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 2012

** 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.".*

Sinopharm Group Co. Ltd. is the largest distributor of pharmaceutical and healthcare products and a leading value-added supply chain service provider in the PRC. In year 2011, we became the first pharmaceutical distributor in domestic market that achieved over RMB100 billion in sales.

Looking forward, we are confident in being the benchmark of the pharmaceutical distribution industry in the PRC and becoming an internationally recognized pharmaceutical and healthcare service provider.

Contents

Corporate Overview

Sinopharm Group Co. Ltd. (the "**Company**") and its subsidiaries (the "**Group**") has rapidly increased its market share and profits in a highly fragmented industry by taking advantage of its 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 domestic and international manufacturers of pharmaceutical and healthcare products as well as medical equipment 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 it 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, 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 coverage 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 pharmaceutical and healthcare industry in the PRC.

Corporate Information

DIRECTORS

Mr. She Lulin *(Non-executive Director and Chairman)*
Mr. Wang Qunbin *(Non-executive Director)*
Mr. Chen Wenhao *(Non-executive Director)*
Mr. Zhou Bin *(Non-executive Director)*
Mr. Chen Qiyu *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Fan Banghan *(Non-executive Director)*
Mr. Liu Hailiang *(Non-executive Director)*
Mr. Wei Yulin *(Executive Director and President)*
Mr. Wang Fanghua *(Independent Non-executive Director)*
Mr. Tao Wuping *(Independent Non-executive Director)*
Mr. Xie Rong *(Independent Non-executive Director)*
Mr. Zhou Bajun *(Independent Non-executive Director)*

SUPERVISORS

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

JOINT COMPANY SECRETARIES

Mr. Ma Wanjun
Mr. Liu Wei

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. Ma Wanjun

LEGAL ADVISERS

As to Hong Kong and United States 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 BANKS

Bank of Communications Co., Ltd.
Shanghai Branch Hongkou Sub-branch
Industrial and Commercial Bank of China Limited
Shanghai Branch Operating Department
Bank of Communications Co., Ltd.
Guangzhou Branch Operating Department
Industrial and Commercial Bank of China Limited
ICBC Guangzhou Second Sub-branch
China Merchants Bank Co., Ltd.
Shanghai Branch Nan Xi Sub-branch
Bank of China Limited
Shanghai Yangpu Sub-branch

OFFICE OF BOARD OF DIRECTORS

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

Management Discussion and Analysis

INDUSTRY OVERVIEW

For the pharmaceutical industry in China, 2012 is not just a year for deepening reform of the pharmaceutical and healthcare systems and a crucial time for building upon the progress, it is also the first year of comprehensive implementation of the plan for reforming the pharmaceutical and healthcare systems during the Twelfth Five-Year Plan period. Looking back to the past three years, five key tasks of the new medical reform had achieved their three-year goals: the national basic medical insurance had covered approximately 95% of the population; the capacity of medical and healthcare service at the primary level had been significantly enhanced; the equalization of basic public healthcare services had gained a new step forward; the national system for essential medicines had been established; and pilot projects for reforming public hospitals had been pushed forward.

Starting from 2012, reform of the pharmaceutical and healthcare systems has reached a key stage. For the pharmaceutical distribution industry, although the deepening and strengthening of the reform will bring numerous challenges to the entire industry, it at the same time nurtures more opportunities:

1) Scientific development in the pharmaceutical distribution industry has been fostered by the support of industrial policies and the new pharmaceutical and healthcare reform. In 2011, the Ministry of Commerce issued the "Twelfth Five-Year Plan" for the pharmaceutical distribution industry, which gave the enterprises in the industry a clear direction of developments and putting efforts. After one year of implementation, it is not difficult to find that adjustment of the structure of the pharmaceutical distribution industry has achieved initial success; the development of modern pharmaceutical logistics has been speeded up; and the development model has constantly innovated.

