		
Shanghai Roche Pharmaceutical Co., Ltd.	168,230.14	181,737.94
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	34,085.45	58,171.07
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	26,630.19	19,634.99
Shanghai Pharma Health Commerce Co., Ltd. and its subsidiaries	25,685.16	18,515.77
Wing Fat Printing Limited and its subsidiaries	18,410.67	20,308.79
Shanghai Hutchison Pharmaceutical Co., Ltd. and its subsidiaries	16,147.22	34,136.66
Shanghai Shiyu Urban Construction Management Co., Ltd.	16,095.00	1,815.00
Shanghai Leiyunshang Pharmaceutical North District Co., Ltd. and its subsidiaries	14,884.78	20,104.70
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	14,871.42	21,814.93
Shanghai Bracco Sine Pharmaceutical Corp., Ltd.	5,463.78	4,848.91
Others	39,054.06	42,089.73
	<u>379,557.87</u>	<u>423,178.49</u>
Notes payables:		
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	26,583.63	-
Shanghai Roche Pharmaceutical Co., Ltd.	10,000.00	-
Yunnan Baiyao Group Co., Ltd. and its subsidiaries	8,178.28	13,772.51
	<u>44,761.91</u>	<u>13,772.51</u>
Other payables due to: SPH-BIOCAD(HK) Limited	1,162,976.56	1,190,667.64
Shanghai Shangshi (Group) Co., Ltd.	98,240.00	58,790.00
Shanghai Pharma Group	8,097.54	8,224.65
Others	17,162.29	15,282.26
	<u>1,286,476.39</u>	<u>1,272,964.55</u>
Other non-current liabilities:		
Shanghai Biomedical Industry Equity Investment Fund Partnership (L.P.)	38,161.97	49,199.91
Contract liabilities:		
Chongqing Quanzhidao Pharmaceutical Co., Ltd.	10,495.58	884.96
Jiangxi Nanhua Medicines Co., Ltd and its subsidiaries.	2,699.39	115.67
Zhejiang Shangyao Jiuzhou Biopharmaceutical Co., Ltd.	188.68	13,283.02
Others	2,972.95	1,183.76
	<u>16,356.60</u>	<u>15,467.41</u>

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7 Related parties and related party transactions (Cont'd)

(6) Balance of receivables and payables of related parties (Cont'd)

		31 December 2023 RMB'000	31 December 2022 RMB'000
Lease liabilities:	Shanghai Pharma Group	47,685.05	4,766.79
	Shanghai Yingdalai Property Co., Ltd.	<u>18,703.15</u>	<u>-</u>
		<u>66,388.20</u>	<u>4,766.79</u>
Employee benefits payable:	Key management personnel	<u>28,396.00</u>	<u>33,972.16</u>
Borrowings:	Shanghai Industrial Group Finance Co., Ltd.	<u>3,261,890.28</u>	<u>2,349,191.15</u>
Cash at bank:	Shanghai Industrial Group Finance Co., Ltd.	<u>4,166,043.61</u>	<u>3,919,684.60</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
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7 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors

(a) Remuneration of directors and supervisors

Remuneration of directors and supervisors for the year ended 31 December 2023 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.Gu Zhaoyang	300	-	-	-	-	-	-	300
Mr.Fok Manson	300	-	-	-	-	-	-	300
Mr.Wang Zhong(iv)	150	-	-	-	-	-	-	150
Mr.Hong Liang(iii)	150	-	-	-	-	-	-	150
Mr.Cai Jiangnan(iii)	150	-	-	-	-	-	-	150
Director								
Mr.Yang Qihua(iv)	-	-	-	-	-	-	-	-
Mr.Yao Jiayong(iii) (iv)	-	-	-	-	-	-	-	-
Mr.Chen Fashu(iv)	-	-	-	-	-	-	-	-
Mr.Dong Ming(iv)	-	-	-	-	-	-	-	-
Mr.Zhou Jun(iii)	-	-	-	-	-	-	-	-
Mr.Ge Dawei(iii)	-	-	-	-	-	-	-	-
Ms.Li An(iii)	-	-	-	-	-	-	-	-
Mr.Shen Bo	-	1,249	184	4,110	96	161	-	5,800
Mr.Li Yongzhong	-	1,249	92	4,590	97	161	-	6,189
Mr.Cho Man(iii)	-	750	-	4,480	-	198	-	5,428
Supervisor								
Mr.Xu Youli	-	-	-	-	-	-	-	-
Mr.Yu Weidong(iv)	-	-	-	-	-	-	-	-
Mr.Ma Jia(iv)	-	-	-	-	-	-	-	-
Mr.Huan Jianchun(iii)	-	-	-	-	-	-	-	-
Mr.Xin Keng(iii)	-	-	-	-	-	-	-	-
	1,050	3,248	276	13,180	193	520	-	18,467

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7 Related parties and related party transactions (Cont'd)

(7) Benefits and interests of directors (Cont'd)

(a) Remuneration of directors and supervisors (Cont'd)

Remuneration of directors and supervisors for the year ended 31 December 2022 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	-	1,504	-	4,560	-	385	-	6,449
Mr.Li Yongzhong	-	1,250	79	5,096	96	313	-	6,834
Mr.Shen Bo	-	1,249	164	4,296	90	313	-	6,112
Supervisor								
Mr.Xu Youli	-	-	-	-	-	-	-	-
Mr.Huan Jianchun	-	-	-	-	-	-	-	-
Mr.Xin Keng	-	-	-	-	-	-	-	-
	1,200	4,003	243	13,952	186	1,011	-	20,595

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7 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)

(i) In 2023 and 2022, the executive directors (including 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.

