SINOPHARM GROUP CO. LTD.*

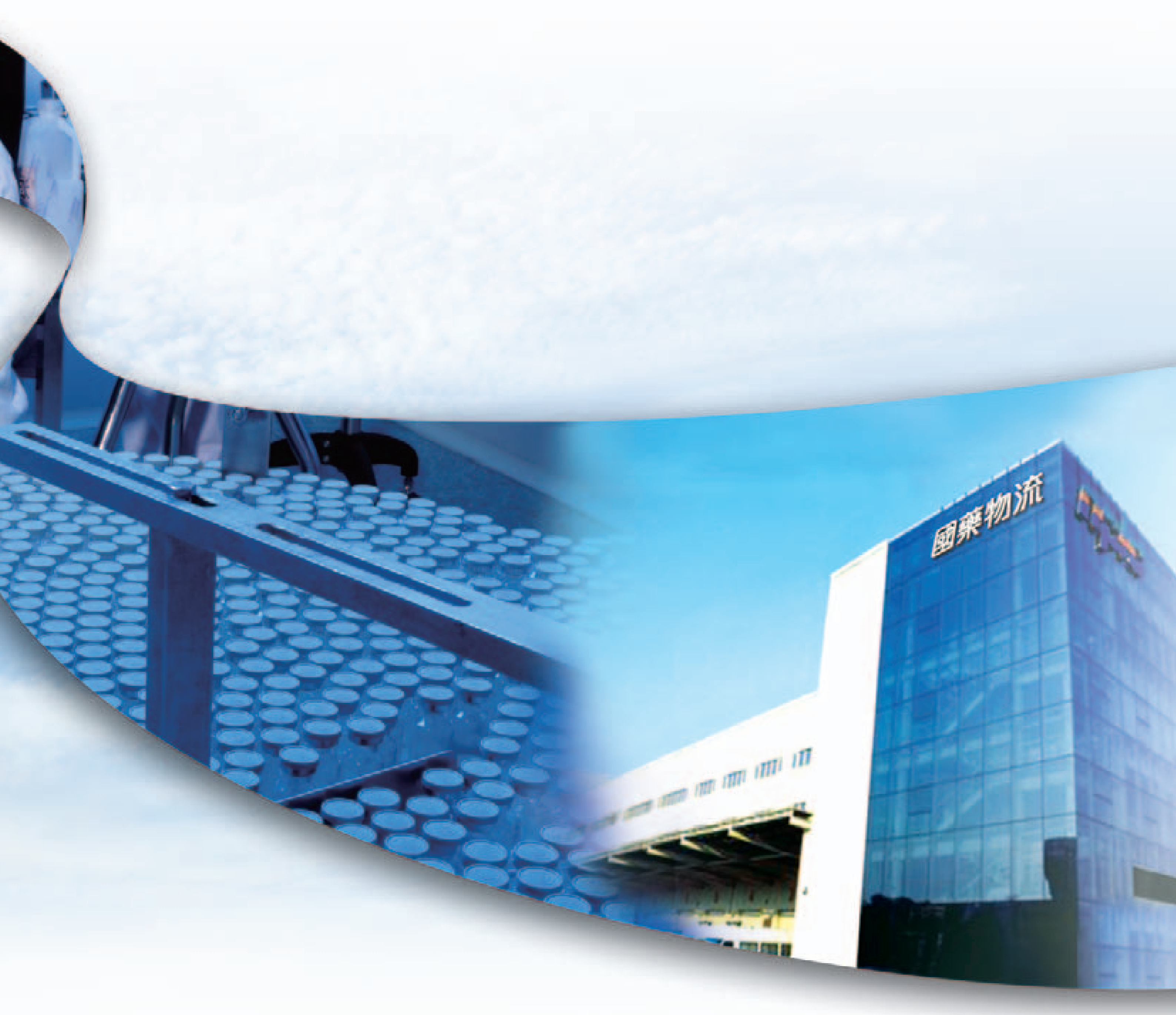
國藥控股股份有限公司

(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：01099

Interim Report 2010

** 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.".*



Contents

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 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 2009. 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 its 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 a leading pharmaceutical distributor in China, the Group is well-positioned to benefit from the rapid growth, consolidation, and regulatory reform in the PRC pharmaceutical and healthcare industry.

Corporate Information

DIRECTORS

Mr. She Lulin
(Non-executive Director and Chairman)
Mr. Wang Qunbin
(Non-executive Director and Vice Chairman)
Ms. Fu Mingzhong
(Executive Director and Vice Chairman)
Mr. Deng Jindong *(Non-executive Director)*
Mr. Chen Qiyu *(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 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)

SUPERVISORS

Mr. Qian Shunjiang *(Chief Supervisor)*
Mr. Xing Yonggang
Ms. Zhang Jian

JOINT COMPANY SECRETARIES

Mr. Wu Aimin
Mr. Ngai Wai Fung

STRATEGIC AND INVESTMENT COMMITTEE

Mr. She Lulin *(Chairman)*
Mr. Wang Qunbin
Ms. Fu Mingzhong
Mr. Fan Banghan
Mr. Chen Qiyu
Mr. Wei Yulin

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

AUTHORISED REPRESENTATIVES

Ms. Fu Mingzhong
Mr. Wu Aimin

LEGAL ADVISERS

As to Hong Kong and United States laws:
Baker & McKenzie

As to PRC law:
Jincheng & Tongda Law Firm

COMPLIANCE ADVISER

China International Capital Corporation Hong Kong
Securities Limited

AUDITOR

PricewaterhouseCoopers

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat/Room A, 17th Floor
Victor Court, 18 Wang On Road
North Point, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA, REGISTERED OFFICE AND HEADQUARTERS

6th Floor, No. 221 Fuzhou Road
Shanghai 200002, China

COMPANY'S WEBSITE

www.sinopharmgroup.com.cn

H SHARE REGISTRAR

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

STOCK CODE

01099

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

OFFICE OF BOARD OF DIRECTORS

Tel.: (86 21) 6339 1911
Email:ir@sinopharmholding.com

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2010 (the "Reporting Period"), the Group continued to benefit from the rapid growth of pharmaceutical market and policy measures implemented by the government to substantially support the development and upgrade of the pharmaceutical industry. Capitalising on the opportunities generated from the dual effect of the macro-economic environment and development of the pharmaceutical industry, the Group maintained and consolidated its position as the largest distributor and a leading provider of supply chain services for pharmaceutical and healthcare products in China. Meanwhile, the Group further accelerated the integration of excellent resources of the pharmaceutical industry, continually expanded the leading market advantages of its largest national distribution network of pharmaceutical products in China and gradually built integration capability based on the above.

Results of major businesses during the Reporting Period were as follows:

- **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 2010, the Group expanded its distribution network to a total of 39 distribution centres across 29 provinces, municipalities and autonomous regions in China through acquisition and establishment of new companies and businesses. While consolidating its leading position in the first-tier cities, the Group also expanded its coverage to the second and third-tier cities, enabling the Group to provide products and services to its customers across China in a timely and cost-effective manner. The Group's direct customers comprised 7,058 hospitals (including 985 class-three hospitals which are of the largest and most highly ranked hospitals), representing approximately 54.46% of all hospitals and approximately 82.63% of class-three hospitals in China, and over 42,553 other customers, such as pharmaceutical distributors, retail pharmacies and other healthcare institutions. During the Reporting Period, the Group's pharmaceutical distribution segment accounted for approximately 92.82% 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 2010, the Group owned 819 directly-owned stores and 164 franchised stores. During the Reporting Period, the Group's retail pharmacy operations accounted for approximately 2.78% 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 Group's other business operations accounted for approximately 4.40% of its total revenue.

During the Reporting Period, the Group gradually strengthened to integrate the excellent resources in the pharmaceutical distribution industry in China according to its established strategic plan. By way of merger, acquisition and reorganisation, the Group intends to become the most valuable and competitive distributor in China with extensive geographical coverage and a whole variety of products.

As at 30 June 2010, the Group has established provincial branch companies in all provinces, autonomous regions and municipalities in China except the Tibet and Qinghai provinces. Provincial branch companies increased to 29 from 23 in the beginning of 2010. The distribution networks of municipal cities and regions were actively developed relying on the regions and excellent resources of the provincial branch companies. The plan for establishing the coverage of the distribution networks in dozens of additional municipal cities was completed in the first half of 2010. The Group is accelerating the integration plan with respect to strategic coverage for pharmaceutical distribution network across China.

