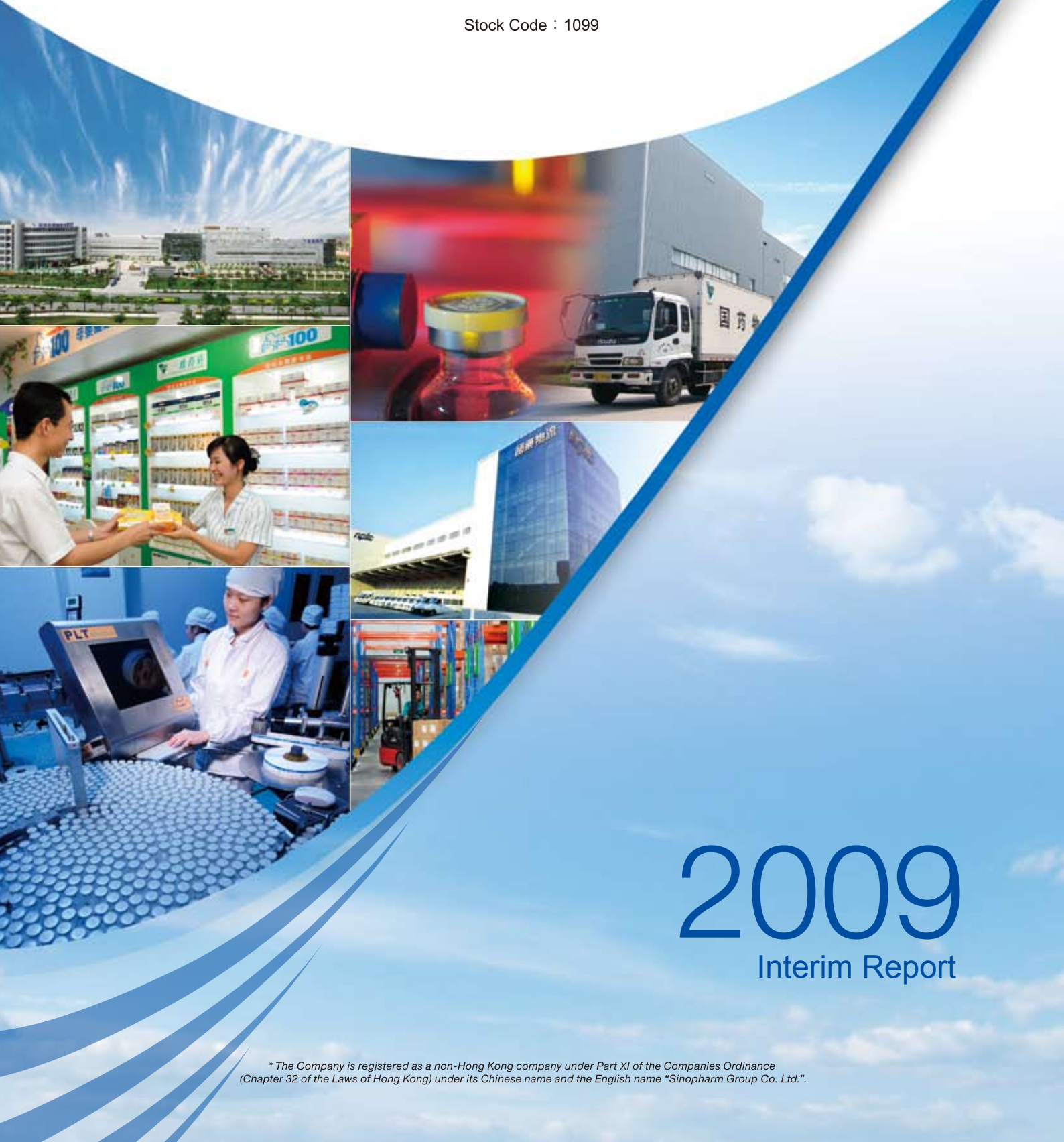




SINOPHARM GROUP CO. LTD.*
國藥控股股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

Stock Code : 1099



2009

Interim Report

* The Company is registered as a non-Hong Kong company under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) under its Chinese name and the English name "Sinopharm Group Co. Ltd.".



Corporate Overview

Sinopharm Group Co. Ltd. (the “Company”) and its subsidiaries (the “Group”) is **the largest distributor of, and a leading provider of supply chain services for, pharmaceutical and healthcare products and operates the largest national pharmaceutical distribution network in China, according to the information of China Association of Pharmaceutical Commerce in 2008.**

The Group has been able to rapidly grow its market share and profits in a highly fragmented industry by taking advantage of its own economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for the customers and suppliers.

The Group has integrated operations in the following business segments, namely:

- **Pharmaceutical distribution segment:** Pharmaceutical distribution is the Group’s principal business. The Group provides distribution, logistics and other value-added services for pharmaceutical and healthcare products of domestic and international manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its geographic coverage, the breadth of its product portfolio and the comprehensive supply chain services the Group provides for its customers and suppliers.
- **Retail pharmacy segment:** The Group has a network of retail drug stores that the Group directly operates or franchises in major cities throughout China.
- **Other business operations segment:** The Group is also engaged in the manufacturing and selling of pharmaceutical products, chemical reagents and laboratory supplies.

The Group is the industry leader in the distribution of pharmaceutical and healthcare products in China, both in terms of its market share and the geographical range of its distribution network. As China’s leading pharmaceutical distributor, the Group is well-positioned to benefit from the strong growth, consolidation, and regulatory reform in the PRC pharmaceutical and healthcare industry.

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This report is prepared in Chinese and English. The English version is for reference only. Should there be any discrepancies between the Chinese and the English versions, the Chinese version shall prevail.

Corporate Information

DIRECTORS

Mr. She Lulin (*Non-executive Director and Chairman*)
Mr. Guo Guangchang (*Non-executive Director and Vice Chairman*)
Ms. Fu Mingzhong (*Executive Director and General Manager*)
Mr. Wang Qunbin (*Non-executive Director*)
Mr. Deng Jindong (*Non-executive Director*)
Mr. Fan Banghan (*Non-executive Director*)
Mr. Liu Hailiang (*Non-executive Director*)
Mr. Lian Wanyong (*Non-executive Director*)
Mr. Wei Yulin (*Executive Director and Deputy General Manager*)
Mr. Wang Fanghua (*Independent Non-executive Director*)
Mr. Tao Wuping (*Independent Non-executive Director*)
Mr. Xie Rong (*Independent Non-executive Director*)
Mr. Zhou Bajun (*Independent Non-executive Director*)

AUTHORIZED REPRESENTATIVES

Ms. Fu Mingzhong
Mr. Wu Aimin

SUPERVISORS

Mr. Chen Qiyu (*Chief Supervisor*)
Mr. Xing Yonggang
Ms. Zhang Jian

JOINT COMPANY SECRETARIES

Mr. Wu Aimin
Mr. Ngai Wai Fung *FCIS, FCS(PE), CPA, ACCA*

AUDIT COMMITTEE

Mr. Xie Rong (*Chairman*)
Mr. Wang Fanghua
Mr. Fan Banghan
Mr. Deng Jindong
Mr. Zhou Bajun

REMUNERATION COMMITTEE

Mr. Tao Wuping (*Chairman*)
Mr. Wang Fanghua
Mr. Xie Rong
Mr. Fan Banghan
Mr. Liu Hailiang