(ii) In 2023, no director waived any remuneration (2022: Nil).

(iii) Directors Ge Dawei, Cho Man, Li An, Cai Jiangnan and Hong Liang, and Supervisors Huan Jianchun and Xin Keng resigned on June 29, 2023. Director Zhou Jun resigned on November 18, 2023. Directors Yao Jiayong resigned on March 19, 2024.

(iv) Directors Wang Zhong, Yao Jiayong, Chen Fashu and Dong Ming, and supervisors Yu Weidong and Ma Jia were appointed on June 29, 2023. Directors Yang Qihua were appointed on March 19, 2024.

(b) Director's retirement benefits

In 2023, there are no retirement benefits due to directors' services or other services apart from the pension plan mentioned above (2022: Nil).

(c) Director's termination benefits

There are no directors' termination benefits for the directors in 2023(2022: 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 (2022: 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 (2022: 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 (2022: Nil).

(f) Substantial interests of directors in transaction, arrangement or contract.

In 2023, 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 (2022: Nil).

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7 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 2023 included three directors (2022: three directors) whose remunerations were reflected in Note 7(7). The remunerations of the remaining two (2022: two) highest individuals during the year were as follows:

	For the year ended 31 December 2023 RMB'000	For the year ended 31 December 2022 RMB'000
Basic salary, housing subsidy and other subsidies	3,491	2,479
Bonus	6,046	8,764
Share-based payment	120	329
	<u>9,657</u>	<u>11,572</u>
	<u>Number of individuals</u>	
	2023	2022
Remuneration bands:		
HKD 5,000,001 - 5,500,000	2	-
HKD 6,500,001 - 7,000,000	-	2

8 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.

9 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 2023	31 December 2022
Buildings, machinery and equipment	<u>1,466,816,647.79</u>	<u>1,502,491,154.10</u>

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10 Events after the balance sheet date**(1) Statement of dividend distribution**

In accordance with the resolution of the Board of Directors dated on 28 March 2024, the Company proposed a cash dividend to the shareholders at RMB4.10 per 10 shares (including tax). The resolution is pending for approval of the shareholders' meeting (Note 4(47)).

11 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 2023	31 December 2022
Within 1 year	36,561,936.32	31,703,246.95
1-2 years	29,010,587.89	27,151,386.49
2-5 years	39,794,630.63	33,460,180.56
Above 5 years	<u>10,499,725.12</u>	<u>17,327,422.73</u>
	<u>115,866,879.96</u>	<u>109,642,236.73</u>

12 Financial instruments and risks

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(1) Market risk**(a) Foreign exchange risk**

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars and Hong Kong dollars.

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the Group, whose recording currencies are RMB, are expressed in RMB as at 31 December 2023 and 31 December 2022 as follows:

	31 December 2023		
	USD and HKD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	115,628,916.03	20,203,991.14	135,832,907.17
Accounts receivables	<u>116,757,541.49</u>	<u>2,023,255.05</u>	<u>118,780,796.54</u>
	<u>232,386,457.52</u>	<u>22,227,246.19</u>	<u>254,613,703.71</u>
Financial liabilities denominated in foreign currency -			
Accounts payables	<u>146,192,369.50</u>	<u>1,104,922.34</u>	<u>147,297,291.84</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

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12 Financial instruments and risks (Cont'd)

(1) Market risk (Cont'd)

(a) Foreign exchange risk (Cont'd)

	31 December 2022		
	USD and HKD	Others	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	138,291,627.36	3,546,958.19	141,838,585.55
Accounts receivables	27,665,881.57	5,669,983.61	33,335,865.18
	<u>165,957,508.93</u>	<u>9,216,941.80</u>	<u>175,174,450.73</u>
Financial liabilities denominated in foreign currency -			
Accounts payables	109,252,007.33	6,524,049.87	115,776,057.20
Current portion of long-term borrowings	-	1,653,166.53	1,653,166.53
	<u>109,252,007.33</u>	<u>8,177,216.40</u>	<u>117,429,223.73</u>

As at 31 December 2023, 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 lower/higher by approximately RMB4,309,704.40 (31 December 2022: lower/higher by approximately RMB2,835,275.08).

(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 2023, the Group's short-term, long-term within one year and long-term interest-bearing borrowings were mainly with floating rates, amounting to RMB2,300,527,662.50 (31 December 2022: RMB4,323,075,441.13).

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 2023 and 31 December 2022, the Group did not enter into any interest rate swap agreements.

As at 31 December 2023, 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 RMB4,424,649.27 (31 December 2022: approximately RMB21,258,039.29).

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12 Financial instruments and risks (Cont'd)

(1) Market risk (Cont'd)

(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 2023, 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 RMB219,537,186.78 (31 December 2022: approximately RMB214,304,011.64), increase/decrease other comprehensive income approximately RMB5,541,672.52 (31 December 2022: approximately RMB10,148,752.56).

