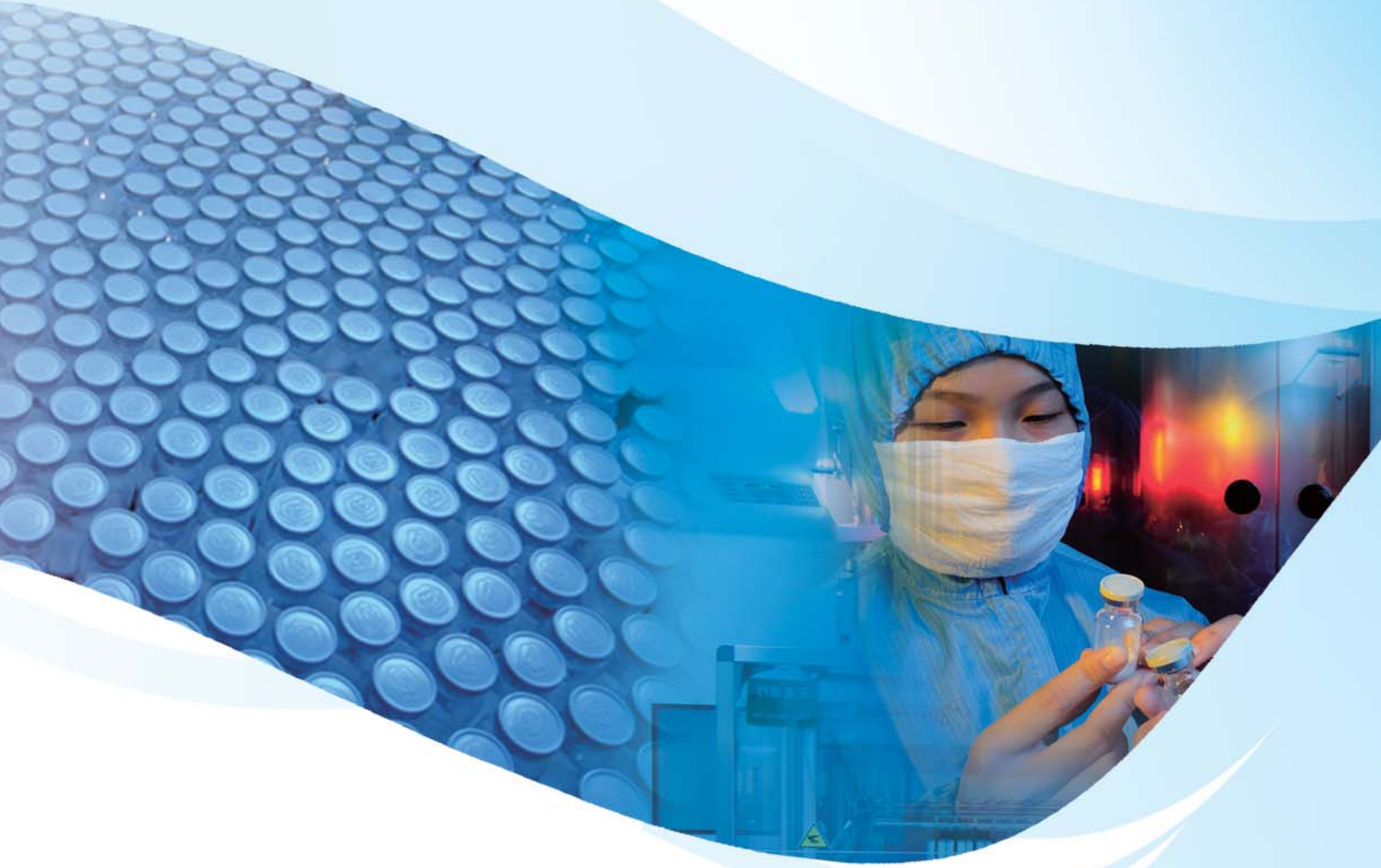
SINOPHARM GROUP CO. LTD.*
國藥控股股份有限公司

(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 2011

** 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 in Chinese and English. Should there be any discrepancies between the Chinese and the English versions, the Chinese version shall prevail.

Care for Life
Care for Health

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 2010. 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 as well as medical equipments 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 and franchises in major cities throughout China.
- **Other business operations segment:** The Group is also engaged in the manufacturing and selling of pharmaceutical products, healthcare 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

Executive Director

Mr. Wei Yulin *(President)*

Non-executive Director

Mr. She Lulin *(Chairman)*
Mr. Wang Qunbin
Mr. Chen Wenhao
Mr. Zhou Bin
Mr. Deng Jindong
Mr. Chen Qiyu
Mr. Fan Banghan
Mr. Liu Hailiang

Independent Non-executive Director

Mr. Wang Fanghua
Mr. Xie Rong
Mr. Tao Wuping
Mr. Zhou Bajun

SUPERVISORS

Mr. Yao Fang *(Chief Supervisor)*
Mr. Lian Wanyong
Ms. Zhang Jian

JOINT COMPANY SECRETARIES

Mr. Wu Aimin
Mr. Ngai Wai Fung

STRATEGIC AND INVESTMENT COMMITTEE

Mr. She Lulin *(Chairman)*
Mr. Wang Qunbin
Mr. Chen Qiyu
Mr. Zhou Bin
Mr. Fan Banghan
Mr. Wei Yulin
Mr. Wang Fanghua
Mr. Zhou Bajun

AUDIT COMMITTEE

Mr. Xie Rong *(Chairman)*
Mr. Chen Wenhao
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

Mr. Wei Yulin
Mr. Wu Aimin

LEGAL ADVISERS

As to Hong Kong laws:
DLA Piper

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

Room 2302, Far East Finance Centre
No. 16 Harcourt Road
Admiralty, 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
China Minsheng Banking Corp., Ltd. Shanghai Branch Minhang Sub-branch
Industrial and Commercial Bank of China Limited Shanghai Branch Operating Department

OFFICE OF BOARD OF DIRECTORS

Tel.: (86 21) 6321 1750
Email: IR@sinopharmholding.com

Management Discussion and Analysis

BUSINESS REVIEW

Both opportunities and challenges coexisted for pharmaceutical distribution enterprises in China during the first half of 2011. The promulgation of "The Outline for the Development of Pharmaceutical Distribution Industry in 2011–2015" ("Outline for The Twelfth Five-Year Plan") has laid a solid foundation for the reform and development of the industry. The government estimated a 23% growth in the pharmaceutical industry in 2011. According to the China Association of Pharmaceutical Commerce, the sales of pharmaceutical products in 2011 is expected to reach RMB860 billion. The concentration of pharmaceutical distribution market continued to intensify and the proportion of sales revenue of the top three enterprises in the pharmaceutical distribution industry increased continuously. However, the industry was still highly fragmented and there is plenty of room for improvement and integration.

In addition to grasping every development and integration opportunities, the Group also place emphasis on various challenges in its development, such as price reduction of medicines and change of pharmaceutical tender policies which will bring pressures to the rapid development of the industry.

As a leading enterprise in the pharmaceutical distribution industry in China, the Group seized every opportunity and dealt with every challenge. Through proactively implementing strategies and optimizing its organizational structure and continuously standardizing its management system, the Group expanded its network coverage and optimized its operating model, so as to remain and consolidate its position as the leading distributor of, and supply chain service provider for, pharmaceutical and healthcare products in China.