2) National medical insurance system has stimulated the increase in demand for pharmaceutical products, and the overall scale of the pharmaceutical distribution industry has increased accordingly. Since the introduction of the new pharmaceutical and healthcare reform three years ago, the Chinese government has endeavored to extend the coverage of medical insurance, and has basically achieved the goal of the national medical insurance system through increasing the input of financial resources. Based on the aforesaid factors and through government subsidies, the standard of medical insurance has also been improved accordingly. In 2011, the government subsidies for the medical insurance for urban residents and the new rural cooperative medical care system were increased from the original minimum amount of RMB120 to RMB200 per person, and such subsidies were further increased to RMB240 per person in 2012. According to the plan of the government, such figure will be further increased to RMB360 per person in 2015. The stable improvement of the level of national medical insurance and security system has released the nation-wide demand for pharmaceutical products, healthcare products and medical services and the overall scale of the pharmaceutical distribution industry will also continue to expand consequently.

3) The concentration of the industry kept increasing, and has prompted large-scale enterprises to enhance the integration ability rapidly after mergers and acquisitions. Since the introduction of the new pharmaceutical and healthcare reform, national policies encouraged the industry to integrate and urged large-scale distribution enterprise to give full play to the effect of market mechanism in order to further intensify and increase the scale of operations. The management, control and integration of regional market resources after massive mergers and acquisitions and rapid expansions and the enhancement of competitiveness became severe challenges that large-scale pharmaceutical distribution enterprises have to tackle in order to achieve sustainable developments.

4) The facts that market competition has become more orderly and the authorities in the industry have tightened the regulation have both pushed pharmaceutical distribution enterprises to continuously develop advanced logistics techniques and information technology. With an aim to strive for higher profit margin and to operate in line with the market development trends, pharmaceutical distribution enterprises have to constantly develop and utilize advanced logistics techniques and information technology in the aspects of logistics, supply chain management, sales network management, product sales management and other related services.

BUSINESS REVIEW

- **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 from manufacturers and suppliers to hospitals, other distributors, retail drug stores and other customers. As at 30 June 2012, by means of acquisitions and new establishments, the Group has expanded its distribution network to 50 distribution centers spanning 30 provinces, municipalities and autonomous regions in China. Apart from continuously consolidating its leading position in first-tier cities, the Group also exerted its effort to extend its coverage in second and third tier cities to achieve a total coverage of 178 cities in order to provide products and services to all customers in China in a timely and efficient manner. The Group's direct customers included 9,993 hospitals (including 1,312 largest and most highly-ranked class-three hospitals), accounting for approximately 74.01% of all hospitals in China (and approximately 93.78% of the class-three hospitals), and over 120,878 other customers, such as pharmaceutical distributors, retail pharmacies and other medical and healthcare institutions.

- **Retail pharmacy segment:** The Group has a network of retail pharmacies that are either directly operated by the Group or through franchises in major cities throughout China. As at 30 June 2012, the number of retail pharmacies of the Group was 1,801, among which 1,637 were directly operated by the Group and 164 were operated through franchises.

- **Other business operations segment:** The Group's other business operations include the production and sale of pharmaceutical products, healthcare products, chemical reagents, and laboratory supplies. For the six months ended 30 June 2012, revenue generating from other business operations accounted for 2.86% of the total revenue of the Group.

FINANCIAL SUMMARY

The financial summary set out below is extracted from the unaudited interim results of the Group for the six months ended 30 June 2012 (the "**Reporting Period**") prepared in accordance with the Hong Kong Financial Reporting Standards:

During the Reporting Period, the Group recorded turnover of RMB66,562.30 million, representing an increase of RMB18,562.23 million, or 38.67%, as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded net profit of RMB1,529.25 million, representing an increase of RMB326.04 million, or 27.10%, as compared with the corresponding period of last year. Profit attributable to equity holders was RMB959.12 million, representing an increase of RMB174.65 million, or 22.26%, as compared with the corresponding period of last year.

During the Reporting Period, the earnings per share of the Group was RMB0.40, representing an increase of 17.65% as compared with the corresponding period of last year.

Unit: RMB million

	1st half of 2012	1st half of 2011	Increase/ (decrease)
Operating results			
Revenue	66,562.30	48,000.07	18,562.23
Earnings before interests and tax	2,635.99	1,936.44	699.55
Profit attributable to shareholders	959.12	784.47	174.65
Profitability			
Gross profit margin	8.19%	8.17%	0.02%
Operating profit margin	3.88%	3.80%	0.08%
Net profit margin	2.30%	2.51%	(0.21%)
Earnings per share – Basic	0.40	0.34	0.06
Asset position			
Total assets	75,515.36	58,164.99	17,350.37
Equity attributable to equity holders of the Company	16,188.49	14,967.30	1,221.19
Total gearing ratio	71.49%	67.11%	4.38%
Cash and cash equivalents	10,284.52	10,172.45	112.07
Key operational indicators			
Trade receivables turnover ratio (days)	86	82	4
Inventory turnover ratio (days)	35	34	1
Trade payables turnover ratio (days)	89	88	1
Current ratio	1.34	1.36	(0.02)