During the Reporting Period, the Group expanded the distribution networks in the following regions in China through merger, acquisition and reorganisation:

1. Northern China:

The Group acquired the entire equity interests in Hebei Traditional & Herbal Medicine Company and a 51% equity interest in Beijing Tianxingpuxin Bio-med Co., Ltd.. The Group will complete the acquisitions of the medicines distribution business of China National Pharmaceutical Industry Corporation Limited and China National Pharmaceutical Foreign Trade Corporation. Upon completion of the acquisitions, the coverage of the distribution network and the variety of the resources of the Group will be further improved and the Group will achieve a leading position in terms of market share in Northern China, particularly in Beijing.

2. Southern China:

Through the acquisition of the entire equity interests in Guangdong Dong Fang Uptodate & Special Medicines Co. and a 51% equity interest in Shenzhen Yanfeng Medicine Co., Ltd., the potential competition between the Group and the above companies was eliminated in the region. The Group also further integrated the resources and consolidated its advantageous position in Southern China on the above basis. It is expected that the Group will achieve a leading market position in the region by the end of 2010.

3. Eastern China:

The Group has completed the acquisition of a 67% equity interest in Sinopharm Holding Jiangxi Co., Ltd. The acquisition represented the Group's exploration of new rural cooperative medical care markets in line with the medical reform policy of China and strengthened a service model which enhanced the coverage of small and medium sized customers.

4. Northwestern China:

The Group had acquired a 80% equity interest in China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. and had established Sinopharm Holding Gansu Co. Ltd., a joint venture with Gansu Weikang Medical Co., Ltd. and became the most important pharmaceutical distributor in Northwestern China.

5. Southeastern China:

During the Reporting Period, the Group had restructured Xiamen Pharmaceutical Supply Station to integrate its pharmaceutical distribution companies in Fujian. The integration has led to the rapid increase in the Group's market share in Fujian and Southeastern China and laid a solid foundation for securing a leading position in the market.

6. Southwestern China:

The Group has established a pharmaceutical distribution platform in Southwestern China through the reorganization and acquisition of pharmaceutical companies in Chongqing, Guizhou and Yunnan etc.. The Group is also in the process of consolidating municipal and regional pharmaceutical distribution companies in the region.

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 realised total revenue of RMB31,568 million, representing an increase of RMB8,274 million, or 35.52%, as compared with the corresponding period of last year.

During the Reporting Period, the Group realised net profit of RMB911 million, representing an increase of RMB215 million, or 30.89% as compared with the corresponding period of last year. Profit attributable to equity holders of the Company was RMB629 million, representing an increase of RMB135 million, or 27.33%, as compared with the corresponding period of last year.

During the Reporting Period, the Group's earnings per share was RMB0.28, representing a decrease of 6.67% as compared with the corresponding period of last year. The decrease was primarily due to the dilution effect of the issue of new shares upon the Company's listing in September 2009. The Group's earnings per share for the Reporting Period would have increased by 27.27% as compared with the corresponding period of last year if the earnings per share of the corresponding period of last year was based on the total shares of the Company after the new issue.

	2010 1st half	2009 1st half	Increase/ (decrease)
Operating Results (RMB million):			
Revenue	**31,568**	23,294	8,274
Earnings before interests and tax	**1,334**	1,038	296
Profit attributable to shareholders of the Company	**629**	494	135
Profitability			
Gross profit margin	**8.24%**	7.98%	0.26%
Operating profit margin	**3.88%**	3.87%	0.01%
Net profit margin	**1.99%**	2.12%	-0.13%
Per share data (RMB)			
Earnings per share — Basic*	**0.28**	0.30	-0.02
Pro-forma earnings per share — Basic**	**0.28**	0.22	0.06

* The earnings per share for the first half of 2009 was calculated on the basis of a total of 1,637,037,451 shares in issue before the listing of the Company.

** The earnings per share for the first half of 2009 was calculated on the basis of a total of 2,264,568,474 shares in issue after the listing of the Company. The figures above are the results of simulation calculation on a pro-forma basis made for reference only.

Revenue

The Group's revenue increased by 35.52% from RMB23,294 million for the six months ended 30 June 2009 to RMB31,568 million during the Reporting Period. The increase was primarily due to significant increases in the revenues of pharmaceutical distribution, retail pharmacy and other business operations of the Group. The growth of the revenue and market share of the Group was apparently faster than the development of the PRC pharmaceutical market as well as the industry average.

- **Pharmaceutical distribution segment:** The Group's revenue from pharmaceutical distribution operations increased by 35.03% from RMB21,701 million for the six months ended 30 June 2009 to RMB29,303 million during the Reporting Period, accounting for 92.82% of its total revenue. The increase was primarily due to (1) increases in types and amount of products sold by existing customers and number of new customers of the Group; (2) expansion of distribution network of the Group through acquisition and establishment of new companies and businesses, which helped to consolidate its leading position in the first-tier cities and increase its market shares in the second and third-tier cities; (3) the Group's distribution network coverage extended to community clinics and other medical institutions which resulted in the increase in revenue.

- **Retail pharmacy segment:** The Group's revenue from retail pharmacy operations increased by 33.69% from RMB656 million for the six months ended 30 June 2009 to RMB877 million during the Reporting Period, accounting for 2.78% of its total revenue. The increase was mainly due to the contribution from newly opened retail stores and newly added retail companies.

- **Other business operations segment:** The Group's revenue from other business operations increased by 48.13% from RMB937 million for the six months ended 30 June 2009 to RMB1,388 million during the Reporting Period, accounting for 4.40% of its total revenue. The increase was mainly due to the growth of pharmaceutical manufacturing operations and chemical reagent operations.

Cost of Sales

The Group's cost of sales increased by 35.12% from RMB21,436 million for the six months ended 30 June 2009 to RMB28,965 million during the Reporting Period. The increase was primarily due to an increase in the costs of sales in line with the increase in the revenue from sales.

Gross Profit

As a result of the foregoing, the Group's gross profit increased by 40.04% from RMB1,858 million for the six months ended 30 June 2009 to RMB2,602 million during the Reporting Period.

The Group's gross profit margins were 8.24% and 7.98% for the six months ended 30 June 2010 and the corresponding period in 2009 respectively. The increase was mainly due to the rapid development of businesses with higher margins.

Other Income

Other income of the Group increased by 25.00% from RMB20 million for the six months ended 30 June 2009 to RMB25 million during the Reporting Period. The increase was primarily due to an increase in the subsidies received from central and local governments by the Group.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 52.78% from RMB521 million for the six months ended 30 June 2009 to RMB796 million during the Reporting Period. The Group's distribution and selling expenses accounted for 2.52% of its total revenue during the Reporting Period, representing an increase of 0.28% as compared with the 2.24% for the six months ended 30 June 2009. The increase in distribution and selling expenses was primarily due to the expansion of operating scale and the development of new businesses of the Group as well as the development of distribution network coverage through establishment and acquisition of new companies and businesses.

General and Administrative Expenses

The Group's general and administrative expenses increased by 33.41% from RMB455 million for the six months ended 30 June 2009 to RMB607 million during the Reporting Period. The increase was mainly due to the expansion of the scale of the Group and the expenses incurred for major mergers and acquisitions during the Reporting Period. General and administrative expenses accounted for 1.92% of its total revenue during the Reporting Period, representing a decrease of 0.03% as compared with the 1.95% for the six months ended 30 June 2009.

Operating Profit

As a result of the foregoing, the Group's operating profit was RMB1,224 million during the Reporting Period, representing an increase of 35.70% from RMB902 million for the six months ended 30 June 2009.

Other Gains — Net

Other net gains of the Group decreased from RMB104 million for the six months ended 30 June 2009 to RMB33 million during the Reporting Period. The decrease was primarily due to the one-off gain of RMB102 million from the disposal of equity interests in two listed subsidiaries of the Company, namely China National Medicines Co., Ltd. and Shenzhen Accord Pharmaceutical Co., Ltd., by the Group in 2009, and there was no such gain during the Reporting Period.