- **Pharmaceutical distribution segment:** The Group provides pharmaceutical supply chain management services for the distribution of domestic and imported prescribed medicines and over-the-counter medicines as well as medical equipments from manufacturers and suppliers to hospitals, other distributors, retail drug stores and other customers. As at 30 June 2011, the Group expanded its distribution network, which covers 30 provinces, municipalities and autonomous regions with 46 distribution centers (sub-distribution companies) through acquisitions and new establishments. In addition to consolidating its leading position in tier-1 cities, the Group also exerted its effort to extend its coverage in tier-2 and 3 cities. As at the end of June 2011, the Group's business has already covered 159 cities above the prefectural level nationwide which was 133 by the end of 2010. Also the Group is able to provide products and services to all customers in China in a timely and cost effective manner. The Group's direct customers included 7,802 hospitals (including 1,070 largest and most highly-ranked class-three hospitals), accounting for approximately 60.64% of all hospitals in China, (accounting for approximately 86.78% of the class-three hospitals), and over 92,223 other customers, such as pharmaceutical distributors, retail pharmacies and other healthcare institutions. During the Reporting Period, revenue of the pharmaceutical distribution business accounted for approximately 93.52% of the total revenue.

Despite of policies promulgated by the state, including addition of the essential drug list, reducing of drug prices and classification of management of antibiotics, during the Reporting Period, the sales of the existing subsidiaries of the Company remained its satisfactory growth. Furthermore, through sales growth contributed by the organic expansion and mergers and acquisitions, the overall sales and profit of the Company have increased as expected. Through continuously optimizing the structure of its core pharmaceutical distribution business, the proportion of pharmaceutical direct sales business of the Company increased steadily to 51.48%. The sales to community health centers and township hospitals increased continuously. The Group grasped the opportunities brought by the reformation of healthcare system of China.

- **Retail pharmacy segment:** According to "The Twelfth Five-Year Plan", the annual sales of top 100 retail pharmacy enterprises will account for over 60% to the total sales of retail pharmacy enterprises by 2015. The number of chain drug stores will account for over 2/3 to the total retail drug stores. The "The Twelfth Five-Year Plan" in respect of retail pharmacy stated that the peak of the integration of retail pharmacy has approached. Leveraging their strategic perception, the management of the Company exerted more effort to integrate its retail pharmacy business and developed its retail pharmacy business based on GuoDa Pharmacy. The management also established a network of retail drug stores that are either directly operated by the Group or through franchises in major cities throughout China and expedited the merge and acquisition of other drug stores. As at 30 June 2011, the Group had a total of 1,741 drug stores. The number of retail drug stores was 389 more as compared with the end of 2010. During the Reporting Period, revenue of the retail pharmacy business accounted for 2.85% of its total revenue.

- **Other business operations segment:** The Group's other business operations are the production or sale of pharmaceutical products, healthcare products, chemical reagents and laboratory supplies. Its other business operations accounted for approximately 3.63% of its total revenue during the Reporting Period.

During the Reporting Period, the Group continued to grasp opportunities and integrated major resources in the market. The Group also continued to expand its nationwide network, which covers 30 provinces throughout China. The latest mergers and acquisitions of the Group showed an extension of its business to major cities and tier-2 and 3 cities and counties. The companies acquired and established in the first half of 2011 have contributed sales revenue of RMB6,043 million and net profit attributable to equity holders of RMB92 million to the Group, which helped to consolidate its leading position in the first-tier cities and increase its market shares in the second and third-tier cities:

- **Northeastern China:** The Group achieved a leading position in the region with the largest market share.

- **Northern China:** The Group completed the acquisition of Le Ren Tang Pharmaceutical Group Co., Ltd. in Hebei in the first half of 2011 and achieved a leading position in the region with the largest market share. In 2011, the Group became a leading enterprise in Inner Mongolia through acquiring and establishing Sinopharm Wulanchabu Co.,Ltd. and Sinopharm Baotou Co.,Ltd. The Group surpassed its main competitors in Beijing and ranked first in the market. The Group ranked first in Tianjin market with obvious competitive edges and achieved a leading position in Shanxi market.

- **Eastern China:** Leveraging its established provincial network, the Group expanded its network coverage in Jiangsu, Zhejiang, Fujian and Jiangxi, so as to extend the coverage in prefecture-level cities. The gap between the Group and the leading player of the regional market is minimizing. For example, in Jiangsu Province, as at 30 June 2011, the Group completed the establishment of networks in 9 cities out of 13 prefecture-level cities. In Shanghai, the market share of the Group has increased significantly upon its acquisitions of Shanghai Huyong Medicine Co., Ltd., Shanghai Peibaokang Pharmaceutical Co., Ltd. and Shanghai Linyun Pharmaceutical Co., Ltd..

- **Central China:** The market share of the Group ranked second in the market in Central China. The Group's network covered 10 prefecture-level cities out of 13 prefecture-level cities in Hubei and 9 prefecture-level cities out of 17 prefecture-level cities in Henan.

- **Southern China:** After the successful acquisition of Foshan City Nanhai Pharmaceutical Group Co., Ltd. in Guangdong in 2010, the market share of the Group currently ranks second in Guangdong market and the gap between the Group and the regional market leading player is minimizing. The Group achieved a leading position in Hainan market after the acquisition of Hainan Keyuanhongyi Pharma Co.,Ltd in the first half of 2011.

- **Northwestern China:** The Group is a leading enterprise in both Xinjiang and Ningxia and its business covered all prefecture-level cities in these two provinces. During the Reporting Period, the Group completed the establishment of networks in all provinces, except Tibet, after the establishment of Sinopharm Qinghai Co., Ltd. in Qinghai.

The Company has nearly completed the establishment of networks in all provinces throughout China. In this way, the Group is able to fully utilize its synergy effects and consolidate its competitiveness in the market in the future. The Board and management of the Group realize the importance of integration to the sound and sustainable development of the Group. Through integrating the management, operation, finance and corporate culture of existing and new subsidiaries, the Group has strengthened the implementation of sound operating strategies and expedited the growth of its existing subsidiaries, so as to consolidate its leading market position in the future.

FINANCIAL SUMMARY

The financial summary set out below is extracted from the unaudited interim results of the Group prepared in accordance with the HKFRS during the Reporting Period:

During the Reporting Period, the Group recorded turnover of RMB48,000 million, representing an increase of RMB15,644 million, or 48.35%, as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profit of RMB1,203 million, representing an increase of RMB274 million, or 29.49%, as compared with the corresponding period of last year. Profit attributable to equity holders was RMB784 million, representing an increase of RMB146 million, or 22.88%, as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.34, representing an increase of 21.43% as compared with the corresponding period of last year.

	1st half of 2011	1st half of 2010	Increase/ (decrease)
Operating Results:			
Revenue	**48,000**	32,356	15,644
Earnings before interests and tax	**1,936**	1,327	609
Profit attributable to shareholders	**784**	638	146
Profitability:			
Gross profit margin	**8.17%**	8.28%	-0.11%
Operating profit margin	**3.80%**	3.86%	-0.06%
Net profit margin	**2.51%**	2.87%	-0.36%
Earnings per share — Basic*	**0.34**	0.28	0.06

Revenue

The Group's revenue increased by 48.35% from RMB32,356 million for the six months ended 30 June 2010 to RMB48,000 million during the Reporting Period. The increase was primarily due to significant increase 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 49.28% from RMB30,069 million for the six months ended 30 June 2010 to RMB44,888 million during the Reporting Period, accounting for 93.52% of its total revenue. The increase was primarily due to (1) increase 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 of the leading companies in China and in their respective regional markets and establishment of new companies and businesses and (3) extension of the Group's distribution network coverage to community clinics and other medical institutions.