NOMINATION COMMITTEE

Mr. She Lulin (*Chairman*)
Mr. Wang Fanghua
Mr. Tao Wuping
Mr. Xie Rong
Mr. Fan Banghan

HONG KONG AND UNITED STATES LEGAL ADVISER

Baker & McKenzie

COMPLIANCE ADVISER

China International Capital Corporation Hong Kong Securities Limited

AUDITOR

PricewaterhouseCoopers

STOCK CODE

01099

PRINCIPAL PLACE OF BUSINESS IN CHINA, REGISTERED OFFICE AND HEADQUARTERS

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COMPANY'S WEBSITE

www.sinopharmholding.com

H SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Shanghai Branch Hongkou Sub-branch
Bank of Communications Co., Ltd.
Beijing Branch Tiantan Sub-branch
Bank of Communications Co., Ltd.
Tianjin Branch Binjiang Sub-branch
Bank of Communications Co., Ltd.
Guangzhou Branch Operating Department
China Merchants Bank Co., Ltd.
Shanghai Branch Nan Xi Sub-branch
Bank of China Limited
Shanghai Yangpu Sub-branch

Management Discussion and Analysis

BUSINESS REVIEW

The Group is well-positioned to benefit from the healthcare reform plan and PRC pharmaceutical industry trends to maintain and consolidate its position as the largest distributor and a leading provider of supply chain services for pharmaceutical and healthcare products in China. The Group also operates the largest national pharmaceutical distribution network in China, and has integrated operations in the following business segments, namely:

- **Pharmaceutical distribution segment:** The Group provides pharmaceutical supply chain management for the distribution of domestic and imported prescription and over-the-counter medicines from manufacturers and suppliers to hospitals, other distributors, retail drug stores and other customers. As at 30 June 2009, with the Group's geographically diverse distribution network of 25 distribution centers, spanning 19 provinces, municipalities and autonomous regions in China, the Group is able to provide its products and services to its customers across China in a timely and cost-effective manner. The Group's direct customers comprised 4,791 hospitals (including 698 class-three hospitals which are of the largest and most highly ranked hospitals), representing approximately 38.5% of all hospitals in China and 59.1% of class-three hospitals, and over 26,747 other customers, such as pharmaceutical distributors, retail pharmacies and other healthcare institutions. For the six months ended 30 June 2009 ("the Reporting Period"), the Group's pharmaceutical distribution segment accounted for approximately 93.4% of its total revenue.
- **Retail pharmacy segment:** The Group has a network of retail pharmacies that it directly operates or franchises in major cities throughout China. As at 30 June 2009, the Group owned 666 directly-owned stores and 185 franchise stores. During the Reporting Period, the Group's retail pharmacy operations accounted for approximately 2.6% of its total revenue.
- **Other business operations segment:** The Group's other business operations comprise manufacturing or selling of pharmaceutical products, chemical reagents and laboratory supplies. During the Reporting Period, the external revenue generated from the Group's other business operations accounted for approximately 4.0% of its total revenue.

FINANCIAL REVIEW

Financial Results Highlights

The unaudited interim results of the Group for the Reporting Period have been prepared in accordance with Hong Kong Financial Reporting Standards, the fundamental financial results highlights are as follows:

During the Reporting Period, the Group realized a total revenue of RMB22,013.5 million, representing an increase of RMB3,728.1 million, or 20.4%, compared with the six months ended 30 June 2008.

During the Reporting Period, the Group realized profit of RMB648.2 million, representing an increase of RMB180.1 million, or 38.5%, compared with the six months ended 30 June 2008. Profit attributable to equity holders of the Company was RMB476.6 million, representing an increase of RMB147.1 million, or 44.6%, compared with the six months ended 30 June 2008.

During the Reporting Period, the Group's earnings per share was RMB0.29, representing an increase of 45%, compared with the corresponding period of last year.

	2009 1st half	2008 1st half	Increase/ (decrease)
Operating Results (RMB million):			
Revenue	22,013.5	18,285.4	3,728.1
Earnings before interests and tax	975.0	728.0	247.0
Profit attributable to shareholders of the Company	476.6	329.5	147.1
Profitability			
Gross profit margin	7.9%	8.0%	(0.1%)
Operating profit margin	3.8%	3.4%	0.4%
Net profit margin	2.2%	1.8%	0.4%
Per share data (RMB)			
Earnings per share — Basic	0.29	0.2	0.09

Revenue

The Group's revenue increased by 20.4%, from RMB18,285.4 million in the six months ended 30 June 2008 to RMB22,013.5 million during the Reporting Period. The increase was primarily due to an increase in the revenue of pharmaceutical distribution, retail pharmacy operations and other business operations segments of the Group. The increase in the Group's revenue was consistent with the increase in the Group's market share and the development of the PRC pharmaceutical market.

- **Pharmaceutical distribution segment:** The Group's revenue from pharmaceutical distribution operations increased by 20.1%, from RMB17,120.9 million in the six months ended 30 June 2008 to RMB20,560.8 million during the Reporting Period, accounting for approximately 93.4% of its total revenue. The increase was primarily due to an increase in the types and quantity of products sold to existing hospital customers and an increase in the number of new hospital customers. In addition, the penetration of the Group's distribution network into community clinics and other healthcare institutes also contributed to the increase in its revenue.
- **Retail pharmacy segment:** The Group's revenue from retail pharmacy operations increased by 27.4%, from RMB448.9 million in the six months ended 30 June 2008 to RMB571.8 million during the Reporting Period, accounting for approximately 2.6% of its total revenue. The increase was primarily due to an increase in revenue from the Group's existing directly-owned stores and an increase in the number of the Group's directly-owned stores as a result of its acquisition of 93 directly-owned stores, as well as the opening of new directly-owned stores during the Reporting Period.
- **Other business operations segment:** The Group's revenue from other business operations increased by 23.1%, from RMB715.5 million in the six months ended 30 June 2008 to RMB880.8 million during the Reporting Period, accounting for approximately 4.0% of its total revenue. The increase was primarily due to the acquisition of Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. during the Reporting Period, as well as growth in its pharmaceutical manufacturing operations and chemical reagent operations.

Cost of Sales

The Group's cost of sales increased by 20.6%, from RMB16,814.5 million in the six months ended 30 June 2008 to RMB20,271.7 million during the Reporting Period. The increase was primarily due to an increase in the costs of purchasing merchandise following the increase in the Group's revenue from sales.

Gross Profit

As a result of the foregoing, the Group's gross profit increased by 18.4% from RMB1,470.9 million in the six months ended 30 June 2008 to RMB1,741.8 million during the Reporting Period. The Group's gross profit margin was 8.0% and 7.9% for the six months ended 30 June 2008 and the Reporting Period, respectively.

Other Income

Other income of the Group decreased by 36.2% from RMB31.2 million in the six months ended 30 June 2008 to RMB19.9 million during the Reporting Period. The decrease was primarily due to a decrease in the subsidies received from municipal and local governments by the Group.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 11.3%, from RMB453.8 million in the six months ended 30 June 2008 to RMB505.0 million during the Reporting Period. The increase in distribution and selling expenses was primarily due to the Group's operating scale expansion and new business exploration.