(2) Credit risk

The Group's credit risk mainly arises from cash at bank, notes receivables, accounts receivables, other receivables, financial guarantee contracts, 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.

Additionally, financial guarantees and loan commitments may pose risks due to the default of the counterparty. The group has established strict application and approval requirements for financial guarantees and loan commitments, taking into account a comprehensive set of information including internal and external credit ratings. The group continuously monitors the credit risk exposure, changes in the credit ratings of counterparties, and other relevant information to ensure that the overall credit risk remains within a controllable range.

As at 31 December 2023, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2022: 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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12 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2023				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Short-term borrowings	35,560,499,735.45	-	-	-	35,560,499,735.45
Derivative financial liabilities	2,316,492.78	-	-	-	2,316,492.78
Notes payables	6,717,443,536.29	-	-	-	6,717,443,536.29
Accounts payables	47,915,010,730.47	-	-	-	47,915,010,730.47
Other payables	17,949,353,893.39	-	-	-	17,949,353,893.39
Current portion of long-term payables	589,814.45	-	-	-	589,814.45
Current portion of long-term borrowings	2,366,216,452.37	-	-	-	2,366,216,452.37
Current portion of lease liabilities	683,188,144.48	-	-	-	683,188,144.48
Other current liabilities	6,051,321,311.48	-	-	-	6,051,321,311.48
Other non-current liabilities	-	-	53,714,908.75	-	53,714,908.75
Long-term borrowings	-	1,062,329,069.23	3,497,200,000.00	1,226,625,661.35	5,786,154,730.58
Lease liabilities	-	631,722,609.43	711,982,035.36	527,958,876.87	1,871,663,521.66
Long-term payables	-	487,479.40	1,472,495.55	39,271,157.58	41,231,132.53
Loan interest	658,786,765.81	61,260,972.34	108,734,243.06	232,852,153.04	1,061,634,134.25
	<u>117,904,726,876.97</u>	<u>1,755,800,130.40</u>	<u>4,373,103,682.72</u>	<u>2,026,707,848.84</u>	<u>126,060,338,538.93</u>

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12 Financial instruments and risks (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2022				
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	Total
Short-term borrowings	27,750,588,556.87	-	-	-	27,750,588,556.87
Derivative financial liabilities	1,569,907.10	-	-	-	1,569,907.10
Notes payables	5,961,723,663.49	-	-	-	5,961,723,663.49
Accounts payables	45,603,805,328.17	-	-	-	45,603,805,328.17
Other payables	16,474,855,895.13	-	-	-	16,474,855,895.13
Current portion of long-term payables	20,019,116.37	-	-	-	20,019,116.37
Current portion of long-term borrowings	2,648,734,849.49	-	-	-	2,648,734,849.49
Current portion of lease liabilities	673,682,585.58	-	-	-	673,682,585.58
Other current liabilities	6,060,361,643.84	-	-	-	6,060,361,643.84
Other non-current liabilities	-	-	69,251,366.25	-	69,251,366.25
Long-term borrowings	-	5,660,844,087.68	72,000,000.00	526,955,282.64	6,259,799,370.32
Lease liabilities	-	506,342,222.78	647,209,754.87	522,665,962.85	1,676,217,940.50
Long-term payables	-	589,955.83	1,782,081.06	48,288,705.31	50,660,742.20
Loan interest	756,069,825.90	147,202,484.96	52,826,884.22	125,427,924.99	1,081,527,120.07
	<u>105,951,411,371.94</u>	<u>6,314,978,751.25</u>	<u>843,070,086.40</u>	<u>1,223,337,875.79</u>	<u>114,332,798,085.38</u>

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12 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 2023				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Guarantees	<u>10,793,577.63</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,793,577.63</u>

	31 December 2022				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Guarantees	<u>18,408,290.36</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,408,290.36</u>

Cash flows derived from leases not yet commenced to which the Group was committed are analysed by maturity at the balance sheet date (Note 4(38)(a)):

	31 December 2023				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cash flows derived from leases not yet commenced	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	31 December 2022				Total
	Within 1 year	1 to 2 years	2 to 5 years	Above 5 years	
Cash flows derived from leases not yet commenced	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Bank and other borrowings are analysed by repayment terms as follows:

	31 December 2023		31 December 2022	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Within 1 year	37,926,716,187.82	6,051,321,311.48	30,399,323,406.36	6,060,361,643.84
1 to 2 years	1,062,329,069.23	-	5,660,844,087.68	-
2 to 5 years	3,497,200,000.00	-	72,000,000.00	-
Above 5 years	<u>1,226,625,661.35</u>	<u>-</u>	<u>526,955,282.64</u>	<u>-</u>
	<u>43,712,870,918.40</u>	<u>6,051,321,311.48</u>	<u>36,659,122,776.68</u>	<u>6,060,361,643.84</u>

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13 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 2023, 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	-	2,596,393.11	-	2,596,393.11
Financial assets held for trading	-	-	10,152,154,821.92	10,152,154,821.92
Receivables financing—				
Notes receivables	-	-	2,320,106,012.96	2,320,106,012.96
Other non-current financial assets	318,512,451.78	-	1,876,859,415.97	2,195,371,867.75
Other equity instrument investments	<u>55,416,725.20</u>	<u>-</u>	<u>-</u>	<u>55,416,725.20</u>
Total financial assets	<u>373,929,176.98</u>	<u>2,596,393.11</u>	<u>14,349,120,250.85</u>	<u>14,725,645,820.94</u>