- **Retail pharmacy segment:** The Group's revenue from retail pharmacy operations increased by 56.10% from RMB877 million for the six months ended 30 June 2010 to RMB1,369 million during the Reporting Period, accounting for 2.85% of its total revenue. The increase was mainly due to the contribution from acquired retail stores and chain retail stores during the Reporting Period.

- **Other business operations segment:** The Group's revenue from other business operations increased by 23.70% from RMB1,409 million for the six months ended 30 June 2010 to RMB1,743 million during the Reporting Period, accounting for 3.63% of its total revenue. The increase was mainly due to the growth of pharmaceutical manufacturing operations, chemical reagent operations, laboratory supplies business and healthcare products operations.

Cost of Sales

The Group's cost of sales increased by 48.54% from RMB29,676 million for the six months ended 30 June 2010 to RMB44,080 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 46.27% from RMB2,680 million for the six months ended 30 June 2010 to RMB3,920 million during the Reporting Period.

The Group's gross profit margins were 8.17% and 8.28% for the six months ended 30 June 2011 and the corresponding period in 2010, respectively. The slight decrease in gross profit margins was mainly due to the policies of reducing drug prices and local medical tender promulgated by Development and Reform Commission during the Reporting Period. However, the gross profit margins ranked a leading position in the industry.

Other Income

Other income of the Group increased by 59.46% from RMB37 million for the six months ended 30 June 2010 to RMB59 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 53.08% from RMB861 million for the six months ended 30 June 2010 to RMB1,318 million during the Reporting Period. 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 and the expansion of direct sales to hospitals.

General and Administrative Expenses

The Group's general and administrative expenses increased by 37.99% from RMB608 million for the six months ended 30 June 2010 to RMB839 million during the Reporting Period. The increase was mainly due to the expansion of the scale of the Group and the effects of major acquisitions during the Reporting Period. However, the increase in general and administrative expenses was slower than the increase in revenue.

Operating Profit

As a result of the foregoing, the Group's operating profit was RMB1,822 million during the Reporting Period, representing an increase of 45.88% from RMB1,249 million for the six months ended 30 June 2010.

Other Gains — Net

Other net gains of the Group increased by 97.14% from RMB35 million for the six months ended 30 June 2010 to RMB69 million during the Reporting Period. The increase was primarily due to the gain from the disposal of fixed assets during the Reporting Period.

Finance Costs — Net

The Group's finance costs increased by 227.62% from RMB105 million for the six months ended 30 June 2010 to RMB344 million during the Reporting Period. The increase was mainly due to (1) the significant decrease of bank borrowings due to the proceeds from the Global Offering of the Company during the six months ended 30 June 2010; (2) the significant increase in interest expenses and interest expenses discounted of borrowings as well as interest expenses discounted of accounts receivable resulting from the increase of borrowings, discounted notes and accounts receivable factoring business due to the business expansion during the Reporting Period; and (3) the increase in interest expenses and interest expenses discounted of borrowings as well as interest expenses discounted of accounts receivable resulting from the increase of Central Bank lending and discount interest rate.

Share of Results of Associated Companies

The Group's share of results of associated companies increased by 4.65% from RMB43 million for the six months ended 30 June 2010 to RMB45 million during the Reporting Period.

Income Tax Expenses

The Group's income tax expenses increased by 32.76% from RMB293 million for the six months ended 30 June 2010 to RMB389 million during the Reporting Period. The increase was mainly due to the increase of income tax expenses resulting from the growth of profit. The Group's effective income tax rate increased from 23.98% for the six months ended 30 June 2010 to 24.43% for the six months ended 30 June 2011.

Profit for the Reporting Period

As a result of the foregoing, the Group's profit increased by 29.49% from RMB929 million for the six months ended 30 June 2010 to RMB1,203 million during the Reporting Period.

Profit Attributable to Equity Holders of the Company

Profit or net profit attributable to equity holders of the Group increased by 22.88%, or RMB146 million, from RMB638 million for the six months ended 30 June 2010 to RMB784 million during the Reporting Period.

Minority Interests

The Group's minority interests increased by 43.99% from RMB291 million for the six months ended 30 June 2010 to RMB419 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, lines of credit, mid-term notes and net proceeds from the Global Offering and placement of the Group. Taking into account the lines of credit available to the Group, cash flow generated from operations of the Group and net proceeds from the placing of the Group, 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 announcement.

As at 30 June 2011, the Group had cash and cash equivalents of RMB10,172 million generated mainly from operational revenues as well as borrowed and rasied capital 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 used in operating activities amounted to RMB1,367 million, as compared to net cash generated from operating activities of RMB698 million for the six months ended 30 June 2010. It was primarily due to (1) the increased pressure of sales collection and purchase payment resulting from the monetary-tightening macro environment in the first half of 2011; and (2) the increase of accounts receivable resulting from the increase of the proportion of sales to hospitals, the specific settlement and turnover of receivables of hospitals, due to the increase of the Company's direct sales.

Net cash used in/generated from investing activities

The Group's net cash outflow from investing activities amounted to RMB1,534 million during the Reporting Period, as compared to cash inflow of RMB210 million for the six months ended 30 June 2010. It was mainly due to the increase of M&A which aims to expand its distribution network.

Net cash used in/generated from financing activities

The Group's net cash generated from financing activities amounted to RMB5,598 million during the Reporting Period, as compared to net cash used in financing activities of RMB614 million for the six months ended 30 June 2010. It was primarily due to the H share follow-on offering, the issue of mid-term notes and bank borrowing during the period.

Capital Structure

Indebtedness

Of the total borrowings of the Group as at 30 June 2011, RMB5,900 million was due within one year and RMB2,182 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 2011, the Group's gearing ratio was 67% (31 December 2010: 65%), calculated as net liability divided by the total amount of assets plus net liabilities as at 30 June 2011. The increase was mainly due to the increase of liabilities.

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

Charge on assets
As at 30 June 2011, certain plant and equipment of the Group with book value of RMB126 million, notes receivable with book value of RMB128 million and trade receivables with book value of RMB1,558 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 RMB4,138 million and RMB2,006 million for the Reporting Period and the six months ended 30 June 2010, 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.

Major Acquisitions and Disposals

During the Reporting Period, the purchase consideration (cash paid) in relation to acquisition activities of the Group amounted to approximately RMB2,497 million. Among which, the major acquisitions included the acquisition of 60% of equity interest in Le Ren Tang Pharmaceutical Group Co., Ltd. in Hebei, which operates in northern China market, with a consideration of RMB1,269 million.

The consideration of such acquisition was 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 target.

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.