Finance Costs — Net

The Group's finance costs decreased from RMB105 million for the six months ended 30 June 2009 to RMB101 million during the Reporting Period. The decrease was mainly due to the increase in interest income of bank deposits during the Reporting Period.

Share of Results of Associated Companies

The Group's share of results of associated companies increased from RMB33 million for the six months ended 30 June 2009 to RMB43 million during the Reporting Period.

Income Tax Expenses

The Group's income tax expenses increased by 20.08% from RMB239 million for the six months ended 30 June 2009 to RMB287 million during the Reporting Period. The increase was mainly due to the growth of profit. The Group's effective income tax rate decreased from 25.53% for the six months ended 30 June 2009 to 23.96% during the Reporting Period.

Profit for the Reporting Period

As a result of the foregoing, the Group's profit increased by 30.89% from RMB696 million for the six months ended 30 June 2009 to RMB911 million during the Reporting Period.

Excluding other net gains, the Group's profit increased by 43.37% from RMB618 million for the six months ended 30 June 2009 to RMB886 million during the Reporting Period. The increase was mainly due to the expansion of distribution network and rapid growth of business.

Profit Attributable to Equity Holders of the Company

Profit or net profit attributable to equity holders of the Group increased by 27.33%, or RMB135 million, from RMB494 million for the six months ended 30 June 2009 to RMB629 million during the Reporting Period. The Group's net profit margins were 1.99% and 2.12% during the Reporting Period and the corresponding period of 2009 respectively.

Excluding other net gains, profit attributable to equity holders of the Group increased by 45.19% from RMB416 million for the six months ended 30 June 2009 to RMB604 million during the Reporting Period.

Non-controlling Interests

The Group's non-controlling interests increased by 40.80% from RMB201 million for the six months ended 30 June 2009 to RMB283 million during the Reporting Period.

Liquidity and Capital Resources

The Group has met its working capital mainly needs through cash generated from operations and various short-term and long-term bank borrowings and lines of credit. Taking into account the lines of credit available to the Group and cash flow generated from operations, the directors of the Company ("Directors") are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of this report.

As at 30 June 2010, the Group had cash and cash equivalents of RMB7,790 million generated mainly from operations of the Group and funds raised by the Company.

Cash Flows

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

Net cash generated 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. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB716 million, representing an increase of net cash generated from operating activities of RMB605 million from RMB111 million for the six months ended 30 June 2009. The increase was primarily due to the continued growth of the Group's operations.

Net cash generated from investing activities

The Group's net cash inflow from investing activities amounted to RMB211 million during the Reporting Period, representing a decrease of RMB588 million as compared with the cash inflow of RMB799 million for the six months ended 30 June 2009. The decrease is mainly due to the combined effects of the redemption at maturity of the short-term financial products purchased in 2009 for hedging foreign exchange risks as well as the expenses incurred from the purchase of fixed assets and the increase in mergers and acquisitions during the Reporting Period.

Net cash used in/generated from financing activities

The Group's net cash used in financing activities amounted to RMB614 million during the Reporting Period, representing a decrease of RMB879 million as compared with net cash generated from financing activities of RMB265 million for the six months ended 30 June 2009. The decrease was primarily due to repayment of bank borrowings and payment of dividends declared by the Company and its subsidiaries.

Capital Structure

Indebtedness

Of the total borrowings of the Group as at 30 June 2010, RMB1,800 million was due within one year and RMB116 million was due beyond one year. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2010, the Group's gearing ratio was 60.54% (31 December 2009: 56.52%), calculated as net liability divided by the total amount of assets plus net liabilities as at 30 June 2010. The increase was mainly due to the expansion of business scale of the Group.

Foreign exchange risk

As at 30 June 2010, cash and cash equivalents in foreign currency and payables in foreign currency of the Group accounted for approximately 12% and 3% of total cash and cash equivalents and total payables of the Group, respectively. The Group's exposure to fluctuations in foreign currencies was not substantial.

Charge on assets

As at 30 June 2010, certain property, plant and equipment of the Group with book value of RMB126 million, notes receivable with book value of RMB277 million and trade receivables with book value of RMB35 million were pledged as collateral for part of the Group's bank borrowings.

Capital Expenditure

The capital expenditures of the Group primarily included 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 amounted to RMB1,969 million and RMB660 million for the Reporting Period and the six months ended 30 June 2009 respectively.

The Group's proposed capital expenditures may change according to the progress in business plan, including changes in market conditions, competition and other factors. Additional capital expenditures may also be incurred in line with the continued expansion of the Group. The Group's ability to obtain additional funding is subject to a variety of uncertainties, including the future results of operations, financial condition and cashflow position of the Group, economic, political and other conditions in the PRC and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings.

Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2010, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

Major Acquisitions and Disposals

During the Reporting Period, the total expenditures in relation to acquisition activities of the Group amounted to approximately RMB1,997 million, including the following major acquisitions:

During the Reporting Period, the Group carried out certain acquisitions, including the acquisitions of two companies and two businesses: (1) the acquisition of a 80% equity interest in China National Pharmaceutical Group Xinjiang Medicines Co., Ltd., the business of which covers Xinjiang, at a consideration of approximately RMB736 million; (2) the acquisition of the medicine distribution business of China National Pharmaceutical Foreign Trade Corporation, the business of which is based in Beijing, at a consideration of approximately RMB275 million; (3) the acquisition of the medicine distribution business of China National Pharmaceutical Industry Corporation Limited, the business of which is based in Beijing, at a consideration of approximately RMB222 million; (4) the acquisition of a 100% equity interest in Hubei Yibao International Pharmaceutical Co., Ltd., the business of which is based in Hubei, at a consideration of approximately RMB20 million. All these acquisitions were made by the Group from connected persons. All these acquisitions have been completed, except those mentioned in items (2) and (3) above.

The considerations of the acquisitions were negotiated on arm's length basis and conformed with the fair market values conducted by a third party valuer or the audited asset values of the acquired targets.

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

Ongoing concern

Based on the current financial forecast and financing facilities 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.

Human Resources

As at 30 June 2010, the Group had 18,269 employees. In order to be in line with the substantial development trend of the Company, meet the development needs of the Company and support and assist the implementation of the overall objective of the Company for the year 2010, the Group has changed the ideas, integrated the current human resources, created management mode, optimized the management mechanism, actively promoted the organizational reform and accelerated training provided to and introduction of talents in accordance with the specialized operations and integrated management standard. 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

2010 will be a year of substantial development of the Company since its listing. Pursuant to its planned strategies, the Company will seize the unprecedented opportunities arising from the new national medical reform. The Company will also fully utilise its competitive edges in brand name and network, intensify the efforts to integrate the resources of PRC pharmaceutical and healthcare industry, realize the expansion of the end customers of the national pharmaceutical distribution market and establish the most profitable and competitive national distribution network. By strengthening the specialised and integrated operations, the Company will invest more resources in service innovation, organizational innovation and management concept innovation. In addition to developing and optimising its core businesses, the Company will better use the resources in the upstream and downstream of its supply chain, build service brands, lead the industry innovation and development and realise a substantial growth. As to the corporate organization, the Company will aim to become a competitive pharmaceutical and healthcare service provider in the international market by further improving its corporate governance, establishing a professional and efficient management team and strengthening its leading edges in the pharmaceutical and healthcare industry in China.