As at 31 December 2023, 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	-	2,316,492.78	-	2,316,492.78
Other non-current liabilities	-	-	53,714,908.75	53,714,908.75
Total	<u>-</u>	<u>2,316,492.78</u>	<u>53,714,908.75</u>	<u>56,031,401.53</u>

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13 Fair value estimates (Cont'd)

(1) Financial assets and liabilities measured at fair value on a recurring basis (Cont'd)

As at 31 December 2022, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets— Forward foreign exchange contract	-	4,820,057.40	-	4,820,057.40
Financial assets held for trading	-	-	9,613,554,659.84	9,613,554,659.84
Receivables financing— Notes receivables	-	-	1,627,386,138.71	1,627,386,138.71
Other non-current financial assets	259,956,657.68	-	1,883,083,458.72	2,143,040,116.40
Other equity instrument investments	101,487,525.55	-	-	101,487,525.55
Total financial assets	361,444,183.23	4,820,057.40	13,124,024,257.27	13,490,288,497.90

As at 31 December 2022, the financial liabilities measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial liabilities — Forward foreign exchange contract	-	1,569,907.10	-	1,569,907.10
Other non-current liabilities	-	-	69,251,366.25	69,251,366.25
Total	-	1,569,907.10	69,251,366.25	70,821,273.35

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 expected return, estimated discount rate, EV, EBIT, stock volatility and etc.

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13 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 2022	Purchase	Disposal	Transfer into Level 3	Transfer out of Level 3	Gain or loss recognised in profit or loss	Gain or loss recognised in other comprehensive income	31 December 2023	Changes in unrealised gains or losses included in profit or loss for the current year with respect to assets still held as at 31 December 2023 - gains or losses on changes in fair value
Financial assets held for trading	9,613,554,659.84	27,376,650,000.00	(27,151,290,630.04)	-	-	313,240,792.12	-	10,152,154,821.92	102,154,821.92
Receivables financing	1,627,386,138.71	15,680,123,638.50	(14,930,881,646.65)	-	-	(56,522,117.60)	-	2,320,106,012.96	-
Other non-current financial assets	1,883,083,458.72	-	-	-	-	(6,224,042.75)	-	1,876,859,415.97	(6,224,042.75)
Other non-current liabilities	(69,251,366.25)	-	-	-	-	15,536,457.50	-	(53,714,908.75)	15,536,457.50
Total	13,054,772,891.02	43,056,773,638.50	(42,082,172,276.69)	-	-	266,031,089.27	-	14,295,405,342.10	111,467,236.67

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13 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 2023	Valuation technique	Inputs			
			Name	Scope	Relationship with fair value	Observable/ Unobservable
financial assets held for sell	10,152,154,821.92	DCF	expected return estimated discount rate	2.50%-3.45%	Positive	Unobservable
Receivables financing	2,320,106,012.96	DCF	EV/EBIT, EV/S, etc.	2.4820%- 2.9490%	Negative	Unobservable
Other non-current financial assets	1,876,859,415.97	Market method Equity value distribution method	Stock volatility	0.23-8.85	Positive	Unobservable
Other non-current liabilities	53,714,908.75			32.5537- 42.7436	Positive	Unobservable

Information about the Level 2 fair value measurement is as follows:

	Fair value as at 31 December 2023	Valuation technique	Observable inputs	
			Name	Scope/ weighted average
Assets				
Derivative financial assets—				
Forward foreign exchange contract	<u>2,596,393.11</u>	Market approach	Exchange rate	AUDUSD: 0.6384-0.6882
Liabilities				
Derivative financial assets—				
Forward foreign exchange contract	<u>2,316,492.78</u>	Market approach	Exchange rate	AUDNZD: 0.8961-0.9225
Fair value as at 31 December 2022				
Assets				
Derivative financial assets—				
Forward foreign exchange contract	<u>4,820,057.40</u>	Market approach	Exchange rate	AUDNZD: 0.8768-0.9303
Liabilities				
Derivative financial assets—				
Forward foreign exchange contract	<u>1,569,907.10</u>	Market approach	Exchange rate	AUDUSD: 0.64614-0.68076

(2) Assets measured at fair value on a non-recurring basis

The Group's assets measured at fair value on a non-recurring basis are the assets of acquiree at the acquisition date under business combinations involving enterprises not under common control.

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13 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 2023 and 31 December 2022, 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.