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 2011, 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 2011, 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)	65.52	99.83	–	Long position
Sinopharm Industrial Investment Co., Ltd.	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	65.52	99.83	–	Long position
Shanghai Qishen Investment Co., Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 3 and 10)	65.52	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)	65.52	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)	65.52	99.83	–	Long position
Fosun International Limited	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 6 and 10)	65.52	99.83	–	Long position
Fosun Holdings Limited	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 7 and 10)	65.52	99.83	–	Long position

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
Fosun International Holdings Ltd.	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 8 and 10)	65.52	99.83	–	Long position
Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1, 9 and 10)	65.52	99.83	–	Long position
National Council for Social Security Fund of the People's Republic of China	H shares	Beneficial owner	62,753,102	2.61	–	7.58	Long position
Mirae Assets Global Investments (Hong Kong) Limited	H shares	Investment manager	40,648,000	1.69	–	4.91	Long position
Capital Research and Management Company	H shares	Beneficial owner	66,554,225	2.77	–	8.03	Long position
Blackrock, Inc	H shares	Beneficial owner	56,287,021	2.34	–	6.80	Long position
			3,270,112	0.14	–	0.39	Short position

Notes:

(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 2011, 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 2011, 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 2011, the Company declared the audited distributable profits as at 31 December 2010 amounting to approximately RMB363,082 to all shareholders. The dividend was fully paid before 24 August 2011 by the Company's own cash resources.

The board of directors of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2011 (2010: Nil).

SUBSEQUENT EVENTS

The Company completed the issue of the second batch of mid-term notes of 2011 of RMB3 billion on 23 August 2011. Such mid-term notes will be traded among domestic banks in the PRC. Proceeds from the issue of the second batch of mid-term notes will be mainly used for financing the operating activities of the Company, increasing working capital and repaying bank loans.

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 three non-executive Directors, namely Mr. Deng Jindong, Mr. Chen Wenhao 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 2011

Report on Review of Interim Financial Information

羅兵咸永道

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 19 to 60, which comprises the interim condensed consolidated balance sheet of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related interim 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.

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

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 2011

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
ASSETS			
Non-current assets			
Land use rights	7	**911,378**	665,499
Investment properties	7	**147,996**	149,545
Property, plant and equipment	7	**4,015,718**	3,330,750
Intangible assets	7	**4,498,732**	1,591,588
Investments in associates	8	**492,087**	486,412
Available-for-sale financial assets		**50,792**	55,576
Deferred income tax assets		**227,070**	234,084
Other non–current assets		**53,556**	637,726
Total non-current assets		**10,397,329**	7,151,180
Current assets			
Inventories		**8,881,954**	7,530,376
Trade receivables	9	**25,390,934**	17,751,877
Prepayments and other receivables		**2,281,373**	1,373,261
Available-for-sale financial assets		**1,418**	990
Pledged bank deposits		**1,039,534**	732,098
Cash and cash equivalents		**10,172,452**	7,474,698
Total current assets		**47,767,665**	34,863,300
Total assets		**58,164,994**	42,014,480
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	10	**2,402,625**	2,264,568
Reserves		**12,564,670**	9,446,570
		14,967,295	11,711,138
Non-controlling interests		**4,163,180**	3,007,942
Total equity		**19,130,475**	14,719,080

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	**As at 30 June 2011 RMB'000 (Unaudited)**	As at 31 December 2010 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	11	**2,181,953**	90,900
Deferred income tax liabilities		**517,887**	265,651
Post-employment benefit obligations	12	**380,388**	368,712
Other non-current liabilities	13	**947,073**	816,061
Total non-current liabilities		**4,027,301**	1,541,324
Current liabilities			
Trade payables	14	**24,647,721**	19,831,205
Accruals and other payables		**3,795,910**	2,332,509
Dividends payable		**446,286**	13,575
Current income tax liabilities		**217,758**	232,605
Borrowings	11	**5,899,543**	3,344,182
Total current liabilities		**35,007,218**	25,754,076
Total liabilities		**39,034,519**	27,295,400
Total equity and liabilities		**58,164,994**	42,014,480
Net current assets		**12,760,447**	9,109,224
Total assets less current liabilities		**23,157,776**	16,260,404

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

Condensed Consolidated Interim Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Six months ended 30 June 2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited, as restated note 2(i))
Revenue	15	**48,000,067**	32,355,619
Cost of sales	18	**(44,080,246)**	(29,675,963)
Gross profit		**3,919,821**	2,679,656
Other income	16	**58,793**	37,284
Distribution and selling expenses	18	**(1,317,404)**	(860,657)
General and administrative expenses	18	**(839,391)**	(606,966)
Operating profit		**1,821,819**	1,249,317
Other gains — net	17	**69,431**	35,263
Finance income		**47,448**	51,051
Finance costs		**(391,561)**	(155,955)
Finance costs — net	20	**(344,113)**	(104,904)
Share of post-tax profits of associates		**45,193**	42,721
Profit before income tax		**1,592,330**	1,222,397
Income tax expense	21	**(389,120)**	(293,020)
Profit for the period		**1,203,210**	929,377
Attributable to:			
— Shareholders of the Company		**784,469**	638,123
— Non-controlling interests		**418,741**	291,254
		1,203,210	929,377
Earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share)			
— Basic and fully diluted	22	**0.34**	0.28
Dividends	23	**363,082**	22,872

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

Condensed Consolidated Interim Statement of Comprehensive Income

(All amounts in Renminbi thousands unless otherwise stated)

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited,
		as restated
	(Unaudited)	note 2(i))
Profit for the period	**1,203,210**	929,377
Other comprehensive income:		
Revaluation for available-for-sale financial assets		
— Gross	**(7,705)**	(9,207)
— Tax	**1,927**	2,302
Currency translation differences	**(445)**	(364)
Total comprehensive income for the period	**1,196,987**	922,108
Total comprehensive income for the period attributable to:		
— Shareholders of the Company	**781,481**	634,714
— Non-controlling interests	**415,506**	287,394
	1,196,987	922,108

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 Renminbi thousands unless otherwise stated)

	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 2011	**2,264,568**	**8,066,322**	**1,380,248**	**11,711,138**	**3,007,942**	**14,719,080**
Total comprehensive income	**—**	**(2,988)**	**784,469**	**781,481**	**415,506**	**1,196,987**
Issue shares, net of expenses	**138,057**	**2,696,683**	**—**	**2,834,740**	**—**	**2,834,740**
Effect of transactions with non-controlling interests	**—**	**(964)**	**—**	**(964)**	**(413)**	**(1,377)**
Revaluation gain of subsidiaries in conversion to corporate institution	**—**	**3,982**	**—**	**3,982**	**987**	**4,969**
Changes in shareholding of minority interests of subsidiaries	**—**	**—**	**—**	**—**	**843,677**	**843,677**
Dividends	**—**	**—**	**(363,082)**	**(363,082)**	**(104,519)**	**(467,601)**
As at 30 June 2011	**2,402,625**	**10,763,035**	**1,801,635**	**14,967,295**	**4,163,180**	**19,130,475**

	Unaudited, as restated note 2(i)					
	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	9,239,587	362,724	11,866,879	2,155,638	14,022,517
Total comprehensive income	—	(3,409)	638,123	634,714	287,394	922,108
Changes in shareholding of minority interests of subsidiaries	—	—	—	—	350,017	350,017
Effect of business combination under common control	—	(867,995)	—	(867,995)	—	(867,995)
Distribution of subsidiaries acquired under common control prior to acquisition	—	—	(43,896)	(43,896)	(10,660)	(54,556)
Dividends	—	—	(22,872)	(22,872)	(51,551)	(74,423)
As at 30 June 2010	2,264,568	8,368,183	934,079	11,566,830	2,730,838	14,297,668

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

Condensed Consolidated Interim Statement of Cash Flow

(All amounts in Renminbi thousands unless otherwise stated)

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited,
		as restated
	(Unaudited)	note 2 (i))
Cash flows from operating activities – net	**(1,366,805)**	698,281
Cash flows from investing activities – net	**(1,533,658)**	210,171
Cash flows from financing activities – net	**5,598,217**	(614,174)
Net increase in cash and cash equivalents	**2,697,754**	294,278
Cash and cash equivalents at beginning of period	**7,474,698**	7,567,839
Cash and cash equivalents at end of period	**10,172,452**	7,862,117

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 Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION

Sinopharm Group Co. Ltd. (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 contributed capital and reserves as at 30 September 2007 at the ratio of 1: 0.8699 into share capital of 1,637,037,451 shares with par value of RMB1 per share. 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 the Company's registered office is 221 Fuzhou Road, Huangpu District, Shanghai, the PRC.