General and Administrative Expenses

The Group's general and administrative expenses decreased by 1.3%, from RMB423.9 million in the six months ended 30 June 2008 to RMB418.4 million during the Reporting Period. The decrease in general and administrative expenses was primarily due to the success of the Group's cost control measures, a decrease in post-employment benefit expenses due to actuarial gains resulting from changes in interest rates and recovery of certain other receivables which the Group had previously made provisions.

Operating Profit

As a result of the foregoing, the Group's operating profit was RMB838.2 million during the Reporting Period, representing an increase of 34.3% from RMB624.3 million in the six months ended 30 June 2008.

Other Gains – Net

Other gains of the Group less other losses increased by 30.4%, from RMB80.2 million in the six months ended 30 June 2008 to RMB104.6 million during the Reporting Period. The increase was primarily due to an increase in the Group's gains from disposals of the tradable shares of China National Medicines Co., Ltd. and Shenzhen Accord Pharmaceutical Co., Ltd. during the Reporting Period as compared to the same period in 2008. Part of the increase was offset by the decrease of the Group's foreign exchange gains during the Reporting Period.

Finance Costs – Net

The Group's finance costs decreased by 15.6%, from RMB117.7 million in the six months ended 30 June 2008 to RMB99.3 million during the Reporting Period. The decrease was primarily due to the decrease in interest rates as compared to the corresponding period in 2008. Part of the relevant decrease was offset by an increase in interest expenses, which resulted from the increase in the average amount of outstanding borrowings.

Share of Results of Associated Companies

The Group's share of results of associated companies increased by 38.0%, from RMB23.7 million in the six months ended 30 June 2008 to RMB32.7 million during the Reporting Period.

Income Tax Expenses

The Group's income tax expenses increased by 60.1%, from RMB142.5 million in the six months ended 30 June 2008 to RMB228.1 million during the Reporting Period. The increase was primarily due to (i) the gradual increases in applicable income tax rates of certain of the Group's subsidiaries whose preferential tax treatments expired after the implementation of the new Enterprise Income Tax Law of the People's Republic of China; (ii) increases in expenses not deductible for tax purposes; and (iii) certain of the Group's subsidiaries incurred losses for which no deferred income tax was recognized. As a result, the Group's effective income tax rate increased from 23.33% during the six months ended 30 June 2008 to 26.03% during the Reporting Period.

Profit for the Reporting Period

As a result of the foregoing, the Group's profit increased by 38.5%, from RMB468.1 million in the six months ended 30 June 2008 to RMB648.2 million during the Reporting Period.

Profit Attributable to Equity Holders of the Company

Profit or net profit attributable to equity holders of the Group increased by 44.6%, or RMB147.1 million, from RMB329.5 million in the six months ended 30 June 2008 to RMB476.6 million during the Reporting Period. The Group's net profit margin was 2.2% and 1.8% for the Reporting Period and the six months ended 30 June 2008, respectively.

Minority Interests

The Group's minority interests increased by 23.8%, from RMB138.6 million in the six months ended 30 June 2008 to RMB171.6 million during the Reporting Period.

Liquidity and Capital Resources

The Group has historically met its working capital needs through cash generated from operations and various short-term and long-term bank borrowings and lines of credit, as well as equity contributions from shareholders. Taking into account the Group's lines of credit available, cash flow generated from operations and the net proceeds from the global offering of the Group which are expected to be used as working capital, the directors of the Company ("Directors") are of the view that the Group has sufficient working capital to meet its liquidity demand within at least 12 months from the date of this report.

As at 30 June 2009, the Group had banking facilities of RMB13,065.5 million from commercial banks, of which RMB7,203.2 million were not utilized. In addition, the Group had cash and cash equivalents of RMB2,107.0 million.

Cash Flows

The Group's cash is primarily used to meet the demand of finance working capital, repay interest and principal due on its indebtedness, finance acquisitions and provide the fund for capital expenditures and growth and expansion of the Group's facilities and operations.

Net cash inflow/(outflow) from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the products and services in its pharmaceutical distribution, retail pharmacy and other business operations segments. The Group's net cash inflow from operating activities amounted to RMB166.2 million during the Reporting Period, representing an increase of RMB149.1 million compared with its net cash inflow of RMB17.1 million for the six months ended 30 June 2008. The increase was primarily due to the continued growth of the Group's operations.

Management Discussion and Analysis

Net cash inflow/(outflow) from investing activities

The Group's net cash outflow from investing activities amounted to RMB67.2 million during the Reporting Period, representing an increase of RMB29.4 million compared with RMB37.8 million for the six months ended 30 June 2008.

Net cash inflow/(outflow) from financing activities

The Group's net cash inflow from financing activities amounted to RMB295.9 million during the Reporting Period, representing an increase of net cash inflow of RMB424.3 million compared with its net cash outflow of RMB128.4 million for the six months ended 30 June 2008. The significant increase was primarily due to proceeds from borrowings of RMB4,460.9 million, repayment of borrowings of RMB3,907.5 million, which resulted in an increase in net borrowing of RMB553.4 million during the Reporting Period.

Capital Expenditures

The Group's capital expenditures primarily include purchases of property, plant and equipment, the cost of leasing land and obtaining land use rights and purchases of intangible assets through business combinations or acquisition activities. The Group's capital expenditures were RMB183.6 million and RMB323.7 million for the six months ended 30 June 2008 and the Reporting Period, respectively.

Capital Structure

Indebtedness

Of the total borrowings of the Group as at 30 June 2009, RMB2,167.6 million was due within one year and RMB60 million was due beyond one year. For the year ended 31 December 2008 and as at the end of the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2009, the Group's gearing ratio was 78.8% (30 June 2008: 80.8%), calculated as net liability divided by the total amount of asset plus net liability as at 30 June 2009.

Foreign exchange risk

The Group's exposure to fluctuations in foreign currencies was not substantial.

Charge on Assets

As at 30 June 2009, the Group's property, plant and equipment with book amount of RMB66 million, notes receivables with book amount of RMB272 million and trade receivables with book amount of RMB54 million were pledged as collateral for part of the Group's bank borrowings, while bank deposits with book amount of RMB248 million were pledged as collateral for bank acceptance notes.

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2009, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Material Acquisitions and Disposals

During the Reporting Period, the total expenditures in relation to acquisition activities of the Group amounted to approximately RMB148.3 million. Material acquisitions involved were as follows:

In March 2009, the Group acquired a 75% equity interest in Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd., a pharmaceutical manufacturer with national operations and the consideration for such acquisition was approximately RMB103.5 million. In April 2009, the Group acquired a 67% equity interest in Sinopharm Holding Anhui Co., Ltd., a regional pharmaceutical distributor in Anhui Province at a consideration of approximately RMB36.6 million. Each of these acquisitions was made by the Group from an independent third party.

The consideration of the acquisitions above was negotiated on an arm's length basis, and conformed with the fair market value conducted by a third party valuer or the audited asset value of the acquired target.

During the Reporting Period, the Group did not have any material disposals.

Ongoing Operation

Based on the current financial forecast and financing available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

Management Discussion and Analysis

Human Resources

As at 30 June 2009, the Group had 14,521 employees. The Group has implemented a strict selection process for hiring its employees and a number of initiatives to enhance the productivity of its employees. The Group conducts periodic performance reviews for its employees, and adjusts their salaries and bonuses accordingly. In addition, the Group has implemented training programs for employees in various positions.