14 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 statements of financial position 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 2023 and 31 December 2022, the Group's gearing ratios are as follows:

	31 December 2023	31 December 2022
Gearing ratio	<u>23.51%</u>	<u>20.70%</u>

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15 Notes to the Company's financial statements

(1) Accounts receivables

	31 December 2023	31 December 2022
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 2023	31 December 2022
Above three years	<u>119,851,808.14</u>	<u>119,851,808.14</u>

(b) As at 31 December 2023, 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 2023, 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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15 Notes to the Company's financial statements (Cont'd)

(2) Other receivables

	31 December 2023	31 December 2022
Amount due from subsidiaries	16,073,401,110.16	13,756,523,454.09
Guarantees (including deposits)	6,615,937.80	5,510,666.16
Dividends receivable	638,045,338.14	845,782,588.47
Interests receivable	78,641,299.19	79,349,916.90
Receivables from enterprises	326,851.00	179,287.00
Others	257,141,035.97	257,141,035.97
	<u>17,054,171,572.26</u>	<u>14,944,486,948.59</u>
Less: provision for bad debts	<u>(303,285,996.18)</u>	<u>(296,897,145.36)</u>
	<u>16,750,885,576.08</u>	<u>14,647,589,803.23</u>

The Company does not have amounts attributed to other parties and reported in other receivables as a result of centralized management of funds.

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

	31 December 2023	31 December 2022
Within 1 year	10,123,496,182.94	10,578,231,399.16
1-2 years	3,735,068,026.22	2,235,129,033.70
2-3 years	1,661,332,419.63	995,907,642.19
Above 3 years	1,534,274,943.47	1,135,218,873.54
	<u>17,054,171,572.26</u>	<u>14,944,486,948.59</u>

(b) Statement of Loss Provisions and Changes in Book Balances

The bad debt provision for other receivables by category is analysed as follows:

	31 December 2023				31 December 2022			
	Accounts balance Amount	% to total amount	Provision for bad debts Amount	% to total amount	Accounts balance Amount	% to total amount	Provision for bad debts Amount	% to total amount
Single provision for bad debt reserves (i)	257,141,035.97	1.51%	(257,141,035.97)	100.00%	257,141,035.97	1.72%	(257,141,035.97)	100.00%
Provision for bad debts by combination (ii)	<u>16,797,030,536.29</u>	<u>98.49%</u>	<u>(46,144,960.21)</u>	<u>0.27%</u>	<u>14,687,345,912.62</u>	<u>98.28%</u>	<u>(39,756,109.39)</u>	<u>0.27%</u>
	<u>17,054,171,572.26</u>	<u>100.00%</u>	<u>(303,285,996.18)</u>	<u>1.78%</u>	<u>14,944,486,948.59</u>	<u>100.00%</u>	<u>(296,897,145.36)</u>	<u>1.99%</u>

As at 31 December 2023 and 31 December 2022, the Company has no other receivables in the second and third stage.

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15 Notes to the Company's financial statements (Cont'd)

(2) Other receivables (Cont'd)

(b) Statement of Loss Provisions and Changes in Book Balances (Cont'd)

(i) As at 31 December 2023, 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	<u>55,735,331.94</u>	100.00%	<u>(55,735,331.94)</u>	Unable to collect
	<u>257,141,035.97</u>		<u>(257,141,035.97)</u>	

As at 31 December 2022, the analysis of provision for bad debts for individual other receivables is as follows:

	Accounts balance	The third stage — Expected credit loss rate throughout the lifetime	Provision for bad debts	Reasons
Other receivable 1	120,000,000.00	100.00%	(120,000,000.00)	Unable to collect
Other receivable 2	33,375,018.03	100.00%	(33,375,018.03)	Unable to collect
Other receivable 3	26,030,686.00	100.00%	(26,030,686.00)	Unable to collect
Other receivable 4	22,000,000.00	100.00%	(22,000,000.00)	Unable to collect
Others	<u>55,735,331.94</u>	100.00%	<u>(55,735,331.94)</u>	Unable to collect
	<u>257,141,035.97</u>		<u>(257,141,035.97)</u>	

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

15 Notes to the Company's financial statements (Cont'd)

(2) Other receivables (Cont'd)

(b) Statement of Loss Provisions and Changes in Book Balances (Cont'd)

(ii) As at 31 December 2023 and 31 December 2022, the analysis of bad debt provisions of other receivables on grouping basis is as follows:

	31 December 2023			31 December 2022		
	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	16,073,401,110.16	(44,054,799.44)	0.27%	13,756,523,454.09	(37,142,613.34)	0.27%
Guarantees (including deposits)	6,615,937.80	(144,551.39)	2.18%	5,510,666.16	(109,848.33)	1.99%
Receivables from enterprises	326,851.00	(10,555.47)	3.23%	179,287.00	(5,789.97)	3.23%
Dividends receivable	638,045,338.14	(1,722,722.41)	0.27%	845,782,588.47	(2,283,612.99)	0.27%
Interests receivable	78,641,299.19	(212,331.50)	0.27%	79,349,916.90	(214,244.76)	0.27%
	<u>16,797,030,536.29</u>	<u>(46,144,960.21)</u>		<u>14,687,345,912.62</u>	<u>(39,756,109.39)</u>	

(3) Long-term equity investments

	31 December 2023	31 December 2022
Subsidiaries (a)	28,863,334,179.16	25,282,535,986.65
Associates (b)	2,315,574,445.65	2,331,620,349.69
Joint venture (c)	30,352,617.35	38,256,979.07
	<u>31,209,261,242.16</u>	<u>27,652,413,315.41</u>
Less: Provision for impairment of long-term equity investments	<u>(160,467,496.59)</u>	<u>(5,667,665.87)</u>
	<u>31,048,793,745.57</u>	<u>27,646,745,649.54</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 2023