The Company and its subsidiaries (together, the "Group") is mainly engaged in: (1) distribution of medicines, medical device and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics, (2) operation of pharmaceutical chain stores, and (3) distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

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") thousands, unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 24 August 2011.

This condensed consolidated interim financial information has not been audited.

Key events

In May 2011, the Company issued additional 138,056,825 H shares at HK$25.00 per share, raising a net proceeds of HK$3,386,786 thousands (equivalent to RMB2,834,740 thousands). Further details are given in Note 10.

In May 2011, the Company issued 20,000,000 bonds at a total par value of RMB2,000,000 thousands. Further details are given in Note 11.

1 GENERAL INFORMATION (continued)

Key events (continued)

During the six month period ended 30 June 2011, the Group acquired equity interests in certain subsidiaries from third parties with a total consideration amounting to approximately RMB3,002,334 thousands. Further details are given in Note 24.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 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 2010, which have been prepared in accordance with HKFRSs.

(i) Business combination under common control

In November 2010, the Group acquired 52.61% equity interest in Sinopharm Holding Shenzhen Chinese Herbal Co., Ltd. and in December 2010, the Group also acquired the medicine distribution business of two subsidiaries of CNPGC. These transactions have been accounted for using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5, "Merger Accounting for Common Control Combinations" issued by HKICPA. The condensed consolidated financial information for the six months period ended 30 June 2010 have been restated to incorporate the financial statements of these entities and business in which the common control combination occurs as if they had been combined from the date when they first came under control of CNPGC.

(ii) Going-concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's merchandise and products; and (b) the availability of bank and capital market finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its interim consolidated financial statements.

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 2010, 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 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group adopted the entire standard from 1 January 2011 except government-related entity exemption which had been early adopted from 1 January 2009.

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy results in additional disclosures.

(ii) Amendments and interpretations to existing standards becoming effective in 2011 but not relevant to the Group

- Amendment to HKAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to HK (IFRIC) — Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

3 ACCOUNTING POLICIES (continued)

(ii) Amendments and interpretations to existing standards becoming effective in 2011 but not relevant to the Group (continued)

- HK (IFRIC) — Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA and become effective in the financial year of 2011, which are not currently relevant to the Group except for amendment to HKAS 34 'Interim financial reporting' as disclosed in note 3(i) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes.

(iii) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted if permitted:

- HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial instruments: Recognition and measurement' and have not been changed.

3 ACCOUNTING POLICIES (continued)

(iii) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted if permitted: (continued)

- HKAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

- HKFRS 7 (Amendment) 'Disclosures — Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

4 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5 FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and fair value and cash flow interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end or in any risk management policies.

(ii) Liquidity risk

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining year at the balance sheet to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months are their carrying amounts, as the impact of discounting is not significant.

5 FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 30 June 2011 (Unaudited)					
Borrowings	**5,899,543**	**15,000**	**2,058,439**	**108,514**	**8,081,496**
Interests payments on borrowings (Note)	**212,719**	**109,894**	**113,853**	**9,381**	**445,847**
Trade and other payables	**28,443,631**	**—**	**—**	**—**	**28,443,631**
	34,555,893	**124,894**	**2,172,292**	**117,895**	**36,970,974**
As at 31 December 2010 (Audited)					
Borrowings	3,344,182	—	30,000	60,900	3,435,082
Interests payments on borrowings (Note)	60,849	5,336	12,296	6,772	85,253
Trade and other payables	22,163,714	—	—	—	22,163,714
	25,568,745	5,336	42,296	67,672	25,684,049

Note: Interest is based on borrowings as at 30 June 2011 and 31 December 2010 and the interest rate as at 30 June 2011 and 31 December 2010.

(iii) Fair value estimation

Compare to the end of 2010, there was no material change in the financial instruments carried at fair value.

6 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the president and the executives at the president 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, medical device and pharmaceutical products to 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.

Although the retail pharmacy operations segment does not meet the quantitative thresholds required by HKFRS 8, 'Operating segments', management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

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.

Inter-segment revenues are conducted at prices and terms mutually agreed upon amongst those business segments. The revenue from external parties reported to the operating committee is measured in a manner consistent with that in the condensed consolidated income statement.

6 SEGMENT INFORMATION (continued)

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

(i) For the six months period ended 30 June 2011 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 2011 (Unaudited)					
Segment results					
External segment revenue	44,888,261	1,368,939	1,742,867	–	48,000,067
Inter-segment revenue	350,542	–	103,104	(453,646)	–
Revenue	45,238,803	1,368,939	1,845,971	(453,646)	48,000,067
Operating profit	1,621,887	34,823	166,015	(906)	1,821,819
Other gains	61,463	141	7,827	–	69,431
Share of post-tax profits of associates	38,948	–	6,245	–	45,193
	1,722,298	34,964	180,087	(906)	1,936,443
Finance costs — net					(344,113)
Profit before income tax					1,592,330
Income tax expense					(389,120)
Profit for the period					1,203,210
Other segment items included in the income statement					
Provision for impairment of trade and other receivables	7,971	272	773		9,016
Provision for/(write-back of) impairment of inventories	2,621	3	(156)		2,468
Amortisation of land use rights	9,284	34	1,874		11,192
Depreciation of property, plant and equipment	89,346	24,308	32,689		146,343
Depreciation of investment properties	–	–	6,243		6,243
Amortisation of intangible assets	43,397	1,881	12,981		58,259
Capital expenditures	4,044,918	36,719	56,217		4,137,854

6 SEGMENT INFORMATION (continued)

(i) For the six months period ended 30 June 2011 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 2010					
(Unaudited, as restated note 2(i))					
Segment results					
External segment revenue	30,069,434	876,728	1,409,457	–	32,355,619
Inter-segment revenue	208,750	–	27,760	(236,510)	–
Revenue	30,278,184	876,728	1,437,217	(236,510)	32,355,619
Operating profit	1,126,984	21,035	103,055	(1,757)	1,249,317
Other gains/(losses)	29,707	(213)	5,769	–	35,263
Share of post-tax profits of associates	26,794	–	15,927	–	42,721
	1,183,485	20,822	124,751	(1,757)	1,327,301
Finance costs — net					(104,904)
Profit before income tax					1,222,397
Income tax expense					(293,020)
Profit for the period					929,377
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	4,842	–	1,952		6,794
Depreciation of property, plant and equipment	79,786	4,527	27,167		111,480
Depreciation of investment properties	300	–	6,524		6,824
Amortisation of intangible assets	23,176	159	6,575		29,910
Capital expenditures	1,803,015	15,799	187,350		2,006,164