Revenue

The Group's revenue increased by 38.67% from RMB48,000.07 million for the six months ended 30 June 2011 to RMB66,562.30 million during the Reporting Period. The increase was 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 40.10% from RMB44,888.26 million for the six months ended 30 June 2011 to RMB62,889.35 million during the Reporting Period, accounting for 94.48% of its total revenue. The increase was primarily due to the further expansion of the pharmaceutical distribution network, the rapid growth of the existing distribution network and a remarkable growth of the industry.

- **Retail pharmacy segment:** The Group's revenue from retail pharmacy operations increased by 29.21% from RMB1,368.94 million for the six months ended 30 June 2011 to RMB1,768.82 million during the Reporting Period, accounting for 2.66% of its total revenue. The increase was mainly due to the business growth of existing pharmacies, the expansion of retail pharmacy network and the growth of sales stimulated by the acquisition of retail stores and companies in 2011.

- **Other business operations segment:** The Group's revenue from other business operations increased by 9.25% from RMB1,742.87 million for the six months ended 30 June 2011 to RMB1,904.13 million during the Reporting Period, accounting for 2.86% of its total revenue. The increase was mainly due to the growth of pharmaceutical manufacturing operations, chemical reagent operations and laboratory supplies business of the Group.

Cost of Sales

The Group's cost of sales increased by 38.63% from RMB44,080.25 million for the six months ended 30 June 2011 to RMB61,108.88 million during the Reporting Period, which was primarily due to the increase in the revenue from sales which led to the increase in cost of sales.

Gross Profit

As a result of the foregoing, the Group's gross profit increased by 39.12% from RMB3,919.82 million for the six months ended 30 June 2011 to RMB5,453.42 million during the Reporting Period.

The Group's gross profit margins were 8.19% and 8.17% for the six months ended 30 June 2012 and the corresponding period in 2011, respectively.

Other Income

Other income of the Group increased by 81.54% from RMB58.79 million for the six months ended 30 June 2011 to RMB106.73 million during the Reporting Period. The increase was primarily due to the increase in subsidies provided by the central and local governments to the Group.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 34.43% from RMB1,317.40 million for the six months ended 30 June 2011 to RMB1,770.92 million during the Reporting Period. The increase in distribution and selling expenses was primarily due to the scale enlargement, business development, expansion of distribution network and further growth of the business of direct sales to hospitals of the Group.

General and Administrative Expenses

The Group's general and administrative expenses increased by 44.12% from RMB839.39 million for the six months ended 30 June 2011 to RMB1,209.69 million during the Reporting Period, of which, the increase in scale of sales and the surge in accounts receivable of the Group led to an increase in provision for bad debts of RMB74.88 million; other general and administrative expenses increased by RMB295.42 million, or 35.58%, as compared with the corresponding period of 2011.

Operating Profit

As a result of the foregoing, the Group's operating profit was RMB2,579.54 million during the Reporting Period, representing an increase of 41.59% from RMB1,821.82 million for the six months ended 30 June 2011.

Other Gains – Net

Other net gains of the Group decreased by 113.01% from RMB69.43 million for the six months ended 30 June 2011 to RMB-9.03 million during the Reporting Period, mainly due to the diminishing gains from the disposal of fixed assets of the Group.

Financial Costs – Net

The Group's financial costs increased by 80.20% from RMB344.11 million for the six months ended 30 June 2011 to RMB620.07 million during the Reporting Period. The increase was mainly due to the increase in interest expense resulting from the increase in interest bearing liabilities of the Group.

Share of Results of Associated Companies

The Group's share of results of associated companies increased by 44.92% from RMB45.19 million for the six months ended 30 June 2011 to RMB65.49 million during the Reporting Period.

Income Tax Expenses

The Group's income tax expenses increased by 25.07% from RMB389.12 million for the six months ended 30 June 2011 to RMB486.68 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 decreased from 24.44% for the six months ended 30 June 2011 to 24.14% for the six months ended 30 June 2012.