Future Plans

The Group's objectives are to consolidate its position as the leading distributor of, and supply chain services provider for, pharmaceutical and healthcare products in China and continue to grow and play a significant role in the development of the pharmaceutical and healthcare industry in China.

IPO and Use of Proceeds

As at 30 June 2009, the Company had not accomplished the initial public offering.

Other Information

Interests of Directors, Supervisors and chief executives in Shares

As at 30 June 2009, the shares of the Company were not yet listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Therefore, the Company is not required to disclose details of interests of its Directors, supervisors of the Company (“Supervisors”) and chief executives of the Company (“Chief Executives”) in the equity or debt securities of the Company or any of its associated corporation during the Reporting Period in accordance with paragraph 41(2) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the Reporting Period.

Shareholdings of Other Shareholders with Notifiable Interests

As at 30 June 2009, the shares of the Company were not yet listed on the Main Board of the Stock Exchange. Therefore, the Company is not required to disclose details of interests of the relevant person(s) (other than a Director, Supervisor or Chief Executive) in the equity or debt securities of the Company or any of its associated corporation during the Reporting Period in accordance with paragraph 41(2) of Appendix 16 to the Listing Rules.

Purchase, Sale or Redemption of Shares

As at 30 June 2009, the shares of the Company were not yet listed on the Main Board of the Stock Exchange. Therefore, the Company is not required to disclose particulars of any purchase, sale or redemption of the Company’s shares by the Company and its subsidiaries during the Reporting Period in accordance with paragraph 41(1) of Appendix 16 to the Listing Rules.

Dividends

Pursuant to a resolution passed by the shareholders of the Company on 19 August 2009, the Company declared the audited distributable profits as at 31 May 2009 in the total amount of approximately RMB279.5 million to China National Pharmaceutical Group Corporation and Sinopharm Industrial Investment Co., Ltd. Such dividend was fully paid on 31 August 2009 and was financed by the internal cash resources of the Company.

Audit Committee

The audit committee of the Company consists of three independent non-executive Directors, namely Mr. Xie Rong (Chairman), Mr. Wang Fanghua and Mr. Zhou Bajun, and two non-executive Directors, namely Mr. Deng Jindong and Mr. Fan Banghan. The audit committee has reviewed the Company’s unaudited condensed consolidated interim financial information for the Reporting Period and agrees with the accounting treatment adopted by the Company.

Compliance with the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 to the Listing Rules

Pursuant to a resolution passed by the board of directors of the Company on 31 August 2009, the Company has adopted all the code provisions set out in the CG Code as the Company’s code. As at 30 June 2009, the shares of the Company were not yet listed on the Main Board of the Stock Exchange. Therefore, the Company is not required to disclose details of compliance with the applicable code provisions of the CG Code by the Company and its subsidiaries during the Reporting Period in accordance with paragraph 44(1) of Appendix 16 to the Listing Rules.

Securities Transactions by Directors and Supervisors

Pursuant to a resolution passed by the board of directors of the Company on 31 August 2009, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company regarding Directors’ and Supervisors’ transactions of the listed securities of the Company. As at 30 June 2009, the shares of the Company were not yet listed on the Main Board of the Stock Exchange. Therefore, the Company is not required to disclose details of the code of conduct regarding Directors’ and Supervisors’ securities transactions adopted by the Company and compliance with the required standards set out in the Model Code regarding Directors’ and Supervisors’ securities transactions in accordance with paragraph 44(2) of Appendix 16 to the Listing Rules.

Disclosure of Information

This report will be dispatched to shareholders and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sinopharmholding.com>).

By order of the Board
Sinopharm Group Co. Ltd.
She Lulin
Chairman

Shanghai, the PRC
26 September 2009

Report on Review of Interim Financial Information



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION To The Board of Directors of Sinopharm Group Co. Ltd.

(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 50, which comprises the condensed consolidated interim balance sheet of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flow for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 September 2009

Condensed Consolidated Interim Balance Sheet

As at 30 June 2009

	Note	Unaudited As at 30 June 2009 RMB'000	Audited As at 31 December 2008 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	438,393	402,947
Investment properties	5	63,347	61,782
Property, plant and equipment	5	1,346,721	1,257,019
Intangible assets	5	294,430	204,020
Investments in associates	6	317,012	306,528
Available-for-sale financial assets		58,793	52,911
Deferred income tax assets		133,303	143,035
Other non-current assets		5,684	5,185
		2,657,683	2,433,427
Current assets			
Inventories		3,442,905	3,154,820
Trade receivables	7	9,634,222	7,911,774
Prepayments and other receivables	8	682,820	616,907
Available-for-sale financial assets		15	15
Pledged bank deposits		248,830	285,835
Cash and cash equivalents		2,107,019	1,712,119
		16,115,811	13,681,470
Total assets		18,773,494	16,114,897
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	1,637,037	1,637,037
Reserves		1,002,877	627,193
		2,639,914	2,264,230
Minority interests in equity		1,333,178	1,146,352
Total equity		3,973,092	3,410,582

Condensed Consolidated Interim Balance Sheet (Continued)

As at 30 June 2009

	Note	Unaudited As at 30 June 2009 RMB'000	Audited As at 31 December 2008 RMB'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	10	60,000	130,000
Deferred income tax liabilities		76,019	63,977
Post-employment benefit obligations	11	298,407	302,697
Other non-current liabilities	12	337,686	329,865
		772,112	826,539
Current liabilities			
Trade payables	13	10,319,007	9,053,071
Accruals and other payables	14	1,074,993	860,532
Dividends payable		335,959	363,959
Current income tax liabilities		130,714	96,044
Bank borrowings	10	2,167,617	1,504,170
		14,028,290	11,877,776
Total liabilities		14,800,402	12,704,315
Total equity and liabilities		18,773,494	16,114,897
Net current assets		2,087,521	1,803,694
Total assets less current liabilities		4,745,204	4,237,121

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Income Statement

For the six months ended 30 June 2009

	Notes	Unaudited Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
Revenue	15	22,013,500	18,285,356
Costs of sales		(20,271,714)	(16,814,497)
Gross profit		1,741,786	1,470,859
Other income	16	19,912	31,172
Distribution and selling expenses		(505,027)	(453,767)
General and administrative expenses		(418,436)	(423,941)
Operating profit		838,235	624,323
Other gains – net	17	104,628	80,207
Finance income		12,218	10,522
Finance costs		(111,543)	(128,207)
Finance costs – net	20	(99,325)	(117,685)
Share of results of associates		32,702	23,726
Profit before income tax		876,240	610,571
Income tax expense	21	(228,064)	(142,467)
Profit for the period		648,176	468,104
Attributable to:			
– equity holders of the Company		476,567	329,490
– minority interests		171,609	138,614
		648,176	468,104
Earnings per share for profit attributable to equity holders of the Company during the period			
– Basic (expressed in RMB per share)	22	0.29	0.20
Dividends	23	279,469	–

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit for the period	648,176	468,104
Other comprehensive income		
Revaluation of available-for-sale financial assets		
— gross	16,528	(9,252)
— tax	(4,138)	2,312
Other comprehensive income, net of tax	12,390	(6,940)
Total comprehensive income	660,566	461,164
Total comprehensive income attributable to:		
— equity holders of the Company	481,883	326,158
— minority interests	178,683	135,006
	660,566	461,164