(All amounts in RMB Yuan unless otherwise stated)

15 Notes to the Company's financial statements (Cont'd)

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

(a) Subsidiaries

	31 December 2022	Changes during the year				31 December 2023	Impairment balance		Cash dividends declared in the current year
		Increase in investment	Decrease in investment	Provision for impairment	Others		31 December 2022	31 December 2022	
SIIC Medical Science and Technology (Group) Limited and its subsidiaries	7,167,148,348.41	-	(7,500,000.00)	-	(2,131,062.82)	7,157,517,285.59	-	-	6,000,000.00
Shanghai Pharmaceuticals (HK) Investment Limited	2,162,120,167.06	3,097,031,850.87	-	-	-	5,259,152,017.93	-	-	-
Shanghai Pharmaceutical Co., Ltd.	4,784,755,922.87	-	-	-	318,094.60	4,785,074,017.47	-	-	635,600,000.00
Shanghai Traditional Chinese Medicine Co., Ltd.	1,896,114,897.89	-	-	-	18,623.84	1,896,133,521.73	-	-	-
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	1,418,484,919.73	-	-	-	(203,580.48)	1,418,281,339.25	-	-	215,630,000.00
Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	1,225,988,774.63	-	-	-	(7,540.64)	1,225,981,233.99	-	-	8,769,450.00
Shanghai Shangyao Biomedical Co., Ltd.	1,092,343,515.07	33,900,000.00	-	-	-	1,126,243,515.07	-	-	-
China Medical Foreign Trading Liao Ning Co.Ltd.	558,601,296.99	38,721,592.00	-	-	-	597,322,888.99	-	-	-
Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	513,163,788.69	-	-	-	215,311.74	513,379,100.43	-	-	217,337,158.69
TECHPOOL Bio-Pharma Co., Ltd.	492,439,114.63	-	-	-	293,330.76	492,732,445.39	-	-	47,154,133.08
Shanghai Medical Instruments Co., Ltd.	406,716,915.20	-	-	-	(270,514.72)	406,446,400.48	-	-	-
Shanghai Pharmaceutical (USA), Inc.	332,358,434.95	53,251,250.00	-	-	33,051.35	385,642,736.30	-	-	-
SPH (benxi) North Pharmaceutical Co., Ltd.	380,000,000.00	-	-	-	-	380,000,000.00	-	-	-
Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	326,156,713.44	-	-	-	(89,741.82)	326,066,971.62	-	-	197,840,000.00
Shanghai Biopharmaceutical Frontier Industry Innovation Centre Co., Ltd.	-	312,500,000.00	-	-	99,154.06	312,599,154.06	-	-	-
Shanghai SPH Jiaolian Medical Science and Technology Co., Ltd.	305,281,972.64	-	-	-	33,051.35	305,315,023.99	-	-	-
SPH Qingdao Growful Pharmaceutical Co., Ltd.	259,554,066.34	-	-	-	327,458.89	259,881,525.23	-	-	31,393,685.00
SPH Changzhou Pharmaceutical Co., Ltd.	207,402,673.01	-	-	-	54,037.08	207,456,710.09	-	-	31,635,333.10
Shanghai Industrial United Group Pharmaceutical Co.,Ltd.	167,500,000.00	-	-	-	-	167,500,000.00	-	-	-
Shanghai Shangyao Innovative Pharmaceutical Technology Co., Ltd.	81,235,938.45	19,398,500.00	-	-	783,169.55	101,417,608.00	-	-	-
Shanghai Zhonghua Pharmaceutical Co., Ltd.	100,983,665.48	-	-	-	65,843.67	101,049,509.15	-	-	1,750,000.00
Shanghai Shangyao Ruier Pharmaceutical Co., Ltd.	100,458,205.55	-	-	-	53,708.45	100,511,914.00	-	-	-
Liaoning SPH Good Nurse Pharmaceutical (Group) Co.,Ltd.	82,500,000.00	-	-	-	3,347,130.00	85,847,130.00	-	-	-
SPH Traditional Chinese Medicine Research Institute Co., Ltd.	26,400,000.00	19,800,000.00	-	-	-	46,200,000.00	-	-	-
Shanghai Pharmaceutical Group Industrial Marketing Management Co., Ltd	-	10,800,000.00	-	-	-	10,800,000.00	-	-	-
Others	1,194,826,655.62	-	-	-	(44,525.22)	1,194,782,130.40	-	-	317,602,147.90
	<u>25,282,535,986.65</u>	<u>3,585,403,192.87</u>	<u>(7,500,000.00)</u>	<u>-</u>	<u>2,894,999.64</u>	<u>28,863,334,179.16</u>	<u>-</u>	<u>-</u>	<u>1,710,711,907.77</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