6 SEGMENT INFORMATION (continued)

(ii) As at 30 June 2011 and 31 December 2010

	Pharmaceutical distribution RMB'000	Retail pharmacy operations RMB'000	Other business operations RMB'000	Elimination RMB'000	Group RMB'000
As at 30 June 2011 (Unaudited)					
Segment assets and liabilities					
Segment assets	**53,830,920**	**1,748,727**	**3,579,470**	**(1,221,193)**	**57,937,924**
Segment assets include:					
Investments in associates	**241,198**	**1,841**	**249,048**	**–**	**492,087**
Unallocated assets – Deferred income tax assets					**227,070**
Total assets					**58,164,994**
Segment liabilities	**29,031,809**	**1,157,695**	**1,457,799**	**(1,212,167)**	**30,435,136**
Unallocated liabilities – Borrowings and deferred income tax liabilities					**8,599,383**
Total liabilities					**39,034,519**
As at 31 December 2010 (Audited)					
Segment assets and liabilities					
Segment assets	37,920,786	946,633	3,367,206	(454,229)	41,780,396
Segment assets include:					
Investments in associates	481,806	–	4,606	–	486,412
Unallocated assets – Deferred income tax assets					234,084
Total assets					42,014,480
Segment liabilities	22,241,817	611,573	1,373,587	(632,310)	23,594,667
Unallocated liabilities – Borrowings and deferred income tax liabilities					3,700,733
Total liabilities					27,295,400

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

7 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 2011 (Unaudited)				
Opening net carrying amount as at 1 January 2011	**665,499**	**149,545**	**3,330,750**	**1,591,588**
Additions	**57,457**	**2,062**	**377,400**	**13,339**
Acquisition of subsidiaries (Note 24)	**199,614**	**74**	**485,534**	**2,952,064**
Transfer	**—**	**3,231**	**(3,231)**	**—**
Disposals	**—**	**(673)**	**(28,392)**	**—**
Depreciation or amortisation (Note 18)	**(11,192)**	**(6,243)**	**(146,343)**	**(58,259)**
Closing net carrying amount as at 30 June 2011	**911,378**	**147,996**	**4,015,718**	**4,498,732**
Six months ended 30 June 2010 (Unaudited), (Restated as described in note 2(i))				
Opening net carrying amount as at 1 January 2010	584,084	164,001	1,794,052	422,666
Additions	74,435	—	1,082,329	14,935
Acquisition of subsidiaries	—	149	26,462	807,854
Disposal of subsidiaries	—	—	(1,957)	—
Transfer	—	9,799	(9,799)	—
Disposals	—	—	(12,937)	—
Depreciation or amortisation (Note 18)	(6,794)	(6,824)	(111,480)	(29,910)
Closing net carrying amount as at 30 June 2010	651,725	167,125	2,766,670	1,215,545

8 INVESTMENTS IN ASSOCIATES

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Share of net assets	**474,734**	469,059
Goodwill	**17,353**	17,353
End of the period/year	**492,087**	486,412

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Beginning of the period	**486,412**	330,845
Acquisitions	**7,329**	—
Share of post-tax profit	**45,193**	42,721
Unrealized profit in transaction with associates	**6,390**	—
Dividends declared by associates attributable to the Group	**(47,902)**	(17,038)
Disposals	**—**	(1,855)
Reclassified to subsidiaries upon gaining control over invested companies (Note 24)	**(5,335)**	(17,646)
End of the period	**492,087**	337,027

9 TRADE RECEIVABLES

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Accounts receivable	23,247,903	16,520,718
Notes *receivable*	2,431,049	1,511,315
	25,678,952	18,032,033
Less: Provision for impairment	(288,018)	(280,156)
	25,390,934	17,751,877

The fair values of trade receivables approximate their carrying amounts.

Retail sales at the Group's medicine chain stores are generally 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 210 days. The ageing analysis of trade receivables (accounts receivable and notes receivable) is as follows:

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Below 3 months	19,212,756	14,597,296
3 to 6 months	5,323,893	2,945,861
6 months to 1 year	1,006,990	399,612
1 to 2 years	87,032	47,303
Over 2 years	48,281	41,961
Total	25,678,952	18,032,033

The trade receivables are denominated in RMB.

10 SHARE CAPITAL

	Number of shares '000	Domestic shares with par value of RMB1 per share RMB'000	H Shares with par value of RMB1 per share RMB'000	Total RMB'000
As at 1 January 2011	**2,264,568**	**1,574,284**	**690,284**	**2,264,568**
Issue shares (i)	**138,057**	**—**	**138,057**	**138,057**
As at 30 June 2011	**2,402,625**	**1,574,284**	**828,341**	**2,402,625**

(i) On 4 May 2011, the Company issued additional 138,056,825 H shares at HK$25.00 per share, and raised gross proceeds of HK$3,451,421 thousands (equivalent to RMB2,888,839 thousands). After deduction of the expenses of HK$64,635 thousands (equivalent to RMB54,099 thousands) in relation to the placement, the total net proceeds was HK$3,386,786 thousands (equivalent to RMB2,834,740 thousands).

11 BORROWINGS

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Non-current	**2,181,953**	90,900
Current	**5,899,543**	3,344,182
Total borrowings	**8,081,496**	3,435,082

The borrowings were denominated in RMB.

11 BORROWINGS (continued)

The maturity periods of the borrowings are as follows:

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Within 1 year	**5,899,543**	3,344,182
Between 1 to 2 years	**15,000**	—
Between 2 to 5 years	**2,058,439**	30,000
Over 5 years	**108,514**	60,900
	8,081,496	3,435,082

Movements in borrowings are as follows:

	RMB'000
Six months ended 30 June 2010 (Unaudited)	
Opening balance as at 1 January 2010	1,727,102
Additions from acquisition of subsidiaries	264,105
Increase in borrowings	2,226,782
Repayment of borrowings	(2,301,503)
Closing balance as at 30 June 2010	1,916,486
Six months ended as at 30 June 2011 (Unaudited)	
Opening balance 1 January 2011	**3,435,082**
Additions from acquisition of subsidiaries (Note 24)	**1,118,835**
Issue of bond (i)	**1,980,660**
Other increase in borrowings	**7,797,790**
Accrual interest of bond	**13,937**
Repayment of borrowings	**(6,264,808)**
Closing balance as at 30 June 2011	**8,081,496**

11 BORROWINGS (continued)

(i) On 11 May 2011, the Company issued 20,000,000 bonds at a total par value of RMB2,000,000 thousands. After deduction of the expenses of approximately RMB19,340 thousands in relation to the bond offering, the total net proceeds was approximately RMB1,980,660 thousands. The bonds mature three years from the issue date, and the annual interest rate is 4.89%. The fair value of the bond that was initially recognized in long-term borrowings was determined using the market interest rate for an equivalent bond. The bond is subsequently stated at amortized cost until maturity.

Interest expense on borrowings and loans for the six months ended 30 June 2011 is approximately RMB176,679 thousands (For the six months ended 30 June 2010: RMB52,046 thousands).