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2009

	Unaudited					
	Attributable to equity holders of parent company					
	Capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance at 1 January 2008	1,637,037	61,562	(14,840)	1,683,759	934,589	2,618,348
Profit for the period	—	—	329,490	329,490	138,614	468,104
Other comprehensive income:						
Revaluation of available-for-sale financial assets						
— gross	—	(4,378)	—	(4,378)	(4,874)	(9,252)
— tax	—	1,046	—	1,046	1,266	2,312
Total comprehensive income for the period ended 30 June 2008	—	(3,332)	329,490	326,158	135,006	461,164
Changes in shareholding of subsidiaries	—	—	—	—	31,349	31,349
Dividends	—	—	—	—	(28,329)	(28,329)
	—	—	—	—	3,020	3,020
Balance at 30 June 2008	1,637,037	58,230	314,650	2,009,917	1,072,615	3,082,532
Balance at 1 January 2009	1,637,037	263,769	363,424	2,264,230	1,146,352	3,410,582
Profit for the period	—	—	476,567	476,567	171,609	648,176
Other comprehensive income:						
Revaluation of available-for-sale financial assets						
— gross	—	7,140	—	7,140	9,388	16,528
— tax	—	(1,824)	—	(1,824)	(2,314)	(4,138)
Total comprehensive income for the period ended 30 June 2009	—	5,316	476,567	481,883	178,683	660,566
Changes in shareholding of subsidiaries	—	(500)	—	(500)	81,367	80,867
Dividends	—	—	(105,699)	(105,699)	(73,224)	(178,923)
		(500)	(105,699)	(106,199)	8,143	(98,056)
Balance at 30 June 2009	1,637,037	268,585	734,292	2,639,914	1,333,178	3,973,092

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2009

	Note	Unaudited Six months ended 30 June	
		2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations		364,153	170,159
Income tax paid		(197,957)	(153,027)
Cash flows from operating activities – net		166,196	17,132
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		17,114	26,245
Proceeds from disposal of available-for-sale financial assets		1,684	–
Proceeds from disposal of certain interests in associates		–	25,000
Proceeds from disposal of certain interests in subsidiaries		114,745	63,683
Disposal of subsidiaries, net of cash disposed		–	6,168
Dividends received from associates		9,203	24,392
Interest received		12,223	10,522
Acquisition of land use rights		(24,238)	(24,006)
Acquisition of property, plant and equipment		(100,106)	(130,765)
Acquisition of intangible assets		(5,727)	(3,415)
Acquisition of subsidiaries, net of cash acquired	24	(92,073)	(24,923)
Acquisition of additional interests in subsidiaries		–	(10,745)
Cash flows used in investing activities – net		(67,175)	(37,844)
Cash flows from financing activities:			
Decrease in pledged bank deposits		37,005	34,482
Proceeds from bank borrowings		2,610,897	1,400,599
Proceeds from loans from parent company		1,850,000	462,500
Repayments of bank borrowings		(2,057,450)	(656,596)
Repayments of loans from parent company		(1,850,000)	(1,102,500)
Capital injections from minority shareholders of subsidiaries		11,250	6,648
Dividends paid to equity holders of the Company		(133,699)	(127,745)
Dividends paid to minority shareholders of subsidiaries		(73,224)	(28,329)
Interest paid		(98,900)	(117,447)
Cash flows from financing activities – net		295,879	(128,388)
Increase/(decrease) in cash and cash equivalent		394,900	(149,100)
Cash and cash equivalent at beginning of period		1,712,119	1,955,596
Cash and cash equivalents at end of period		2,107,019	1,806,496

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2009

1 GENERAL INFORMATION

The Group is mainly engaged in: (1) distribution of medicines and pharmaceutical products to customers including hospitals, other distributors, retail drug stores and clinics, (2) operation of pharmaceutical chain stores, and (3) distribution of laboratory supplies, manufacturing and distribution of chemical reagent and production and sale of pharmaceutical products.

The Company was incorporated in the People's Republic of China (the "PRC") on 8 January 2003 as a company with limited liability under the PRC Company Law. On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign invested shares ("H Shares"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 23 September 2009.

The address of its registered office is 6th Floor, No. 221 Fuzhou Road, Huangpu District, Shanghai, PRC.

This unaudited condensed consolidated interim financial information was approved by the board of directors of the Company for issue on 26 September 2009. This interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'.

This interim financial information should be read in conjunction with the accountant's report as contained in Appendix I to the Company's prospectus dated 10 September 2009 (the "Prospectus") which have been prepared in accordance with the Hong Kong Financial Reporting Standards.

3 ACCOUNTING POLICIES

The accounting policies applied for the preparation of the condensed consolidated interim financial information are consistent with those disclosed in the accountant's report as contained in the Prospectus.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

4 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the operating committee (comprising the general manager and members of the general manager office). This committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

- (1) Pharmaceutical distribution — distribution of medicines and pharmaceutical products to customers including hospitals, other distributors, retail drug stores and clinics;
- (2) Retail pharmacy operations — operation of pharmaceutical chain stores; and
- (3) Other business operations — distribution of laboratory supplies, manufacturing and distribution of chemical reagents and production and sale of pharmaceutical products.

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

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of land use rights, investment properties, property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purpose.

Unallocated assets mainly represent deferred income tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

4 SEGMENT INFORMATION (continued)

The segment information provided to the operating committee is as follows:

(i) For the six months period ended 30 June 2008 and 2009

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
Six months ended 30 June 2009 (Unaudited)					
Segment results					
External segment revenue	20,560,846	571,814	880,840	–	22,013,500
Inter-segment revenue	115,503	–	63,717	(179,220)	–
Revenue	20,676,349	571,814	944,557	(179,220)	22,013,500
Operating profit	756,811	4,892	80,532	(4,000)	838,235
Other gains/(losses)	103,067	(93)	1,654	–	104,628
Share of results of associates	32,702	–	–	–	32,702
Finance costs – net	892,580	4,799	82,186	(4,000)	975,565 (99,325)
Profit before income tax					876,240
Income tax expense					(228,064)
Profit for the period					648,176
Other segment items included in the income statement					
Provision for/(write-back of) impairment of trade and other receivables	13,043	(22)	321		13,342
Provision for/(write-back of) impairment of inventories	1,806	(234)	2,366		3,938
Provision for impairment of available-for-sale financial assets	5,359	515	1,181		7,055
Amortisation of land use rights	3,180	–	1,319		4,499
Depreciation of property, plant and equipment	35,316	7,113	21,465		63,894
Depreciation of investment properties	–	–	2,215		2,215
Amortisation of intangible assets	18,305	47	5,135		23,487
Capital expenditures	159,514	5,222	158,921		323,657

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

4 SEGMENT INFORMATION (continued)

(i) For the six months period ended 30 June 2008 and 2009 (continued)