Other Information

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2010, none of the Directors, supervisors of the Company (the "Supervisors") and the chief executive of the Company and their respective associates have interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in accordance with Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions they have or deemed to have pursuant to the relevant provisions of the SFO), or required to be kept in the register under Section 352 of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2010, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors or Supervisors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage to the total number of shares in the Company (%)	Approximate percentage to the issued domestic shares in the Company (%)	Approximate percentage to the issued H shares in the Company (%)	Long position/ short position/ shares available for lending
China National Pharmaceutical Group Corporation	Domestic shares	Beneficial owner	2,728,396 (Note 2)	0.12	0.17	—	Long position
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 2 and 10)	69.40	99.83	—	Long position
Sinopharm Industrial Investment Co., Ltd.	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	69.40	99.83	—	Long position
Shanghai Qishen Investment Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 3 and 10)	69.40	99.83	—	Long position
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 4 and 10)	69.40	99.83	—	Long position
Shanghai Fosun High Technology (Group) Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 5 and 10)	69.40	99.83	—	Long position
Fosun International Limited	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 6 and 10)	69.40	99.83	—	Long position
Fosun Holdings Limited	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 7 and 10)	69.40	99.83	—	Long position
Fosun International Holdings Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 8 and 10)	69.40	99.83	—	Long position
Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 9 and 10)	69.40	99.83	—	Long position
National Council for Social Security Fund of the People's Republic of China	H shares	Beneficial owner	54,876,115	2.42	—	7.95	Long position
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	47,109,200	2.08	—	6.82	Long position

Note:

(1) Such 1,571,555,953 domestic shares belong to the same batch of shares.
(2) China National Pharmaceutical Group Corporation is interested in 2,728,396 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Industrial Investment Co., Ltd.. As China National Pharmaceutical Group Corporation owns 51% of the equity interest in Sinopharm Industrial Investment Co., Ltd., it is deemed to be interested in the shares held by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(3) Shanghai Qishen Investment Co., Ltd. is the beneficial owner of a 49% equity interest in Sinopharm Industrial Investment Co., Ltd. and, therefore, Shanghai Qishen Investment Co., Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(4) Shanghai Fosun Pharmaceutical (Group) Co., Ltd. is the beneficial owner of a 100% equity interest in Shanghai Qishen Investment Co., Ltd. and, therefore, Shanghai Fosun Pharmaceutical (Group) Co., Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(5) Shanghai Fosun High Technology (Group) Co., Ltd. is the beneficial owner of a 49.03% equity interest in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and, therefore, Shanghai Fosun High Technology (Group) Co., Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(6) Fosun International Limited is the beneficial owner of 100% shareholding in Shanghai Fosun High Technology (Group) Co., Ltd. and, therefore, Fosun International Limited is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(7) Fosun Holdings Limited is the beneficial owner of 78.24% shareholding in Fosun International Limited and, therefore, Fosun Holdings Limited is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(8) Fosun International Holdings Ltd. is the beneficial owner of 100% shareholding in Fosun Holdings Limited and, therefore, Fosun International Holdings Ltd. is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(9) Mr. Guo Guangchang is the beneficial owner of 58% shareholding in Fosun International Holdings Ltd. and 0.006% equity interest in Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Industrial Investment Co., Ltd. for the purposes of the SFO.
(10) Since each of the relevant person and corporations listed in the first column is entitled to control, directly or indirectly, more than one-third of the voting power at general meetings of Sinopharm Industrial Investment Co., Ltd., which is the beneficial owner of these 1,571,555,953 domestic shares, such person and corporations are deemed to be interested in these 1,571,555,953 domestic shares for the purposes of the SFO.

Save as disclosed above, to the best knowledge of the Directors of the Company, as at 30 June 2010, no person (other than the Directors or the Supervisors) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or any interest or short positions recorded in the register kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

As at 30 June 2010, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of its listed securities.

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 31 May 2010, the Company declared the audited distributable profits as at 31 December 2009 amounting to approximately RMB22,872,142 to the shareholders of the Company. The dividend was fully paid on 12 July 2010 and 21 July 2010 by the internal cash resources of the Company.

The board of directors of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: Nil).

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. The Group had complied with all applicable code provisions set out in the CG code at all times during the Reporting Period.

SECURITIES TRANSACTIONS OF 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 as the code of conduct of the Company regarding the Directors' and Supervisors' transactions of the listed securities of the Company. After making specific enquiries with the Directors and Supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code at all times during the Reporting Period.

DISCLOSURE OF INFORMATION

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

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

Shanghai, the PRC
24 August 2010

Report on Review of Interim Financial Information

PricewaterhouseCoopers

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 18 to 56, which comprises the condensed consolidated balance sheet of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows 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, 24 August 2010

Condensed Consolidated Interim Balance Sheet

(All amounts in Chinese Renminbi)

	Note	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use rights	5	**617,230**	548,979
Investment properties	5	**160,519**	157,095
Property, plant and equipment	5	**2,755,339**	1,771,778
Intangible assets	5	**1,248,699**	485,408
Investments in associates	6	**337,027**	330,845
Available-for-sale financial assets		**45,854**	61,177
Deferred income tax assets		**156,082**	166,372
Other non–current assets		**21,436**	19,418
Total non-current assets		**5,342,186**	3,541,072
Current assets			
Inventories		**5,301,278**	5,062,515
Trade receivables	7	**15,450,205**	11,487,916
Prepayments and other receivables		**913,826**	726,676
Available-for-sale financial assets		**560**	592
Short-term loan receivable	8	**250,000**	2,905,584
Pledged bank deposits		**347,801**	329,700
Cash and cash equivalents		**7,789,792**	7,476,962
Total current assets		**30,053,462**	27,989,945
Total assets		**35,395,648**	31,531,017
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	9	**2,264,568**	2,264,568
Reserves		**9,063,612**	9,373,191
		11,328,180	11,637,759
Non-controlling interests		**2,637,854**	2,071,163
Total equity		**13,966,034**	13,708,922

	Note	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	10	116,000	82,000
Deferred income tax liabilities		263,353	122,777
Post-employment benefit obligations	11	403,130	403,008
Other non-current liabilities	12	691,372	629,692
Total non-current liabilities		1,473,855	1,237,477
Current liabilities			
Trade payables	13	16,148,018	13,278,530
Accruals and other payables		1,788,580	1,525,910
Dividends payable		22,872	—
Current income tax liabilities		195,803	135,076
Borrowings	10	1,800,486	1,645,102
Total current liabilities		19,955,759	16,584,618
Total liabilities		21,429,614	17,822,095
Total equity and liabilities		35,395,648	31,531,017
Net current assets		10,097,703	11,405,327
Total assets less current liabilities		15,439,889	14,946,399

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

Condensed Consolidated Interim Income Statement

(All amounts in Chinese Renminbi)

	Note	Six months ended 30 June 2010 RMB'000 (Unaudited)	2009 RMB'000 (Restated)
Revenue	14	**31,567,510**	23,294,273
Cost of sales		**(28,965,238)**	(21,435,854)
Gross profit		**2,602,272**	1,858,419
Other income	15	**24,578**	19,934
Distribution and selling expenses		**(796,333)**	(521,411)
General and administrative expenses		**(606,554)**	(455,329)
Operating profit		**1,223,963**	901,613
Other gains — net	16	**32,866**	104,417
Finance income		**51,051**	12,368
Finance costs		**(152,027)**	(116,961)
Finance costs — net	19	**(100,976)**	(104,593)
Share of post-tax profits of associates		**42,721**	32,702
Profit before income tax		**1,198,574**	934,139
Income tax expense	20	**(287,236)**	(238,504)
Profit for the period		**911,338**	695,635
Attributable to:			
— shareholders of the Company		**628,593**	494,342
— non-controlling interests		**282,745**	201,293
		911,338	695,635
Earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share)			
— Basic and fully diluted	21	**0.28**	0.30
Dividends	22	**—**	279,469

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

Condensed Consolidated Interim Statement of Comprehensive Income

(All amounts in Chinese Renminbi)

	Attributable to shareholders of the Company RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
Six months ended 30 June 2010 (Unaudited)			
Profit for the year	**628,593**	**282,745**	**911,338**
Other comprehensive income:			
Revaluation of available-for-sale financial assets			
— gross	**(4,057)**	**(5,150)**	**(9,207)**
— tax	**1,012**	**1,290**	**2,302**
Currency translation differences	**(364)**	**—**	**(364)**
Total comprehensive income for the period	**625,184**	**278,885**	**904,069**
Six months ended 30 June 2009 (Restated)			
Profit for the year	494,342	201,293	695,635
Other comprehensive income:			
Revaluation of available-for-sale financial assets			
— gross	7,140	9,388	16,528
— tax	(1,824)	(2,314)	(4,138)
Total comprehensive income for the period	499,658	208,367	708,025

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

Condensed Consolidated Interim Statement of Changes in Equity

(All amounts in Chinese Renminbi)