12 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 treatments similar to a defined benefit plan.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current service cost	**1,861**	2,199
Past service cost	**2,651**	2,341
Interest cost	**8,055**	8,020
Actuarial (gain)/loss	**(420)**	3,748
Total expenses, included in staff costs	**12,147**	16,308

12 POST-EMPLOYMENT BENEFIT OBLIGATIONS (continued)

The amounts recognized in the balance sheet are analyzed below:

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Present value of unfunded post-employment benefit obligations	**382,432**	372,711
Unrecognized past service cost	**(2,044)**	(3,999)
Liability in the balance sheet	**380,388**	368,712

13 OTHER NON-CURRENT LIABILITIES

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Medical reserve funds (i)		
— general	**321,606**	297,983
— for 2009 H1N1 vaccines	**434,890**	424,584
Office relocation funds (ii)	**75,097**	30,262
Government grants for construction of logistic centers (iii)	**50,437**	14,058
Others	**65,043**	49,174
	947,073	816,061

13 OTHER NON-CURRENT LIABILITIES (continued)

(i) Certain medical reserves funds were received by CNPGC from the PRC government for it to purchase medical products (including medicines) as a reserve for the government for respodning 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 are 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 as approved by 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 part of medical reserve funds. The medical reserve funds are required to be utilised only for the aforementioned purposes.

(ii) Certain of the Group's subsidiaries received funds from local governments as compensation for losses arising from office relocation as required by local governments. Upon completion of the office relocation, such funds after offsetting against actual losses arising from office relocation will be recognised as other income. As at 30 June 2011, the directors expect that such office relocation will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

(iii) Certain of the Group's subsidiaries received funds from local governments as a subsidy for construction of logistic centers. As at 30 June 2011, the directors expect that such constructions will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

14 TRADE PAYABLES

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Trade payables	**17,919,117**	13,725,945
Notes payable	**6,728,604**	6,105,260
	24,647,721	19,831,205

14 TRADE PAYABLES (continued)

Purchases are made on credit terms ranging from 45 to 210 days. The ageing analysis of trade payables is as follows:

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Below 3 months	**19,741,140**	17,862,983
3 to 6 months	**2,111,190**	965,105
6 months to 1 year	**2,355,533**	569,968
1 to 2 years	**168,164**	174,166
Over 2 years	**271,694**	258,983
	24,647,721	19,831,205

The trade payables are denominated in RMB.

15 REVENUE

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited, as restated note 2(i))
Sales of goods	**47,910,516**	32,268,111
Rental income	**36,954**	29,807
Franchise fees from medicine chain stores	**12,189**	6,234
Consulting income	**29,100**	31,900
Import agency income	**11,308**	19,567
	48,000,067	32,355,619

16 OTHER INCOME

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited,
		as restated
	(Unaudited)	note 2(i))
Government grants (note)	**58,793**	37,284

note —
Government grants mainly represented subsidy income received by certain subsidiaries from government authorities.

17 OTHER GAINS, NET

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited,
		as restated
	(Unaudited)	note 2(i))
Interest income on short-term loan receivable	**—**	14,159
Gain on disposal of land use rights and property, plant and equipment	**58,546**	6,815
Foreign exchange gain/(loss) — net	**1,022**	(14,930)
Write-back of certain liabilities (i)	**10,718**	—
Fair value gain of investment	**—**	29,341
Others — net	**(855)**	(122)
	69,431	35,263

(i) In the six-month period ended 30 June 2011, the Group reviewed all the trade and other payables with aging over 3 years and wrote-back these unpayable long aging liabilities of RMB10,718 thousands.

18 EXPENSES BY NATURE

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited, as restated note 2(i))
Raw materials and trading merchandise consumed	**44,141,774**	29,696,475
Changes in inventories of finished goods and work in progress	**(141,357)**	(51,713)
Employee benefit expenses (Note 19)	**966,791**	745,852
Provision for impairment of trade receivables	**7,886**	14,521
Provision for/(Write-back of) impairment of other receivables	**1,130**	(2,551)
Provision for/(Write-back of) impairment of inventories	**2,468**	(973)
Operating leases in respect of leasehold land and buildings	**159,325**	108,434
Depreciation of property, plant and equipment (Note 7)	**146,343**	111,480
Depreciation of investment properties (Note 7)	**6,243**	6,824
Amortisation of intangible assets (Note 7)	**58,259**	29,910
Amortisation of land use rights (Note 7)	**11,192**	6,794
Auditors' remuneration	**5,071**	3,058
Advisory and consulting fees	**24,962**	11,703
Transportation expenses	**161,301**	125,131
Travel expenses	**74,399**	49,669
Market development and business promotion expenses	**288,945**	125,581
Utilities	**34,469**	21,161
Others	**287,840**	142,230
Total cost of sales, distribution and selling expenses and general and administrative expenses	**46,237,041**	31,143,586

19 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited,
		as restated
	(Unaudited)	note 2(i))
Salaries, wages and bonuses	**748,938**	589,855
Contributions to pension plans (i)	**78,705**	37,432
Post-employment benefits (Note 12)	**12,147**	16,308
Housing benefits (ii)	**28,945**	22,420
Other benefits (iii)	**98,056**	79,837
	966,791	745,852

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 defined compensation (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 23% of such defined compensation 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 wages.

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

20 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited, as restated note 2(i))
Interest expense:		
— Borrowings	**176,679**	52,046
— Discounting of notes receivable	**125,460**	71,838
— Discounting of accounts receivable	**58,670**	15,369
Gross interest expense	**360,809**	139,253
Bank charges	**34,510**	20,739
Less: capitalised interest expense	**(3,758)**	(4,037)
Finance costs	**391,561**	155,955
Finance income:		
— Interest income on bank deposits	**(47,448)**	(51,051)
Net finance costs	**344,113**	104,904

21 INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited, as restated
	(Unaudited)	note 2(i))
Current PRC income tax	**390,828**	288,558
Deferred taxation	**(1,708)**	4,462
	389,120	293,020

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. For enterprises which were established before the issue of the new CIT Law on 16 March 2007 and were entitled to preferential treatments of reduced tax rates, 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 22% for 2010, and will be 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.

22 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 issue during the reporting period.

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited; restated as described in Note 2(i))
Profit attributable to shareholders of the Company (RMB'000)	**784,469**	638,123
Weighted average number of ordinary shares in issue ('000)	**2,308,808**	2,264,568
Basic earnings per share (RMB per share)	**0.34**	0.28

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

23 DIVIDENDS

The 2010 final dividend of RMB0.16 per share, amounting to RMB363,082 thousands in total, was approved by shareholders on 31 May 2011 and was paid before 24 August 2011 to registered shareholders of the Company on 30 May 2011, except for the holders of the 138,056,825 H shares of the Company which were allotted and issued by the Company by way of placement on 4 May 2011.

No interim dividend was proposed for the six-month period ended 30 June 2011.