15 Notes to the Company's financial statements (Cont'd)

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

(b) Associates

	31 December 2022	Changes during the year								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	31 December 2023	31 December 2023	31 December 2022
Shanghai Industrial Group Finance Co., Ltd.	413,435,013.72	-	-	16,560,106.71	-	-	(9,071,223.10)	-	-	420,923,897.33	-	-
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	302,159,777.89	-	-	14,632,106.47	(88,544.64)	10,629,663.34	(9,770,499.20)	-	-	317,562,503.86	-	-
Shanghai Lianyi Investment Center (limited Partnership)	346,701,733.31	-	-	(1,682,399.39)	-	-	(41,956,127.99)	-	-	303,063,205.93	-	-
Sino-American Shanghai Squibb Pharmaceuticals Ltd.	226,957,900.40	-	-	87,450,976.43	-	-	(88,101,330.00)	-	-	226,307,546.83	-	-
Chengdu Wesker Biomedical Co., Ltd.	134,516,503.88	-	-	(8,173,262.67)	-	-	-	-	-	126,343,241.21	-	-
Shanghai Ajinomoto Amino Acid Co., Ltd.	120,812,041.40	-	-	12,024,761.04	-	-	(7,976,178.44)	-	-	124,860,624.00	-	-
Hangzhou Huiqing Yutang Pharmaceutical Co., Ltd.	106,762,039.55	-	-	6,324,739.64	-	-	(3,116,000.00)	-	-	109,970,779.19	-	-
Shanghai Good Health Capital LLP	118,792,074.53	-	-	(6,391,048.65)	-	-	(5,085,658.10)	-	-	107,315,367.78	-	-
Shanghai Shangshi Biomedical Innovation and Transformation Private Investment Fund LLP	98,160,185.64	-	-	7,202,352.38	-	-	-	-	-	105,362,538.02	-	-
Chengdu Huaxi Precision Medicine Industry Innovation Center Co., Ltd.	97,930,058.20	-	-	(77,405.18)	-	-	-	-	-	97,852,653.02	-	-
Sichuan Greentech Bio-technology Co., Ltd.	51,350,407.40	-	-	11,602,618.39	-	-	-	-	-	62,953,025.79	-	-
Shanghai Chest Medical Instruments Co., Ltd.	47,327,495.74	-	-	3,775,062.03	-	-	-	-	-	51,102,557.77	-	-
Shanghai Pharma Health Commerce Co., Ltd.	49,547,437.63	-	-	(1,361,438.56)	-	-	-	-	-	48,185,999.07	-	-
Shanghai Biomedical Industry Equity Investment Fund Management Co., Ltd.	17,438,149.95	-	-	3,996,274.05	-	-	-	-	-	21,434,424.00	-	-
Shangshi Commercial Factoring Co., Ltd.	159,722,784.90	-	-	(4,922,954.18)	-	-	(154,799,830.72)	-	-	-	(154,799,830.72)	-
Others	34,339,079.68	-	-	(1,773,593.37)	-	-	(696,901.05)	-	-	31,868,585.26	(5,667,665.87)	(5,667,665.87)
	2,325,952,683.82	-	-	139,186,895.14	(88,544.64)	10,629,663.34	(165,773,917.88)	(154,799,830.72)	-	2,155,106,949.06	(160,467,496.59)	(5,667,665.87)

(c) Joint venture

	31 December 2022	Changes during the year								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	31 December 2023	31 December 2023	31 December 2022
Zhejiang Shangyao Jiuzhou Biopharmaceutical Co., Ltd.	38,256,979.07	-	-	(7,904,361.72)	-	-	-	-	-	30,352,617.35	-	-

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

15 Notes to the Company's financial statements (Cont'd)

(4) Capital surplus

	31 December 2022	Increase for the year	Decrease for the year	31 December 2023
Share premium	32,269,977,480.72	134,654,278.37	-	32,404,631,759.09
Other capital surplus -				-
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	215,133,594.85	10,629,663.34	-	225,763,258.19
Share-based payment	80,214,210.71	4,568,384.49	(33,989,727.25)	50,792,867.95
Others	(289,656,947.52)	-	-	(289,656,947.52)
	<u>32,275,668,338.76</u>	<u>149,852,326.20</u>	<u>(33,989,727.25)</u>	<u>32,391,530,937.71</u>
	31 December 2021	Increase for the year	Decrease for the year	31 December 2022
Share premium	19,132,076,187.53	13,137,901,293.19	-	32,269,977,480.72
Other capital surplus -				
Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	184,485,288.43	30,648,306.42	-	215,133,594.85
Share-based payment	67,306,552.32	21,992,131.73	(9,084,473.34)	80,214,210.71
Others	(289,656,947.52)	-	-	(289,656,947.52)
	<u>19,094,211,080.76</u>	<u>13,190,541,731.34</u>	<u>(9,084,473.34)</u>	<u>32,275,668,338.76</u>

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

15 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 2023 income statement			
	31 December 2022	Converted from OCI into retained earnings	31 December 2023	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	(302,235.46)	-	(390,780.10)	(88,544.64)	-	-	(88,544.64)
	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2022 income statement			
	31 December 2021	Converted from OCI into retained earnings	31 December 2022	Amount before income tax	Less: other comprehensive income transferred out this year	Less: income tax expense	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	(146,268.20)	-	(302,235.46)	(155,967.26)	-	-	(155,967.26)

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

15 Notes to the Company's financial statements (Cont'd)

(6) Undistributed profits

	For the year ended 31 December 2023	For the year ended 31 December 2022
Undistributed profits at the beginning of the year	3,000,421,926.62	3,055,823,875.26
Add: net profit attributable to shareholders of the Company	1,481,421,124.69	1,663,435,627.69
Less: appropriation to statutory surplus reserve	(148,142,112.47)	(166,343,562.77)
Dividends declared	<u>(2,258,992,103.23)</u>	<u>(1,552,494,013.56)</u>
Undistributed profits at the end of year	<u>2,074,708,835.61</u>	<u>3,000,421,926.62</u>