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
Six months ended					
30 June 2008 (Unaudited)					
Segment results					
External segment revenue	17,120,906	448,941	715,509	—	18,285,356
Inter-segment revenue	109,248	—	62,053	(171,301)	—
Revenue	17,230,154	448,941	777,562	(171,301)	18,285,356
Operating profit	563,838	5,527	65,718	(10,760)	624,323
Other gains	79,029	543	635	—	80,207
Share of results of associates	23,726	—	—	—	23,726
Finance costs – net	666,593	6,070	66,353	(10,760)	728,256 (117,685)
Profit before income tax					610,571
Income tax expense					(142,467)
Profit for the period					468,104
Other segment items included in the income statement					
Provision for/(write-back of) impairment of trade and other receivables	16,667	(3)	660		17,324
Write-back of impairment of inventories	(7,901)	—	—		(7,901)
Amortisation of land use rights	2,521	—	1,186		3,707
Depreciation of property, plant and equipment	37,711	4,874	17,894		60,479
Depreciation of investment properties	—	—	2,154		2,154
Amortisation of intangible assets	18,291	27	884		19,202
Capital expenditures	130,409	9,340	43,865		183,614

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

4 SEGMENT INFORMATION (continued)

(ii) As at 30 June 2009 and 31 December 2008

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
As at 30 June 2009 (Unaudited)					
Segment assets and liabilities					
Segment assets	17,019,317	493,418	1,487,228	(359,772)	18,640,191
Segment assets include:					
Investments in associates	308,705	—	8,307	—	317,012
Unallocated assets					133,303
Total assets					18,773,494
Segment liabilities	11,719,508	292,455	825,944	(341,141)	12,496,766
Unallocated liabilities					2,303,636
Total liabilities					14,800,402
As at 31 December 2008 (Audited)					
Segment assets and liabilities					
Segment assets	14,527,096	422,576	1,368,699	(346,509)	15,971,862
Segment assets include:					
Investments in associates	282,246	—	24,282	—	306,528
Unallocated assets					143,035
Total assets					16,114,897
Segment liabilities	10,318,922	299,396	712,108	(324,259)	11,006,167
Unallocated liabilities					1,698,148
Total liabilities					12,704,315

All of the Group's assets are located in the PRC.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

5 LAND USE RIGHTS, INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Land use rights RMB'000	Investment property RMB'000	Property, plant and equipment RMB'000	Intangible assets RMB'000
For the period ended 30 June 2009 (Unaudited)				
Opening net book amount as at 1 January 2009	402,947	61,782	1,257,019	204,020
Additions	24,238	—	100,106	5,727
Acquisition of subsidiaries (Note 24)	15,707	—	72,868	108,170
Transfer	—	3,780	(3,780)	—
Disposals	—	—	(15,598)	—
Depreciation or amortisation	(4,499)	(2,215)	(63,894)	(23,487)
Closing net book amount as at 30 June 2009	438,393	63,347	1,346,721	294,430
For the period ended 30 June 2008 (Unaudited)				
Opening net book amount as at 1 January 2008	384,639	81,615	1,192,945	217,145
Additions	6,381	—	129,882	3,415
Acquisition of subsidiaries	—	—	4,916	36,936
Transfer	—	(2,223)	2,223	—
Disposal of subsidiaries	—	—	(18,909)	(20,998)
Disposals	—	—	(20,786)	—
Depreciation or amortisation	(3,707)	(2,154)	(60,479)	(19,202)
Closing net book amount as at 30 June 2008	387,313	77,238	1,229,792	217,296

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

6 INVESTMENTS IN ASSOCIATES

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

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Share of net assets	299,659	289,175
Goodwill	17,353	17,353
End of the year/period	317,012	306,528
Beginning of the year/period	306,528	255,360
Acquisitions	—	14,690
Reclassification from investments in subsidiaries upon cessation of control	—	21,956
Reclassification from available-for-sale financial assets	1,915	—
Share of results	32,702	54,186
Dividends declared by associates attributable to the Group	(24,133)	(25,713)
Disposals	—	(13,951)
End of the year/period	317,012	306,528

The Group's shares of the assets, liabilities, revenues and results of the associates are as follows:

	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
Assets	754,214	524,332
Liabilities	454,555	235,157
Revenues	644,097	1,023,589
Profit for the year/period	32,702	54,186

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

7 TRADE RECEIVABLES

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Accounts receivable	9,104,286	7,435,437
Notes receivable	680,207	606,475
	9,784,493	8,041,912
Less: Provision for impairment	(150,271)	(130,138)
	9,634,222	7,911,774

The fair values of trade receivables approximate their carrying amounts.

Retail sales at the Group's medicine chain stores are usually made in cash or by debit or credit cards. For medicine distribution and medicine manufacture businesses, sales are made on credit terms ranging from 30 to 180 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Below 3 months	8,289,736	6,806,815
3 to 6 months	1,247,145	886,811
6 months to 1 year	191,112	316,861
1 to 2 years	26,362	8,875
Over 2 years	30,138	22,550
Total	9,784,493	8,041,912

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

8. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2009 RMB'000 (Unaudited)	As at 30 June 2008 RMB'000 (Audited)
Prepayments	405,728	423,863
Value-added tax recoverable	108,086	40,567
Deposits	43,905	44,353
Staff advances	41,399	17,062
Receivables arising from disposal of land use rights	—	2,357
Amount due from related parties	—	29,723
Other receivables	126,328	110,284
	725,446	668,209
Less: Provision for impairment	(42,626)	(51,302)
	682,820	616,907

9. SHARE CAPITAL

	Number of shares '000	Domestic share of RMB1 each RMB'000
At 1 January 2008 till 30 June 2009	1,637,037	1,637,037

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

10 BANK BORROWINGS

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Non-current	60,000	130,000
Current	2,167,617	1,504,170
Total bank borrowings	2,227,617	1,634,170

The bank borrowings were denominated in RMB.

The maturity periods of the bank borrowings are as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Within one year	2,167,617	1,504,170
Between 1 to 2 years	30,000	30,000
Between 2 to 5 years	30,000	100,000
	2,227,617	1,634,170

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

10 BANK BORROWINGS (continued)

Movements in bank borrowings are as follows:

	RMB'000
Six months ended 30 June 2009 (Unaudited)	
Opening amount as at 1 January 2009	1,634,170
Additions from acquisition of subsidiaries (Note 24)	40,000
Additions	2,610,897
Repayments	(2,057,450)
Closing amount as at 30 June 2009	2,227,617
Six months ended as at 30 June 2008 (Unaudited)	
Opening amount as at 1 January 2008	2,319,316
Additions	1,863,099
Repayments	(1,759,096)
Deductions from disposal of subsidiaries	(5,000)
Closing amount as at 30 June 2008	2,418,319

The Group has the following undrawn borrowing facilities:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Floating rate		
— expiring within one year	7,203,230	3,103,391

The facilities expiring within one year are annual facilities subject to review at various dates during the next 12 months.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

11 POST-EMPLOYMENT BENEFIT OBLIGATIONS

Certain subsidiaries provide post-employment pension and medical benefits to their retirees. The Group accounts for these benefits using the accounting basis similar to a defined benefit plan.