Profit for the Reporting Period

As a result of the foregoing, the Group's profit increased by 27.10% from RMB1,203.21 million for the six months ended 30 June 2011 to RMB1,529.25 million for the Reporting Period.

Profit Attributable to Equity Holders of the Company

Net profit attributable to equity holders of the Company increased by 22.26%, or RMB174.65 million, from RMB784.47 million for the six months ended 30 June 2011 to RMB959.12 million during the Reporting Period. The net profit margins attributable to equity holders of the Company for the Reporting Period and corresponding period of 2011 were 1.44% and 1.63% respectively.

Minority Interests

The Company's minority interests increased by 36.15% from RMB418.74 million for the six months ended 30 June 2011 to RMB570.13 million during the Reporting Period.

Cash Flows

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

Net cash generated from/used in operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of products and services in its pharmaceutical distribution, retail pharmacy and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB516.35 million, as compared to the net cash used in operating activities of RMB1,366.81 million for the six months ended 30 June 2011, which was primarily due to the strengthening of the planning and balanced management of operational cash flow by the Group in the Reporting Period.

Net cash used in investing activities

The Group's net cash used in investing activities amounted to RMB970.88 million during the Reporting Period, representing a decrease of RMB562.78 million as compared to net cash used in investing activities of RMB1,533.66 million for the six months ended 30 June 2011, mainly due to the decrease in the scale of acquisition of the Group during the Reporting Period as compared with the same period last year.

Net cash used in/generated from financing activities

The Group's net cash used in financing activities amounted to RMB2,351.96 million during the Reporting Period, as compared to net cash generated from financing activities of RMB5,598.22 million for the six months ended 30 June 2011. The main reason is that the Group did not carry out large-scale financing activities during the Reporting Period.

Capital Structure

Indebtedness

Among the total borrowings of the Group as at 30 June 2012, RMB9,223.56 million was due within one year and RMB5,228.74 million was due after one year. During the Reporting Period, the Group did not experience any difficulty in renewing its bank loans with its lenders.

Gearing ratio

As at 30 June 2012, the Group's gearing ratio was 71.49% (30 June 2011: 67.11%), calculated as net liabilities divided by the aggregate of total assets and net liabilities as at 30 June 2012. Such increase was mainly due to the increase in liabilities of the Group.

Foreign Exchange Risk

The uncertainties of foreign currency exchange rate will not cause significant foreign currency exchange risks to the Group.

Charge on Assets

As at 30 June 2012, certain plants and equipment of the Group with book value of RMB92 million, notes receivable with book value of RMB66 million and trade receivables with book value of RMB2,597 million were pledged as collateral for part of the Group's bank borrowings.

Capital Expenditures

The capital expenditures of the Group primarily included purchases through business combination or acquisition activities and direct purchases of property, plant and equipment, leasing of land, obtaining of land use rights and intangible assets. The Group's capital expenditures amounted to RMB1,368.59 million and RMB4,087.54 million for the Reporting Period and the six months ended 30 June 2011, 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 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 cash flow 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.

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 OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2012, none of the directors (the "**Directors**"), supervisors (the "**Supervisors**") and the chief executive of the Company and their respective associates had any interests or 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 (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange in accordance with Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions they have or deemed to have pursuant to the relevant provisions of the SFO), or which were 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**") as set out 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 2012, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/short position/shares available for lending
CNPGC	Domestic shares	Beneficial owner	2,728,396 (Note 2)	0.11	0.17	Long position
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 2)	65.41	99.83	Long position
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	65.41	99.83	Long position

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/short position/shares available for lending
Qishen Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 3)	65.41	99.83	Long position
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 4)	65.41	99.83	Long position
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 5)	65.41	99.83	Long position
Fosun Company	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 6)	65.41	99.83	Long position
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 7)	65.41	99.83	Long position
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 8)	65.41	99.83	Long position
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 9)	65.41	99.83	Long position
National Social Security Fund	H shares	Beneficial owner	62,753,102	2.61	7.58	Long position
Capital Research and Management Company	H shares	Investment manager	42,110,000	1.75	5.08	Long position
BlackRock, Inc.	H shares	Interest of controlled corporation (Note 10)	66,834,542	2.78	8.07	Long position
			4,581,051	0.19	0.55	Short position