	Unaudited					
	Attributable to shareholders of the Company					
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2010	**2,264,568**	**9,083,352**	**289,839**	**11,637,759**	**2,071,163**	**13,708,922**
Total comprehensive income	**—**	**(3,409)**	**628,593**	**625,184**	**278,885**	**904,069**
Changes in shareholding of subsidiaries	**—**	**—**	**—**	**—**	**350,017**	**350,017**
Effect of business combination under common control	**—**	**(867,995)**	**—**	**(867,995)**	**—**	**(867,995)**
Dividends	**—**	**—**	**(22,872)**	**(22,872)**	**(51,551)**	**(74,423)**
Distribution of subsidiaries acquired under common control prior to the acquisition	**—**	**—**	**(43,896)**	**(43,896)**	**(10,660)**	**(54,556)**
As at 30 June 2010	**2,264,568**	**8,211,948**	**851,664**	**11,328,180**	**2,637,854**	**13,966,034**

	Restated					
	Attributable to shareholders of the Company					
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2009	1,637,037	395,964	324,286	2,357,287	1,150,702	3,507,989
Total comprehensive income	—	5,316	494,342	499,658	208,367	708,025
Changes in shareholding of subsidiaries	—	—	—	—	81,367	81,367
Effect of business combination under common control	—	735,300	—	735,300	—	735,300
Dividends	—	—	(105,699)	(105,699)	(73,224)	(178,923)
As at 30 June 2009	1,637,037	1,136,580	712,929	3,486,546	1,367,212	4,853,758

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

Condensed Consolidated Interim Statement of Cash Flow

(All amounts in Chinese Renminbi)

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Cash flows from operating activities – net	**716,461**	111,238
Cash flows from investing activities – net	**210,543**	798,883
Cash flows from financing activities – net	**(614,174)**	265,037
Net increase in cash and cash equivalents	**312,830**	1,175,158
Cash and cash equivalents at beginning of period	**7,476,962**	1,758,328
Cash and cash equivalents at end of period	**7,789,792**	2,933,486

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

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in Chinese Renminbi unless otherwise stated)

1 GENERAL INFORMATION

The Group are 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 reagents 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 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.

The ultimate holding company of the Company is China National Pharmaceutical Group Corporation ("CNPGC"), which was incorporated in the PRC.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved by the Board of the Company for issue on 24 August 2010.

This condensed consolidated interim financial information has not been audited.

Key events

In March 2009, CNPGC acquired a 80% equity interest in China National Pharmaceutical Group Xinjiang Medicines Co., Ltd. ("Xinjiang Pharmaceutical") from Xinjiang State-owned Assets Supervision and Administration Commission. In June 2010, the Group acquired the 80% equity interest in Xinjiang Pharmaceutical from CNPGC. The Group also acquired a 100% equity interest in Hebei Traditional & Herbal Medicine Co., Ltd ("Hebei Traditional & Herbal Medicine") and Guangdong Dong Fang Uptodate & Special Medicines Co. ("Guangdong Dong Fang") and a 100% equity interest in Hubei Yibao International Pharmaceutical Co., Ltd. ("Hubei Yibao") from two subsidiaries of CNPGC during the period. The condensed consolidated interim financial information incorporate the financial statements of these entities in which the common control combination occurs as if they had been combined from the date when they first came under the control of CNPGC. As a result, comparatives have been restated accordingly. Further details are given in Note 23(a).

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting'.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with HKFRSs.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with the former HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. If the acquirer already held an interest in the acquired entity before acquisition, the standard requires the existing stake to be re-measured to fair value at the date of acquisition, taking any movement to the income statement (together with any gains previously recorded in equity that relate to the existing stake). All acquisition-related costs are expensed.

3 ACCOUNTING POLICIES (continued)

(i) New and amended standards adopted by the Group (continued)

The Group has applied HKFRS 3 (revised) to the acquisitions of Liaoning Guoda Accord Pharmacy Chain Store Co., Ltd., Sinopharm Holding Ningxia Co., Ltd. and China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. in 2010. The Company re-measured the existing stake of above three entities before acquisition to fair value at the date of acquisition and recognised a gain of RMB29,341,000 in the income statement. Further details are described in Note 23(b).

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The Group didn't have any partial disposal of subsidiaries during the period.

(ii) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010.

3 ACCOUNTING POLICIES (continued)

(ii) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group (continued)

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

(iii) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact. However, initial indications are that the new standard is not likely to have any significant impact on the Group's financial statements.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will adopt the entire standard from 1 January 2011 except government-related entity exemption which had been early adopted from 1 January 2009.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011. The Group is yet to assess the third improvements' full impact. However, initial indications are that the third improvements are not likely to have any significant impact on the Group's financial statements.

3 ACCOUNTING POLICIES (continued)

(iv) Amendments and interpretations to existing standards that are not yet effective and not relevant to the Group:

- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

- Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

- HK(IFRIC)-Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted.

4 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the executives at the general manager office) that are used to make strategic decisions. The operating 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 medicine 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 revenues 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, investment in associates, 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.

4 SEGMENT INFORMATION (continued)

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

(i) For the six months period ended 30 June 2009 and 2010

	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 2010 (Unaudited)					
Segment results					
External segment revenue	29,302,832	876,728	1,387,950	–	31,567,510
Inter-segment revenue	208,750	–	27,760	(236,510)	–
Revenue	29,511,582	876,728	1,415,710	(236,510)	31,567,510
Operating profit	1,096,978	21,035	107,707	(1,757)	1,223,963
Other gains/(losses)	27,716	(213)	5,363	–	32,866
Share of post-tax profits of associates	26,794	–	15,927	–	42,721
	1,151,488	20,822	128,997	(1,757)	1,299,550
Finance costs — net					(100,976)
Profit before income tax					1,198,574
Income tax expense					(287,236)
Profit for the period					911,338
Other segment items included in the income statement					
Provision for/(write-back of) impairment of trade and other receivables	11,238	(71)	803		11,970
(Write-back of)/provision for impairment of inventories	(4,414)	78	3,363		(973)
Amortisation of land use rights	4,232	–	1,952		6,184
Depreciation of property, plant and equipment	68,843	4,527	27,167		100,537
Depreciation of investment properties	–	–	6,524		6,524
Amortisation of intangible assets	40,009	159	6,575		46,743
Capital expenditures	1,765,513	15,799	187,350		1,968,662

4 SEGMENT INFORMATION (continued)

(i) For the six months period ended 30 June 2009 and 2010 (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 2009 (Restated)					
Segment results					
External segment revenue	21,701,360	656,278	936,635	–	23,294,273
Inter-segment revenue	142,909	–	63,717	(206,626)	–
Revenue	21,844,269	656,278	1,000,352	(206,626)	23,294,273
Operating profit	812,261	8,363	84,989	(4,000)	901,613
Other gains/(losses)	102,856	(93)	1,654	–	104,417
Share of post-tax profits of associates	32,702	–	–	–	32,702
	947,819	8,270	86,643	(4,000)	1,038,732
Finance costs — net					(104,593)
Profit before income tax					934,139
Income tax expense					(238,504)
Profit for the period					695,635
Other segment items included in the income statement					
Provision for/(write-back of) impairment of trade and other receivables	14,016	(22)	321		14,315
Provision for/(write-back of) impairment of inventories	1,807	(235)	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	3,224	–	1,365		4,589
Depreciation of property, plant and equipment	42,752	7,547	26,867		77,166
Depreciation of investment properties	–	–	3,371		3,371
Amortisation of intangible assets	18,335	47	5,141		23,523
Capital expenditures	322,368	11,283	326,656		660,307

4 SEGMENT INFORMATION (continued)

(ii) As at 30 June 2010 and 31 December 2009

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
As at 30 June 2010 (Unaudited)					
Segment assets and liabilities					
Segment assets					
Segment assets include:	32,653,009	713,262	2,235,795	(362,500)	35,239,566
Investments in associates	227,962	–	109,065	–	337,027
Unallocated assets — Deferred income tax assets					156,082
Total assets					35,395,648
Segment liabilities	18,441,880	360,061	785,506	(337,672)	19,249,775
Unallocated liabilities — Borrowings and deferred income tax liabilities					2,179,839
Total liabilities					21,429,614
As at 31 December 2009 (Restated)					
Segment assets and liabilities					
Segment assets					
Segment assets include:	28,868,311	665,553	2,190,553	(359,772)	31,364,645
Investments in associates	306,254	–	24,591	—	330,845
Unallocated assets — Deferred income tax assets					166,372
Total assets					31,531,017
Segment liabilities	15,089,639	331,270	892,448	(341,141)	15,972,216
Unallocated liabilities — Borrowings and deferred income tax liabilities					1,849,879
Total liabilities					17,822,095