The amounts recognised in the consolidated income statements are as follows:

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Current service cost	1,724	1,659
Interest cost	4,902	5,924
Actuarial (gains)/losses	(4,513)	9,340
Past service cost	6,839	12,158
Total expenses, included in staff costs	8,952	29,081

The amounts recognised in the balance sheet are analysed as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
	Present value of unfunded post-employment benefit obligations	302,783
Unrecognised past service cost	(4,376)	(4,496)
Liability in the balance sheet	298,407	302,697

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

12 OTHER NON-CURRENT LIABILITIES

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Medical reserve funds		
— general	226,509	226,009
— for 2008 Sichuan earthquake	64,000	64,000
Office relocation funds	37,738	24,351
Others	9,439	15,505
	337,686	329,865

13 TRADE PAYABLES

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Trade payables	7,597,322	6,380,439
Notes payable	2,721,685	2,672,632
	10,319,007	9,053,071

Purchases are made on credit terms ranging from 45 to 180 days. The ageing analysis of trade payables is as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Below 3 months	9,166,208	8,266,665
3 to 6 months	735,604	293,825
6 months to 1 year	171,813	254,107
1 to 2 years	62,691	76,589
Over 2 years	182,691	161,885
	10,319,007	9,053,071

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

14 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Accrual of operating expenses	258,754	212,194
Accounts receivables collection on behalf of banks for factoring programs	213,740	14,190
Salary and welfare payables	162,600	214,697
Advances from customers	91,346	126,489
Other deposits	45,632	40,449
Taxes payable other than income tax and value added tax	16,792	19,299
Amounts due to related parties	23,296	10,286
Payables arising from acquisition of subsidiaries	20,213	—
Other payables	242,620	222,928
	1,074,993	860,532

15 REVENUE

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Sales of goods	21,960,121	18,245,281
Rental income	22,141	19,291
Franchise fees from medicine chain stores	6,042	9,898
Consulting income	14,618	2,942
Import and export agency income	9,479	6,371
Others	1,099	1,573
	22,013,500	18,285,356

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

16 OTHER INCOME

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Government grants (i)	19,894	31,172
Dividend income from available-for-sale financial assets	18	—
	19,912	31,172

Note:

- (i) Government grants mainly represented subsidy income received from government organizations by certain subsidiaries of the Group.

17 OTHER GAINS — NET

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Gain on disposal of certain interests in two listed subsidiaries (i)	101,548	59,423
Gain on disposal of land use rights and property, plant and equipment	1,515	5,459
Foreign exchange gain — net	155	22,875
Loss on disposal of subsidiaries	—	(11,118)
Others — net	1,410	3,568
	104,628	80,207

Note:

- (i) The two listed subsidiaries are China National Medicines Co., Ltd. and Shenzhen Accord Pharmaceutical Co., Ltd.. During the six months ended 30 June 2009, the Group disposed of a 1.02% interest in China National Medicines Co., Ltd. and the Group's interest was decreased from 45.03% to 44.01%. The Group also disposed of a 0.81% interest in Shenzhen Accord Pharmaceutical Co., Ltd. and the Group's interest was decreased from 39.14% to 38.33%.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

18 EXPENSES BY NATURE

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Raw materials and trading merchandise consumed	20,220,873	16,788,496
Changes in inventories of finished goods and work in progress	21,171	2,572
Employee benefit expenses (Note 19)	396,542	394,778
Provision for impairment of trade receivables	22,018	18,116
Write-back of impairment of other receivables	(8,676)	(792)
Provision for/(write-back of) impairment of inventories	3,938	(7,901)
Provision for impairment of available-for-sale financial assets	7,055	—
Operating leases in respect of leasehold land and buildings	85,129	60,185
Depreciation of property, plant and equipment	63,894	60,479
Depreciation of investment properties	2,215	2,154
Amortisation of intangible assets	23,487	19,202
Amortisation of land use rights	4,499	3,707
Auditors' remuneration	2,471	2,561
Advisory and consulting fees	8,489	9,732
Transportation expenses	70,841	64,615
Travel expenses	30,954	33,547
Promotion and advertising expenses	92,719	88,145
Utilities	12,630	9,155
Others	134,928	143,454
Total cost of sales, distribution and selling expenses and general and administrative expenses	21,195,177	17,692,205

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

19 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Salaries, wages and bonuses	298,169	281,883
Contributions to pension plans (i)	32,995	27,116
Post-employment benefits (Note 11)	8,952	29,081
Housing benefits (ii)	12,190	11,157
Other benefits	44,236	45,541
	396,542	394,778

Notes:

- (i) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 7% to 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 23% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.
- (ii) Housing benefits represent the government-supervised housing funds in Mainland China. The Group contributes to these funds range from 5% to 12% of its PRC employees' basic salaries.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

20 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Interest expenses:		
– Borrowings	60,501	59,413
– Discount of notes receivable	25,980	53,800
– Discount of accounts receivable	12,337	4,233
Gross interest expenses	98,818	117,446
Bank charges	13,956	12,526
Less: capitalised interest expenses	(1,231)	(1,765)
Finance costs	111,543	128,207
Finance income:		
– Interest income on bank deposits	(12,218)	(10,522)
Net finance costs	99,325	117,685

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

21 INCOME TAX EXPENSE

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
PRC current income tax	231,683	155,962
Deferred taxation	(3,619)	(13,495)
	228,064	142,467

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the enactment of the new CIT Law on 16 March 2007 and were entitled to preferential tax treatments granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises enjoying a reduced income tax rate of 15%, their applicable tax rates increased to 18% in 2008, 20% in 2009 and will increase to 22% in 2010, 24% in 2011 and 25% in 2012. For enterprises that were entitled to exemptions of income tax or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the Reporting Period.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

22 EARNINGS PER SHARE

Basic earnings per share are based on the profit attributable to equity holders of the Company for the Reporting Period and on the weighted average number of ordinary shares in issue during the Reporting Period. The 1,637,037,451 shares issued on 6 October 2008 upon conversion of the Company into a joint stock limited company are deemed to be outstanding since 1 January 2008.

	Six months ended 30 June	
	2009 (Unaudited)	2008 (Unaudited)
Profit attributable to equity holders of the Company (RMB'000)	476,567	329,490
Weighted average number of ordinary shares in issue ('000)	1,637,037	1,637,037
Basic earnings per share (RMB per share)	0.29	0.20

No diluted earnings per share is presented as there was no dilutive potential share existed during the Reporting Period.

23 DIVIDENDS

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Proposed interim dividend	279,469	—

Interim dividends proposed were not reflected as dividends payable at the balance sheet date.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

24 BUSINESS COMBINATIONS

(a) Business combinations under common control

In May 2009, the Group acquired 100% equity interests in Guangxi Guoda Pharmacy Chainstore Co., Ltd. from a subsidiary of China National Pharmaceutical Group Corporation.

The following is a reconciliation of the effect arising from the common control combination in respect of the acquisition of Guangxi Guoda Pharmacy Chainstore Co., Ltd. on the consolidated balance sheets:

The consolidated balance sheet as at 31 December 2008:

	The Group, excluding Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investments in Guangxi Guoda Pharmacy Chainstore Co., Ltd.	—	—	—	—
Other assets/ (liabilities) — net	3,411,260	(678)	—	3,410,582
Net assets	3,411,260	(678)	—	3,410,582
Share capital	1,637,037	3,000	(3,000)	1,637,037
Capital premium	256,089	—	—	256,089
Statutory reserves	11,744	—	—	11,744
Changes in available-for-sale financial assets	7,111	—	—	7,111
Capital reserves	(11,175)	—	—	(11,175)
Retained earnings	364,102	(3,678)	3,000	363,424
Minority interests	1,146,352	—	—	1,146,352
	3,411,260	(678)	—	3,410,582

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

24 BUSINESS COMBINATIONS (continued)

(a) Business combinations under common control (continued)

The consolidated balance sheet as at 30 June 2009:

	The Group, excluding Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Guangxi Guoda Pharmacy Chainstore Co., Ltd. RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investments in Guangxi Guoda Pharmacy Chainstore Co., Ltd.	500	—	(500)	—
Other assets/ (liabilities) — net	3,974,297	(1,205)	—	3,973,092
Net assets	3,974,797	(1,205)	(500)	3,973,092
Share capital	1,637,037	3,000	(3,000)	1,637,037
Capital premium	256,089	—	—	256,089
Statutory reserves	11,744	—	—	11,744
Changes in available-for-sale financial assets	12,427	—	—	12,427
Capital reserves	(11,175)	—	(500)	(11,675)
Retained earnings	735,497	(4,205)	3,000	734,292
Minority interests	1,333,178	—	—	1,333,178
	3,974,797	(1,205)	(500)	3,973,092

No significant accounting adjustments for consistency of accounting policies were made to the net assets and net profit or loss of any entities or businesses as a result of the common combination.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

24 BUSINESS COMBINATIONS (continued)

(b) Business combinations not under common control

In January 2009, the Group acquired 100% equity interests in Dongguan Accord Pharmaceutical Co., Ltd. from an independent third party for a consideration of RMB2,742,000.