24 BUSINESS COMBINATIONS

(a) Business combinations not under common control

Acquisitions during the period comprises:

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

Subsidiaries acquired	Acquired interests %
Foshan City Nanhai Pharmaceutical Group Co., Ltd.	100%
Sinopharm Holding Wuxi Co., Ltd.	70%
Shanghai Bionuo Management Co., Ltd.	70%
Sinopharm Holding Lingyun Biological Medicine Co., Ltd.	55%
Sinopharm Holding Changzhou Co., Ltd.	65%
Sinopharm Holding Heilongjiang Co., Ltd.	65%
Sinopharm Holding Le Ren Tang Pharmaceutical Co., Ltd.	60%
Sinopharm Holding Tangshan(Xintiandi) Co., Ltd.	70%
Sinopharm Holding Pingdingshan Co., Ltd.	60%
Sinopharm Holding Lishui Co., Ltd.	89%
Sinopharm Holding Taizhou Co., Ltd.	75%
Sinopharm Holding Jinhua Co., Ltd	90%
Sinopharm Suzhou Boai Pharmaceutical Co., Ltd.	70%
Sinopharm Holding Xinyu Co., Ltd.	70%
Sinopharm Holding Tianjin North Pharmaceutical Co., Ltd.	51%
Sinopharm Holding Handan Co., Ltd.	70%
Jiangsu Rundong Pharmaceutical Co., Ltd.	70%
Sinopharm Holding Putian Co., Ltd.	60%
Sinopharm Holding Longyan Co., Ltd.	60%
Fujian Huiyuan Pharmaceutical Co., Ltd.	60%
Sinopharm Holding Zhangzhou Co., Ltd.	60%
Sinopharm Holding Qingdao Co., Ltd.	100%
Liyang Guoda People Pharmacy Store Co., Ltd.	80%
Shanxi Wanmin Pharmacy Chain Store Co., Ltd.	51%
Hunan Guoda Minshengtang Pharmacy Chain Store Co., Ltd.	51%
Quanzhou Guoda Pharmacy Chain Store Co., Ltd.	51%
Henan Guoda Pharmacy Chain Store Co., Ltd.	51%

24 BUSINESS COMBINATIONS (continued)

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

In addition, the Group acquired, in February 2011, an additional 68.7% equity interests in Sinopharm Holding Xinjiang Xinte Shenrong Pharmaceutical Co., Ltd. ("Xinjiang Shenrong"), a then existing 31.3% owned associate, from an third party. After the acquisition, the Group holds 100% equity interests in Xinjiang Shenrong which became a subsidiary of the Group (Note 8).

The effect of the above acquisitions is summarised as follow:

	RMB'000
Purchase consideration	
— Cash paid	2,496,727
— Consideration payable	52,068
— Contingent consideration (note (i))	453,539
Total purchase consideration	3,002,334

24 BUSINESS COMBINATIONS (continued)

(a) 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	1,082,745	1,082,745
Property, plant and equipment	485,534	395,500
Land use rights	199,614	141,161
Investment properties	74	74
Intangible assets	947,339	719
Deferred income tax assets	11,161	11,161
Inventories	1,529,132	1,529,132
Investment in associates	7,329	7,329
Trade and other receivables	3,313,856	3,313,856
Trade and other payables	(4,608,622)	(4,608,622)
Deferred income tax liabilities	(274,046)	(269)
Other non-current liabilities	(4,094)	(4,094)
Borrowings	(1,118,835)	(1,118,835)
Net assets	1,571,187	749,857
Non-controlling interest (Note (ii))	(573,578)	
Goodwill	2,004,725	
Net assets acquired	3,002,334	
Purchase consideration settled in cash	2,496,727	
Cash and cash equivalents in subsidiaries acquired	(1,082,745)	
Cash outflow on acquisition (Note (iii))	1,413,982	

24 BUSINESS COMBINATIONS (continued)

(a) 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 above subsidiaries acquired not under common control combination.

notes —

(i) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay contingent consideration based on achievement of profit target of the acquirees. The maximum undiscounted contingent consideration payable is RMB453,539 thousands.

Based on the projected profit performance of the acquires, the fair value of the contingent consideration arrangement was estimated to be RMB453,539 thousands. As at 30 June 2011, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interest

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

(iii) Cash outflow on acquisition

Cash outflow on acquisition comprises the cash payment for these acquired entities in 2010 and the six months period ended 30 June 2011.

24 BUSINESS COMBINATIONS (continued)

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

(iv) The revenue, net profit and cash flows of these newly acquired subsidiaries from the respective acquisition dates to 30 June 2011 are summarized as follows:

	From the dates of acquisitions to 30 June 2011 RMB'000 (Unaudited)
Revenue	**5,836,995**
Net profit attributable to shareholders of the Company	**91,451**
Cash outflows from operating activities	**(19,809)**
Net cash outflows	**(52,368)**

25 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(a) Acquisition of additional interest in a subsidiary

In April 2011, the Group acquired additional 25% euity interests in Sinopharm Holding Taizhou Co., Ltd. from non-controlling interests at a consideration of RMB12,075 thousands.

The effect of changes in the ownership interest of the Group during the six months period ended 30 June 2011 is as follows:

	RMB'000
Carrying amount of non-controlling interests acquired	**10,698**
Consideration paid to non-controlling interests	**(12,075)**
Excess of consideration paid	**(1,377)**

26 COMMITMENTS

(a) Capital commitments

Capital commitments at balance sheet date are as follows:

	As at 30 June 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Property, plant and equipment:		
— contracted but not provided for	**276,703**	293,516
— authorized but not contracted for	**959,424**	868,825
Acquisition of equity interests		
— contracted but not provided for	**200,084**	451,275
— authorized but not contracted for	**378**	1,400
	1,436,589	1,615,016

(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 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Within 1 year	**315,455**	328,949
Later than 1 year and not later than 5 years	**353,016**	327,184
Later than 5 years	**71,197**	74,401
	739,668	730,534

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.

26 COMMITMENTS (continued)

(b) Operating lease commitments (continued)

(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 2011 RMB'000 (Unaudited)	As at 31 December 2010 RMB'000 (Audited)
Within 1 year	**31,286**	34,610
Later than 1 year and not later than 5 years	**99,150**	90,670
Later than 5 years	**18,226**	30,267
	148,662	155,547

27 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.

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(i) Significant transactions with related parties

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited, as restated note 2(i))
Significant transactions with related parties except for other state-owned enterprises		
CNPGC and subsidiaries of CNPGC		
Sales of goods	**14,287**	34,520
Provision of logistic service	**931**	3,062
Purchase of goods	**179,251**	92,188
Interest expenses	**3,169**	—
Purchase of fixed assets	**145**	239
Associates of the Group		
Sales of goods	**83,822**	113,628
Purchase of goods	**392,564**	262,057
The subsidiaries of entity which has significant influence over the Company		
Sales of goods	**54,231**	9,505
Purchase of goods	**11,142**	67,691

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(ii) Significant balances with related parties

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Significant balances with related parties except for other state-owned enterprises		
CNPGC and subsidiaries of CNPGC		
Trade receivables	**4,510**	2,861
Other receivables	**164**	3,155
Prepayments	**7,217**	60,944
Trade payables	**59,995**	56,356
Other payables	**6,089**	30,633
Other non-current liabilities	**793,277**	652,575
Associates of the Group		
Trade receivables	**28,792**	10,992
Other receivables	**19,566**	—
Prepayments	**194**	—
Trade payables	**407,580**	105,914
Other payables	**44**	69,827
The subsidiaries of entity which has significant influence over the Company		
Trade receivables	**21,744**	32,807
Other non-current assets	**18,522**	—
Trade payables	**10,227**	22,738

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.

28 SIGNIFICANT SUBSEQUENT EVENTS

Subsequent to 30 June 2011, the Company acquired 3 subsidiaries, with total considerations amounting to RMB142,418 thousands.

On 23 August 2011, the Company issued 30,000,000 bonds at a total par value of RMB3,000,000 thousands.