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

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

	Land use rights RMB'000	Investment properties RMB'000	Property, plant and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2010 (Unaudited)				
Opening net book amount as at 1 January 2010	**548,979**	**157,095**	**1,771,778**	**485,408**
Additions	**74,435**	**—**	**1,082,329**	**17,180**
Acquisition of subsidiaries (Note 23)	**—**	**149**	**26,462**	**792,854**
Disposal of subsidiaries	**—**	**—**	**(1,957)**	**—**
Transfer	**—**	**9,799**	**(9,799)**	**—**
Disposals	**—**	**—**	**(12,937)**	**—**
Depreciation or amortisation (Note 17)	**(6,184)**	**(6,524)**	**(100,537)**	**(46,743)**
Closing net book amount as at 30 June 2010	**617,230**	**160,519**	**2,755,339**	**1,248,699**
Six months ended 30 June 2009 (Restated)				
Opening net book amount as at 1 January 2009	412,728	114,417	1,291,394	206,791
Additions	24,264	—	107,005	5,814
Acquisition of subsidiaries	31,182	—	336,577	157,016
Transfer	—	9,921	(9,921)	—
Disposals	(920)	—	(16,503)	—
Depreciation or amortisation (Note 17)	(4,589)	(3,371)	(77,166)	(23,523)
Closing net book amount as at 30 June 2009	462,665	120,967	1,631,386	346,098

6 INVESTMENTS IN ASSOCIATES

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Audited)
Share of net assets	319,674	313,492
Goodwill	17,353	17,353
End of the period/year	337,027	330,845

	Six months ended 30 June	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Beginning of the periods	330,845	306,528
Reclassification from available-for-sale financial assets	—	1,915
Share of post-tax profit	42,721	32,702
Dividends declared by associates attributable to the Group	(17,038)	(24,133)
Reclassification to investments in subsidiaries upon transfer of control to the Group (Note 23)	(17,646)	—
Disposals	(1,855)	—
End of the periods	337,027	317,012

7 TRADE RECEIVABLES

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Accounts receivable	14,553,453	10,849,714
Notes receivable	1,126,290	857,019
	15,679,743	11,706,733
Less: Provision for impairment	(229,538)	(218,817)
	15,450,205	11,487,916

The fair values of trade receivables approximate their carrying amounts.

7 TRADE RECEIVABLES (continued)

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 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Below 3 months	**11,531,278**	9,015,237
3 to 6 months	**2,992,447**	2,169,349
6 months to 1 year	**1,045,993**	457,062
1 to 2 years	**67,516**	30,607
Over 2 years	**42,509**	34,478
Total	**15,679,743**	11,706,733

The trade receivables are denominated in RMB.

8 SHORT-TERM LOAN RECEIVABLE

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Audited)
Short-term loan receivable	**250,000**	2,905,584

As at 30 June 2010, the Company placed RMB250,000,000 with China Minsheng Bank for short-term entrusted lending and the recovery of the principal was guaranteed by China Minsheng Bank. This loan was received in July 2010.

9 SHARE CAPITAL

	Number of shares '000	Domestic shares of RMB1 each RMB'000	H Shares of RMB1 each RMB'000	Total RMB'000
As at 1 January 2009	1,637,037	1,637,037	—	1,637,037
Conversion of domestic shares to 62,753,102 H Shares (i)	—	(62,753)	62,753	—
Issuance of new H Shares upon listing (ii)	627,531	—	627,531	627,531
As at 31 December 2009 and 30 June 2010	2,264,568	1,574,284	690,284	2,264,568

(i) Pursuant to "Approval concerning transfer of domestic shares held by China National Pharmaceutical Group Corporation" (Guo Zi Chan Quan [2009] No 278) issued by State-owned Assets Supervision and Administration Commission of the State Council, CNPGC has transferred 62,753,102 domestic shares of the Company to National Council for Social Security Fund ("NCSSF"). Immediately after the aforesaid share transfer, these domestic shares were converted into H Shares during the initial public offering.

(ii) In September and October 2009, the Company issued a total of 627,531,023 H Shares at HK$16.00 per share, in connection with its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 23 September 2009, and raised gross proceeds of approximately RMB8,844,935,000 (equivalent to HK$10,040,496,000). After deduction of the expenses of approximately RMB239,328,000 (equivalent to HK$271,496,000) in relation to the global offering, the total net proceeds raised from the global offering was approximately RMB8,605,607,000 (equivalent to HK$9,769,000,000). A total of RMB342,391,000, comprises of the share issuance and listing expenses in relation to the global offering and other transaction fees of approximately RMB103,063,000, was recorded as a deduction from the related premium.

10 BORROWINGS

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Non-current	**116,000**	82,000
Current	**1,800,486**	1,645,102
Total borrowings	**1,916,486**	1,727,102

The borrowings were denominated in RMB.

The maturity periods of the borrowings are as follows:

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Within 1 year	**1,800,486**	1,645,102
Between 1 to 2 years	**30,000**	30,000
Between 2 to 5 years	**32,000**	32,000
Over 5 years	**54,000**	20,000
	1,916,486	1,727,102

10 BORROWINGS (continued)

Movements in borrowings are as follows:

	RMB'000
Six months ended 30 June 2009 (Restated)	
Opening amount as at 1 January 2009	1,665,013
Additions from acquisition of subsidiaries	90,088
Increase in borrowings	2,610,897
Repayments of borrowings	(2,088,292)
Closing amount as at 30 June 2009	2,277,706
Six months ended as at 30 June 2010 (Unaudited)	
Opening amount 1 January 2010	**1,727,102**
Additions from acquisition of subsidiaries (Note 23)	**264,105**
Increase in borrowings	**2,226,782**
Repayments of borrowings	**(2,301,503)**
Closing amount as at 30 June 2010	**1,916,486**

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	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Current service cost	**2,199**	2,752
Past service cost	**2,341**	6,839
Interest cost	**8,020**	7,163
Actuarial loss/(gain)	**3,748**	(13,502)
Total expenses, included in staff costs	**16,308**	3,252

11 POST-EMPLOYMENT BENEFIT OBLIGATIONS (continued)

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

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Present value of unfunded post-employment benefit obligations	**407,553**	408,827
Unrecognised past service cost	**(4,423)**	(5,819)
Liability in the balance sheet	**403,130**	403,008

12 OTHER NON-CURRENT LIABILITIES

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Medical reserve funds (i)		
— general	**248,544**	243,419
— for 2009 H1N1 vaccines	**334,276**	286,436
Office relocation funds	**40,795**	33,392
Government grants for construction of plant and equipment and intangible assets	**11,508**	19,107
Others	**56,249**	47,338
	691,372	629,692

(i) Certain medical reserves funds were received by CNPGC from the PRC government for it to purchase medical products (including medicines) required to respond to major disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group.

The Group will have to sell pharmaceutical products to specific customers at cost when there is any major disaster, epidemic and other emergency, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised for the aforementioned use and for no other purposes.

13 TRADE PAYABLES

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Trade payables	11,349,613	9,278,581
Notes payable	4,798,405	3,999,949
	16,148,018	13,278,530

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 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Below 3 months	13,868,490	11,352,818
3 to 6 months	1,511,124	470,787
6 months to 1 year	368,625	1,110,587
1 to 2 years	117,721	78,769
Over 2 years	282,058	265,569
	16,148,018	13,278,530

The trade payables are denominated in RMB.

14 REVENUE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Sales of goods	**31,480,369**	23,236,987
Rental income	**29,440**	25,939
Franchise fees from medicine chain stores	**6,234**	6,042
Consulting income	**31,900**	14,618
Import agency income	**19,567**	9,479
Others	**—**	1,208
	31,567,510	23,294,273

15 OTHER INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Government grants (i)	**24,578**	19,916
Dividend income from available-for-sale financial assets	**—**	18
	24,578	19,934

Note

(i) Government grants mainly represented subsidy income received by certain group companies from government organizations.