Name	Class of shares	Nature of interest	Number of shares held	Approximate percentage of the total number of shares of the Company (%)	Approximate percentage of the relevant class of shares (%)	Long position/short position/shares available for lending
Government of Singapore Investment Corporation Pte Ltd	H shares	Investment manager	50,604,400	2.11	6.11	Long position
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	40,648,000	1.69	4.91	Long position
JPMorgan Chase & Co.	H shares	Beneficial owner,	59,873,541	2.49	7.23	Long position
		Investment manager,	3,939,200	0.16	0.48	Short position
		Custodian corporation/ approved lending agent (Note 11)	47,197,442	1.96	5.70	Shares available for lending
Matthews International Capital Management, LLC	H shares	Investment manager	58,518,800	2.44	7.06	Long position
The Goldman Sachs Group, Inc.	H shares	Interest of controlled corporation (Note 12)	42,152,388	1.75	5.09	Long position
			33,949,941	1.41	4.10	Short position

Notes:

(1) Such 1,571,555,953 domestic shares belong to the same batch of shares.

(2) CNPGC is directly interested in 2,728,396 domestic shares and indirectly interested in 1,571,555,953 domestic shares through Sinopharm Investment (as CNPGC owns a 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO).

(3) Qishen Company is the beneficial owner of the 49% equity interest in Sinopharm Investment and, therefore, Qishen Company is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(4) Fosun Pharma is the beneficial owner of 100% equity interest in Qishen Company and, therefore, Fosun Pharma is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(5) Fosun High Technology is the beneficial owner of the 49.03% equity interest in Fosun Pharma and, therefore, Fosun High Technology is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(6) Fosun Company is the beneficial owner of 100% equity interest in Fosun High Technology and, therefore, Fosun Company is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(7) Fosun Holdings is the beneficial owner of the 78.24% equity interest in Fosun Company and, therefore, Fosun Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(8) Fosun International Holdings is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore, Fosun International Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(9) Mr. Guo Guangchang is the beneficial owner of the 58% equity interest in Fosun International Holdings and the 0.006% equity interest in Fosun Pharma and, therefore, Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.

(10) BlackRock, Inc. is indirectly interested in long position of 66,834,542 H shares and short position of 4,581,051 H shares of the Company through a series of controlled corporations.

(11) JPMorgan Chase & Co. is the beneficial owner of long position of 11,723,299 H shares of the Company and short position of 3,930,000 H shares of the Company, and is also indirectly interested in long position of 48,150,242 H shares and short position of 9,200 H shares of the Company through a series of controlled corporations.

(12) The Goldman Sachs Group, Inc. is indirectly interested in long position of 42,152,388 H shares and short position of 33,949,941 H shares of the Company through a series of controlled corporations.

Save as disclosed above, to the best knowledge of the Directors, as at 30 June 2012, no person (other than the Directors, Supervisors or the chief executive) had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of its listed securities.

DIVIDENDS

Pursuant to the relevant resolution passed by the shareholders of the Company at the 2011 annual general meeting convened on 5 June 2012, the Company has paid the final dividend for the year ended 31 December 2011 to the shareholders on 20 July 2012, totalling approximately RMB456,498,807.

The board of directors of the Company (the "**Board**") does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

SUBSEQUENT EVENTS

Pursuant to the relevant special resolution passed at the extraordinary general meeting of the Company convened on 3 August 2012, the Company will issue the corporate bonds with a principal amount not exceeding RMB8,000,000,000 in the PRC. As at the date of this interim report, the issue of such corporate bonds has not been approved by the relevant regulatory authorities of the PRC. (For details please refer to the relevant announcements of the Company dated 7 June and 17 July 2012.)

The term of office of Mr. Zhou Bajun, an independent non-executive Director, expired on 18 August 2012. At the extraordinary general meeting of the Company convened on 3 August 2012, Mr. Zhou Bajun was re-elected as an independent non-executive Director of the Second Session of the Board, with a term commencing on 19 August 2012 and ending upon the expiry of the term of office of the Second Session of the Board. (For details please refer to the circular of the Company dated 19 July 2012.)

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 unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2012 and agreed on the accounting treatment adopted by the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE SET OUT IN APPENDIX 14 TO THE LISTING RULES

The Company has adopted all the code provisions contained in the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules as the Company's code on corporate governance. During the Reporting Period, save as disclosed below, the Company had complied with the code provisions set out in the Code as well as the Code on Corporate Governance Practices which was in force before 1 April 2012.