(7) Revenue and cost of sales

	For the year ended 31 December 2023	For the year ended 31 December 2022
Main operations revenue	-	-
Other operations revenue (a)	<u>225,245,410.70</u>	<u>272,524,965.04</u>
	<u>225,245,410.70</u>	<u>272,524,965.04</u>

	For the year ended 31 December 2023	For the year ended 31 December 2022
Main operations cost	-	-
Other operations cost (a)	<u>61,412,367.19</u>	<u>91,813,141.57</u>
	<u>61,412,367.19</u>	<u>91,813,141.57</u>

(a) Other operations revenue and cost of sales

	For the year ended 31 December 2023		For the year ended 31 December 2022	
	Other operations revenue	Other operations cost	Other operations revenue	Other operations cost
Management service	163,654,016.22	-	159,945,328.39	-
Technology transfer, research and development service	<u>61,591,394.48</u>	<u>61,412,367.19</u>	<u>112,579,636.65</u>	<u>91,813,141.57</u>
	<u>225,245,410.70</u>	<u>61,412,367.19</u>	<u>272,524,965.04</u>	<u>91,813,141.57</u>

(8) Investment income

	For the year ended 31 December 2023	For the year ended 31 December 2022
Long-term equity investment income calculated by cost method	1,710,711,907.77	1,763,836,979.87
Long-term equity investment income calculated by equity method	131,282,533.42	100,263,098.41
Interest income from entrusted loans	226,265,354.06	255,055,954.12
Loss on disposal of long-term equity investment	(1,892,299.04)	(42,187,240.95)
Others	<u>26,029,974.00</u>	<u>1,468,125.00</u>
	<u>2,092,397,470.21</u>	<u>2,078,436,916.45</u>

The Company does not have any significant restrictions on repatriation of investment income.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

1 Summary of non-recurring profit or Loss

	For the year ended 31 December 2023
Net profit on disposal of non-current assets	88,316,279.93
Government grants recognised in profits (Except closely related with the enterprise's businesses and the normed or quantitative government grants at national uniform standard)	431,911,464.26
Except for effective hedging business related to the Group's normal business operations, gains and losses on changes in fair value from holding transactional financial assets and liabilities, and investment income from disposal of transactional financial assets and other non-current financial assets	404,731,380.72
Reversal of provision for bad debts for receivables on individual basis	33,633,287.85
Non-operating income and expenses other than the above	<u>(612,937,965.84)</u>
	<u>345,654,446.92</u>
Impact of income tax expense	(122,936,269.10)
Impact on the minority interests, net of tax	<u>(50,830,922.93)</u>
	<u>171,887,254.89</u>

(1) Basis for preparation of summary of non-recurring profit or loss for the year 2023.

CSRC promulgated Explanatory announcement No.1 (2023 Revised) on information disclosure by companies offering securities to the public — non-recurring profit or loss (Hereinafter referred to as Explanatory announcement No.1 (2023 Revised)), the provision shall come into force on the date of promulgation. The group prepared the summary of non-recurring profit or loss under the requirements in Explanatory announcement No.1 (2023 Revised).

Under the requirements in Explanatory announcement No.1 (2023 Revised) 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.

(2) The impact on the non-recurring gains and losses of the Group for the year 2022 of the execution of Explanatory announcement No.1

The execution of Explanatory announcement No.1 (2023 Revised) has no significant impact on the non-recurring gains and losses of the Group for the year 2022.

SHANGHAI PHARMACEUTICALS HOLDING CO., LTD.

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

2 Summary of non-recurring profit or Loss For the Year Ended 31 December 2022

	For the year ended 31 December 2022
Net profit on disposal of non-current assets	1,577,562,366.09
Government grants recognised in profits (Except closely related with the enterprise's businesses and the normed or quantitative government grants at national uniform standard)	332,209,644.16
Except for effective hedging business related to the Group's normal business operations, gains and losses on changes in fair value from holding transactional financial assets and liabilities, and investment income from disposal of transactional financial assets and other non-current financial assets	218,737,860.49
Reversal of provision for bad debts for receivables on individual basis	33,395,114.84
Non-operating income and expenses other than the above	<u>(206,297,108.14)</u>
	<u>1,955,607,877.44</u>
Impact of income tax expense	(342,272,194.73)
Impact on the minority interests, net of tax	<u>(293,237,382.98)</u>
	<u>1,320,098,299.73</u>

(1) Basis for preparation of summary of non-recurring profit or loss for the year 2022.

The group prepared the summary of non-recurring profit or loss under the requirements in Explanatory announcement No.1 [2008].

3 Return on net assets and earnings per share

	Weighted average return on net assets (%)		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	For the year ended 31 December 2023	For the year ended 31 December 2022	For the year ended 31 December 2023	For the year ended 31 December 2022	For the year ended 31 December 2023	For the year ended 31 December 2022
Net profit attributable to ordinary shareholders of the Company	5.56	9.11	1.02	1.61	1.02	1.61
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	5.30	6.97	0.97	1.23	0.97	1.23