16 OTHER GAINS, NET

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Gain on disposal of certain interests in two listed subsidiaries	**—**	101,548
Interest income on short-term loan receivable	**14,159**	—
Gain/(loss) on disposal of land use rights and property, plant and equipment	**6,815**	(309)
Foreign exchange (loss)/gain — net	**(14,930)**	155
Gain on fair value re-measurement of existing stake in connection with acquisitions	**29,341**	—
Others – net	**(2,519)**	3,023
	32,866	104,417

17 EXPENSES BY NATURE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Raw materials and trading merchandise consumed	**28,953,556**	21,384,864
Changes in inventories of finished goods and work in progress	**(51,713)**	21,330
Employee benefit expenses (Note 18)	**740,429**	417,548
Provision for impairment of trade receivables	**14,521**	22,739
Write-back of impairment of other receivables	**(2,551)**	(8,424)
(Write-back of)/provision for impairment of inventories	**(973)**	3,938
Provision for impairment of available-for-sale financial assets	**—**	7,055
Operating leases in respect of leasehold land and buildings	**107,966**	86,250
Depreciation of property, plant and equipment (Note 5)	**100,537**	77,166
Depreciation of investment properties (Note 5)	**6,524**	3,371
Amortisation of intangible assets (Note 5)	**46,743**	23,523
Amortisation of land use rights (Note 5)	**6,184**	4,589
Auditors' remuneration	**3,051**	2,532
Advisory and consulting fees	**11,679**	8,685
Transportation expenses	**111,492**	72,893
Travel expenses	**46,657**	38,937
Promotion and advertising expenses	**123,728**	96,305
Utilities	**21,023**	13,400
Others	**129,272**	135,893
Total cost of sales, distribution and selling expenses and general and administrative expenses	**30,368,125**	22,412,594

18 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Salaries, wages and bonuses	**585,267**	314,687
Contributions to pension plans (i)	**37,242**	34,198
Post-employment benefits (Note 11)	**16,308**	3,252
Housing benefits (ii)	**22,241**	13,152
Other benefits (iii)	**79,371**	52,259
	740,429	417,548

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 5% to 12% of its PRC employees' basic salaries.

(iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

19 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Interest expense:		
— Borrowings	**50,577**	65,259
— Discount of notes receivable	**69,812**	26,271
— Discount of accounts receivable	**14,936**	12,337
Gross interest expense	**135,325**	103,867
Bank charges	**20,739**	14,325
Less: capitalised interest expense	**(4,037)**	(1,231)
Finance costs	**152,027**	116,961
Finance income:		
— Interest income on bank deposits	**(51,051)**	(12,368)
Net finance costs	**100,976**	104,593

20 INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Current PRC income tax	**283,637**	243,093
Deferred taxation	**3,599**	(4,589)
	287,236	238,504

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the publication of the new CIT Law on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by relevant tax authorities, the new CIT rate will be gradually increased to 25% within 5 years. For enterprises that enjoy a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009 and will be 22% for 2010, 24% for 2011 and 25% for 2012. For enterprises that were entitled to exemptions 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.

21 EARNINGS PER SHARE

Basic earnings per share is based on the profit attributable to shareholders of the Company for the reporting period and on the weighted average number of ordinary shares in issued during the reporting period.

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Restated)
Profit attributable to shareholders of the Company (RMB'000)	**628,593**	494,342
Weighted average number of ordinary shares in issue ('000)	**2,264,568**	1,637,037
Basic earnings per share (RMB per share)	**0.28**	0.30

No diluted earnings per share is presented as there was no dilutive potential shares existing during the reporting period.

22 DIVIDENDS

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Proposed interim dividend	**–**	279,469

No interim dividend was proposed during the six month period ended 30 June 2010.

23 BUSINESS COMBINATIONS

(a) Business combination under common control

In March 2009, CNPGC acquired a 80% equity interest in Xinjiang Pharmaceutical from Xinjiang State-owned Assets Supervision and Administration Commission. In June 2010, the Group acquired the 80% equity interest in Xinjiang Pharmaceutical from CNPGC.

In May and June 2010, the Group acquired a 100% equity interest in Guangdong Dong Fang and Hebei Traditional & Herbal Medicine from a subsidiary of CNPGC.

23 BUSINESS COMBINATIONS (continued)

(a) Business combination under common control (continued)

In June 2010, the Group acquired a 100% equity interest in Hubei Yibao from a subsidiary of CNPGC.

The following is a reconciliation of the effect arising from the common control combination in respect of the above acquisitions on the consolidated balance sheets.

The consolidated balance sheet as at 31 December 2009:

	The Group, excluding Xinjiang Pharmaceutical, Guangdong Dong Fang, Hubei Yibao and Hebei Traditional & Herbal Medicine RMB'000	Xinjiang Pharmaceutical RMB'000	Guangdong Dong Fang RMB'000	Hubei Yibao RMB'000	Hebei Traditional & Herbal Medicine RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in Xinjiang Pharmaceutical, Guangdong Dong Fang, Hubei Yibao and Hebei Traditional & Herbal Medicine	–	–	–	–	–	–	–
Other assets/(liabilities) — net	12,504,455	1,150,476	34,286	16,239	(39,613)	43,079	13,708,922
Net assets	12,504,455	1,150,476	34,286	16,239	(39,613)	43,079	13,708,922
Share capital	2,264,568	780,637	25,000	15,000	1,461	(822,098)	2,264,568
Capital premium	8,131,102	–	–	–	–	–	8,131,102
Statutory reserves	92,768	–	1,999	218	2,080	(4,297)	92,768
Available-for-sale financial assets change	15,990	–	–	–	–	–	15,990
Capital reserves	(11,675)	184,083	–	41	4,252	666,791	843,492
Retained earnings	418,103	(115,485)	6,419	980	(47,406)	27,228	289,839
Non-controlling interests	1,593,599	301,241	868	–	–	175,455	2,071,163
	12,504,455	1,150,476	34,286	16,239	(39,613)	43,079	13,708,922

23 BUSINESS COMBINATIONS (continued)

(a) Business combination under common control (continued)

The consolidated balance sheet as at 30 June 2010:

	The Group, excluding Xinjiang Pharmaceutical, Guangdong Dong Fang, Hubei Yibao and Hebei Traditional & Herbal Medicine RMB'000	Xinjiang Pharmaceutical RMB'000	Guangdong Dong Fang RMB'000	Hubei Yibao RMB'000	Hebei Traditional & Herbal Medicine RMB'000	Adjustments RMB'000	Consolidated RMB'000
Investment in Xinjiang Pharmaceutical, Guangdong Dong Fang, Hubei Yibao and Hebei Traditional & Herbal Medicine	917,995	–	–	–	–	(917,995)	–
Other assets/(liabilities) – net	12,611,590	1,245,823	36,218	17,429	11,895	43,079	13,966,034
Net assets	13,529,585	1,245,823	36,218	17,429	11,895	(874,916)	13,966,034
Share capital	2,264,568	780,637	25,000	15,000	51,461	(872,098)	2,264,568
Capital premium	8,131,102	–	–	–	–	–	8,131,102
Statutory reserves	92,768	–	1,917	218	2,080	(4,215)	92,768
Available-for-sale financial assets change	12,946	–	–	–	–	–	12,946
Capital reserves	(11,675)	183,720	–	39	4,252	(201,204)	(24,868)
Retained earnings	915,002	(42,429)	9,296	2,172	(45,898)	13,521	851,664
Non-controlling interests	2,124,874	323,895	5	–	–	189,080	2,637,854
	13,529,585	1,245,823	36,218	17,429	11,895	(874,916)	13,966,034

23 BUSINESS COMBINATIONS (continued)

(a) Business combination under common control (continued)

As a result of the common combination, the Group incorporates predecessor carrying values of above entities which are the carrying amounts of assets and liabilities of the acquired entities from the consolidated financial statements of CNPGC that has common control for which consolidated financial statements are prepared. These amounts include goodwill of RMB43,079,000 recorded at the consolidated level of CNPGC in respect of the above acquired entities.

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.

(b) Business combinations not under common control

The Group also acquired equity interests in certain subsidiaries from independent third parties, during the period as follows:

In January 2010, the Group acquired an additional 21% equity interest in Liaoning Guoda Accord Pharmacy Chain Store Co., Ltd. ("Liaoning Guoda Accord"), a then 30% owned associate, from an independent third party. After the acquisition, the Group holds a 51% equity interest in Liaoning Guoda Accord, which has been reclassified from investment in associate to investment in subsidiaries (Note 6).