According to the relevant amendments in the Code which took effect on 1 April 2012, the Board is currently considering the purchase of liability insurance for the Directors and will put it into effect as soon as possible.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the code of conduct of the Company regarding the transactions of the listed securities of the Company by the Directors and Supervisors. Having made specific enquiry of all the Directors and Supervisors, all of them confirmed that they had complied with the required standard regarding securities transactions by the Directors and Supervisors as set out in the Model Code throughout the Reporting Period.

DISCLOSURE OF INFORMATION

This report will be dispatched to the 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).

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 22 to 58, 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 2012 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
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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, 22 August 2012

Condensed Consolidated Interim Income Statement

(All amounts in Renminbi thousands unless otherwise stated)

	Note	Six months ended 30 June 2012 (Unaudited)	2011 (Unaudited)
Revenue	7	**66,562,297**	48,000,067
Cost of sales	10	**(61,108,881)**	(44,080,246)
Gross profit		**5,453,416**	3,919,821
Other income	8	**106,726**	58,793
Distribution and selling expenses	10	**(1,770,915)**	(1,317,404)
General and administrative expenses	10	**(1,209,688)**	(839,391)
Operating profit		**2,579,539**	1,821,819
Other (losses)/gains – net	9	**(9,033)**	69,431
Finance income		**54,104**	47,448
Finance costs		**(674,175)**	(391,561)
Finance costs – net	12	**(620,071)**	(344,113)
Share of post-tax profits of associates		**65,486**	45,193
Profit before income tax		**2,015,921**	1,592,330
Income tax expense	13	**(486,675)**	(389,120)
Profit for the period		**1,529,246**	1,203,210
Attributable to:			
– Shareholders of the Company		**959,121**	784,469
– Non-controlling interests		**570,125**	418,741
		1,529,246	1,203,210
Earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share)			
– Basic and fully diluted	14	**0.40**	0.34
Dividends	15	**456,499**	363,082

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	
	2012	2011
	(Unaudited)	(Unaudited)
Profit for the period	**1,529,246**	1,203,210
Other comprehensive income:		
Revaluation for available-for-sale financial assets	**3,574**	(5,778)
Remeasurement on post-employment benefit obligation	**(1,015)**	–
Currency translation differences	**293**	(445)
Other comprehensive income for the period, net of tax	**2,852**	(6,223)
Total comprehensive income for the period	**1,532,098**	1,196,987
Total comprehensive income for the period attributable to:		
– Shareholders of the Company	**961,225**	781,481
– Non-controlling interests	**570,873**	415,506
	1,532,098	1,196,987

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

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
ASSETS			
Non-current assets			
Land use rights	16	**1,002,649**	932,511
Investment properties	16	**151,370**	154,069
Property, plant and equipment	16	**4,714,044**	4,430,655
Intangible assets	16	**5,359,939**	4,642,436
Investments in associates	17	**656,110**	670,829
Available-for-sale financial assets		**200,050**	58,036
Deferred income tax assets		**292,338**	283,977
Other non-current assets		**198,100**	222,278
Total non-current assets		**12,574,600**	11,394,791
Current assets			
Inventories		**11,489,862**	12,214,060
Trade receivables	18	**36,295,716**	26,591,821
Prepayments and other receivables		**3,409,169**	3,136,486
Available-for-sale financial assets		**1,163**	1,163
Pledged bank deposits		**1,460,328**	1,198,519
Cash and cash equivalents		**10,284,522**	13,091,012
Total current assets		**62,940,760**	56,233,061
Total assets		**75,515,360**	67,627,852
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	19	**2,402,625**	2,402,625
Reserves		**13,785,865**	13,271,224
		16,188,490	15,673,849
Non-controlling interests		**5,339,853**	4,714,237
Total equity		**21,528,343**	20,388,086

Condensed Consolidated Interim Balance Sheet

(All amounts in Renminbi thousands unless otherwise stated)