In February 2009, the Group acquired 80% equity interests in Hebei Pharmaceutical Aijia Medicine Co., Ltd. from an independent third party for a consideration of RMB5,040,000.

In March 2009, the Group acquired 75% equity interests in Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. from an independent third party for a consideration of RMB103,500,000.

In April 2009, the Group acquired 67% equity interests in Sinopharm Holding Anhui Co., Ltd. ("Sinopharm Anhui") from an independent third party for a consideration of RMB36,600,000.

The effect of the above acquisitions is summarised as follows:

	RMB'000
Acquisition considerations — Cash	147,882
Fair value of the acquired net assets	(103,519)
Goodwill — Pharmaceutical distribution and other business operations	44,363

The goodwill is attributable to the acquired human resources and economies of scale from combining the operations of the Group and Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd., which is classified under pharmaceutical manufacturing in the business segment.

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

24 BUSINESS COMBINATIONS (continued)

(b) Business combinations not under common control (continued)

The details of the assets and liabilities acquired and cash flow relating to these acquisitions are summarised as follows:

	Fair values at the dates of acquisitions	Carrying amounts of the acquirees at the dates of acquisitions
	RMB'000	RMB'000
Cash and cash equivalents	35,596	35,596
Property, plant and equipment	72,868	72,868
Intangible assets	63,807	4,068
Land use rights	15,707	3,519
Deferred income tax assets	175	175
Inventories	80,530	80,530
Other non-current liabilities	299	299
Trade and other receivables	197,255	197,255
Trade and other payables	(270,148)	(270,148)
Deferred income tax liabilities	(14,192)	—
Borrowings	(40,000)	(40,000)
Net assets	141,897	84,162
Minority interests	(38,378)	
Net assets acquired	103,519	
Considerations of the acquisitions settled in cash	127,669	
Cash and cash equivalents in subsidiaries acquired	(35,596)	
Cash outflow on acquisitions	92,073	

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

24 BUSINESS COMBINATIONS (continued)

(b) Business combinations not under common control (continued)

The revenue, net profit and cash flow of Dongguan Accord Pharmaceutical Co., Ltd., Hebei Pharmaceutical Aijia Medicine Co., Ltd., Suzhou Zhijun Wanqing Pharmaceutical Co., Ltd. and Sinopharm Anhui from the respective dates of acquisitions to 30 June 2009 are summarised as follows:

	From the dates of acquisitions to 30 June 2009 RMB'000 (Unaudited)
Revenue	205,433
Net profit	(463)
Cash outflows from operating activities	25,940
Net cash outflow	45,940

25 COMMITMENTS

(a) Capital commitments

Capital commitments at balance sheet date are as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Property, plant and equipment:		
– contracted but not provided for	101,362	47,355
– authorised but not contracted for	121,771	138,441
	223,133	185,796

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

25 COMMITMENTS (continued)

(b) Operating lease commitments

(i) The Group is the lessee:

The Group had future minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Within 1 year	77,127	50,588
Later than 1 year and not later than 5 years	156,700	87,839
	233,827	138,427

Certain of the operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for specified periods.

(ii) The Group is the lessor:

The Group leases out certain office premises, plant and equipment under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Within 1 year	24,198	14,723
Later than 1 year and not later than 5 years	35,260	30,225
Later than 5 years	21,812	23,123
	81,270	68,071

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

26 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is under the control of the PRC Government. In accordance with HKAS 24 “Related Party Disclosures” issued by the HKICPA, other state-owned enterprises and their subsidiaries, which are not controlled by China National Pharmaceutical Group Corporation, but directly or indirectly controlled by the PRC Government, are regarded as related parties (“other state-owned enterprises”). For the purpose of related party transactions disclosure, the Group has procedures in place to assist the identification of the immediate ownership structure of its customers, suppliers and business partners as to determine whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

(a) Significant transactions with related parties

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Significant transactions with related parties except for other state-owned enterprises		
Sales of goods	297,926	164,805
Provide logistic service	2,066	2,054
Purchase of goods	388,771	406,519
Operating leases	7	7
Interest expenses	16,325	6,678
Significant transactions with other state-owned enterprises		
Sales of goods	13,438,351	11,989,937
Purchase of goods	2,476,069	1,914,658
Purchase of fixed assets	81,014	7,025
Interest expenses on bank borrowings	27,045	33,604
Interest income from bank deposits	6,597	5,090

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

26 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Significant balances with related parties

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Significant balances with related parties except for other state-owned enterprises		
Trade receivables	73,086	64,538
Other receivables	—	29,121
Prepayments	—	602
Trade payables	340,919	293,460
Other payables	23,139	10,286
Advances	157	—
Dividends payable	335,959	363,959
Balances with other state-owned enterprises		
Trade and other receivables	6,711,219	5,785,822
Trade and other payables	918,104	1,094,324
Pledged bank deposits	37,140	74,618
Cash and cash equivalents	1,072,314	1,025,077
Borrowings	852,396	951,721

The receivables from related parties were unsecured, non-interest bearing and repayable on demand. The payables to related parties were unsecured and non-interest bearing, except for borrowings.

(c) Key management compensation

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Salaries, wages and bonuses	2,625	2,345
Contributions to pension plans	104	85
Housing benefits	82	61
Other benefits	41	29
	2,852	2,520

Notes to the Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2009

27 SIGNIFICANT SUBSEQUENT EVENTS

- (a) In August 2009, the Company declared an interim dividend of RMB279,468,967 in respect of the five-month period ended 31 May 2009. Such dividend was fully paid to China National Pharmaceutical Group Corporation and Sinopharm Industrial Investment Co., Ltd., the then existing shareholders as at 31 May 2009, on 31 August 2009.

- (b) In September 2009, the Company issued 545,679,150 H Shares at HK\$16.00 per share, in connection with its listing on the Main Board of the Stock Exchange on 23 September 2009, and received net proceeds of approximately RMB7,409,703,000 (equivalent to HK\$8,407,697,000).

In addition, the Company has granted to the international underwriters an over-allotment option to issue an addition of 81,851,873 H Shares at HK\$16.00 per share. On 25 September 2009, China International Capital Corporation Hong Kong Securities Limited and UBS AG, Hong Kong Branch, on behalf of the international underwriters, fully exercised such over-allotment option.