In March 2010, the Group acquired a 67% equity interest in Sinopharm Holding Jiangxi Co., Ltd. ("Sinopharm Jiangxi ") from an independent third party.

In April 2010, the Group acquired an additional 17.7% equity interest in Sinopharm Holding Ningxia Co., Ltd. ("Sinopharm Ningxia"), a then 49% owned associate, from an independent third party. After the acquisition, the Group holds a 66.7% equity interest in Sinopharm Ningxia, which has been reclassified from investment in associate to investment in subsidiaries (Note 6).

23 BUSINESS COMBINATIONS (continued)

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

In April 2010, the Group acquired a 51% equity interest in Shenzhen Yanfeng Medicine Co., Ltd. ("Shenzhen Yanfeng") from an independent third party.

In May 2010, the Group acquired a 100% equity interest in Shanghai Santa Medical & Science Co., Ltd., from an independent third party.

In May 2010, the Group acquired a 51% equity interest in Beijing Tianxingpuxin Bio-Med Co., Ltd. ("Beijing Tianxin") from an independent third party.

In May 2010, the Group acquired an additional 42% equity interest in China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd. ("Shanghai Likang"), a then 30% owned associate, from an independent third party. After the acquisition, the Group holds a 72% equity interest in Shanghai Likang, which has been reclassified from investment in associate to investment in subsidiaries (Note 6).

In June 2010, the Group acquired a 70% equity interest in Sinopharm Holding Jilin Co., Ltd. ("Sinopharm Jilin") from an independent third party.

The effect of the above acquisitions is summarised as follow:

	RMB'000
Purchase consideration	
— Cash paid	547,232
— Contingent consideration (Note (i))	71,739
Total purchase consideration	618,971
Fair value of previous stake at the dates of acquisitions	60,592
	679,563

23 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 acquisition date RMB'000	Acquirees' carrying amounts at acquisition date RMB'000
Cash and cash equivalents	119,718	119,718
Property, plant and equipment	26,462	25,392
Investment property	149	149
Intangible assets		
— sales network	616,717	—
— software	483	483
Deferred income tax assets	2,543	2,543
Inventories	257,065	257,065
Other non-current assets	1,479	1,479
Trade and other receivables	1,344,184	1,344,184
Trade and other payables	(1,071,729)	(1,071,729)
Deferred income tax liabilities	(152,113)	—
Borrowings	(264,105)	(264,105)
Net assets	880,853	415,179
Non controlling interest (Note (ii))	(376,944)	
Goodwill	175,654	
Net assets acquired	679,563	
Purchase consideration settled in cash	547,232	
Cash and cash equivalents in subsidiaries acquired	(119,718)	
Cash outflow on acquisition	427,514	

23 BUSINESS COMBINATIONS (continued)

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

The goodwill is attributable to the acquired human resources and economies of scale expected from combining the operations of the Group and Liaoning Guoda Accord, Sinopharm Ningxia, Sinopharm Jiangxi, Shenzhen Yanfeng, Shanghai Santa Medical & Science Co., Ltd.. Beijing Tianxin, Shanghai Likang and Sinopharm Jilin which is classified under pharmaceutical distribution and retail pharmacy operations in the business segment.

(i) Contingent consideration

The contingent consideration arrangement requires the Group to pay the former owners of Sinopharm Jiangxi, Shanghai Santa Medical & Science Co., Ltd., and Sinopharm Jilin according to following conditions and formulas and up to a maximum undiscounted amount ("maximum remain consideration") of RMB24,000,000, RMB19,025,000 and RMB28,714,000, respectively:

- If the acquiree's actual net profit for the 12 months period after the acquisition date ("actual net profit") achieve the maximum profit target set in the acquisition agreement:

  The contingent consideration arrangement = The maximum remain consideration

- If the acquiree's actual net profit does not achieve the maximum profit target but achieve the minimum profit target set in the acquisition agreement:

  The contingent consideration arrangement = The maximum remain consideration* (the actual net profit/the maximum profit target)

- If the actual net profit does not achieve the minimum profit target, the contingent consideration arrangement is nil.

As the forecasted net profit for the 12 months period after the acquisition date of the above three entities are all above the maximum profit target, the fair value of the contingent consideration arrangement were estimated to be the maximum remain consideration. As at 30 June 2010, there was no adjustment to the contingent consideration arrangement.

23 BUSINESS COMBINATIONS (continued)

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

(ii) Non-controlling interest

The Group has chosen to recognise non-controlling interest measured at the non-controlling interest in the acquiree's net assets excluding goodwill.

(iii) The revenue, net profit and cash flow of Liaoning Guoda Accord, Sinopharm Ningxia, Sinopharm Jiangxi, Shenzhen Yanfeng, Shanghai Santa Medical & Science Co., Ltd., Beijing Tianxin, Shanghai Likang and Sinopharm Jilin from the respective acquisition dates to 30 June 2010 are summarised as follows:

	From the dates of acquisitions to 30 June 2010 RMB'000 (Unaudited)
Revenue	649,184
Net profit attributable to shareholders of the Company	9,790
Cash outflows from operating activities:	(44,953)
Net cash outflow	20,967

24 COMMITMENTS

(a) Capital commitments

Capital commitments at balance sheet date are as follows:

	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Property, plant and equipment:		
— contracted but not provided for	208,793	291,216
— authorised but not contracted for	1,078,630	322,000
Acquisition of equity interests		
— authorised but not contracted for	967,507	494,257
	2,254,930	1,107,473

24 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 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Within 1 year	112,805	135,429
Later than 1 year and not later than 5 years	161,591	165,990
	274,396	301,419

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 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Restated)
Within 1 year	15,240	17,537
Later than 1 year and not later than 5 years	40,633	41,780
Later than 5 years	14,937	9,300
	70,810	68,617

25 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 PRC government, indirectly, owns 100% of CNPGC, the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchase of goods, purchase of fixed assets, interest expenses on borrowings and interest income from bank deposits. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, borrowings, pledged bank deposits, short-term loan receivable, cash and cash equivalents.

(a) Significant transactions with related parties

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Restated)
Significant transactions with related parties except for other state-owned enterprises		
CNPGC and subsidiaries of CNPGC		
Sales of goods	**34,520**	19,590
Provide logistic service	**3,062**	2,066
Purchase of goods	**92,188**	124,349
Operating leases	**—**	7
Interest expenses	**—**	16,325
Purchase of fixed assets	**239**	—
Associates of the Group		
Sales of goods	**113,628**	145,801
Purchase of goods	**262,057**	231,736

25 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Significant balances with related parties

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Restated)
Significant balances with related parties except for other state-owned enterprises		
CNPGC and subsidiaries of CNPGC		
Trade receivables	**7,540**	38,490
Other receivables	**5,298**	—
Prepayments	**3,399**	15,594
Trade payables	**39,774**	68,423
Other payables	**42,635**	2,920
Borrowings	**32,000**	32,000
Associates of the Group		
Trade receivables	**34,770**	29,961
Other receivables	**85**	—
Prepayments	**210**	—
Trade payables	**320,690**	112,938
Other payables	**1**	5,000

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.

26 SIGNIFICANT SUBSEQUENT EVENTS

After 30 June 2010, the Group made the following significant acquisitions:

(a) In July 2010, the Group acquired a 70% equity interest in Sinopharm Holding Merro (Dalian) Co., Ltd. (國藥控股美羅(大連)有限公司) from an independent third party, which is classified under pharmaceutical distribution in the business segment.

(b) In July 2010, the Group acquired a 70% equity interest in Sinopharm Holding Anqing Co., Ltd. (國藥控股安慶有限公司) from an independent third party, which is classified under pharmaceutical distribution in the business segment.

(c) In August 2010, the Group acquired a 58% equity interest in Wenzhou Biomedicin-Appliances Supplies Co., Ltd. (溫州生物藥械供應有限公司) from an independent third party, which is classified under other business operations in the business segment.

(d) In August 2010, the Group acquired a 75% equity interest in Jilin Yixin Pharmaceutical Co., Ltd. (吉林一心製藥股份有限公司) from an independent third party, which is classified under other business operations in the business segment.