	Note	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	20	**5,228,735**	5,182,353
Deferred income tax liabilities		**582,903**	517,551
Post-employment benefit obligations	21	**419,945**	435,451
Other non-current liabilities	22	**726,184**	812,851
Total non-current liabilities		**6,957,767**	6,948,206
Current liabilities			
Trade payables	23	**32,492,625**	27,053,995
Accruals and other payables		**4,511,622**	4,269,641
Dividends payable		**533,994**	12,106
Current income tax liabilities		**267,454**	289,033
Borrowings	20	**9,223,555**	8,666,785
Total current liabilities		**47,029,250**	40,291,560
Total liabilities		**53,987,017**	47,239,766
Total equity and liabilities		**75,515,360**	67,627,852
Net current assets		**15,911,510**	15,941,501
Total assets less current liabilities		**28,486,110**	27,336,292

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	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2012	**2,402,625**	**10,782,917**	**2,488,307**	**15,673,849**	**4,714,237**	**20,388,086**
Total comprehensive income	**–**	**2,104**	**959,121**	**961,225**	**570,873**	**1,532,098**
Effects of transaction with non-controlling interests	**–**	**24,356**	**(14,212)**	**10,144**	**(2,754)**	**7,390**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**150,710**	**150,710**
Capital injection from non-controlling shareholders of subsidiaries	**–**	**–**	**–**	**–**	**89,786**	**89,786**
Other changes in shareholding of non-controlling interests of subsidiaries	**–**	**–**	**–**	**–**	**(26,173)**	**(26,173)**
Dividends	**–**	**–**	**(456,499)**	**(456,499)**	**(157,297)**	**(613,796)**
Others	**–**	**(229)**	**–**	**(229)**	**471**	**242**
As at 30 June 2012	**2,402,625**	**10,809,148**	**2,976,717**	**16,188,490**	**5,339,853**	**21,528,343**

	Unaudited					
	Attributable to shareholders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
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

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	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from operating activities – net	**516,349**	(1,366,805)
Cash flows from investing activities – net	**(970,878)**	(1,533,658)
Cash flows from financing activities – net	**(2,351,961)**	5,598,217
Net (decrease)/increase in cash and cash equivalents	**(2,806,490)**	2,697,754
Cash and cash equivalents at beginning of period	**13,091,012**	7,474,698
Cash and cash equivalents at end of period	**10,284,522**	10,172,452

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

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 22 August 2012.

This condensed consolidated interim financial information has not been audited.

Key events

During the six month period ended 30 June 2012, the Group acquired equity interests in certain subsidiaries from third parties with a total consideration amounting to approximately RMB803,606 thousands. Further details are given in Note 25.

2 BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2012 have 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 2011, which have been prepared in accordance with HKFRSs.

(i) 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 condensed consolidated interim 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 2011, as described in those annual financial statements.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 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)

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is still assessing HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 2011.

(All amounts in Renminbi thousands unless otherwise stated)

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 2011.

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
As at 30 June 2012 (Unaudited)					
Borrowings	**9,223,555**	**2,131,482**	**3,097,253**	**–**	**14,452,290**
Interests payments on borrowings (Note)	**521,342**	**269,731**	**51,786**	**–**	**842,859**
Trade and other payables	**36,608,272**	**–**	**–**	**–**	**36,608,272**
	46,353,169	**2,401,213**	**3,149,039**	**–**	**51,903,421**
As at 31 December 2011 (Audited)					
Borrowings	8,666,785	46,058	5,022,581	113,714	13,849,138
Interests payments on borrowings (Note)	448,723	282,177	179,787	5,646	916,333
Trade and other payables	30,643,324	–	–	–	30,643,324
	39,758,832	328,235	5,202,368	119,360	45,408,795

Note: Interest is based on borrowings as at 30 June 2012 and 31 December 2011 and the interest rate as at 30 June 2012 and 31 December 2011.

(All amounts in Renminbi thousands unless otherwise stated)

5 FINANCIAL RISK MANAGEMENT (continued)

(iii) Fair value estimation

The table below analyzed financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2012 and 31 December 2011.

	Level 1	Level 2	Level 3	Total
At 30 June 2012 (Unaudited)				
Available-for-sale financial assets	**33,094**	**168,119**	**–**	**201,213**
At 31 December 2011 (Audited)				
Available-for-sale financial assets	28,330	30,869	–	59,199

In 2012, except for that the Group additionally invested RMB153,000 thousands in unlisted equity interests of certain entities which are classified in level 2, there were no other material changes in the financial instruments carried at fair value.

There were no significant transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

6 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the general manager and the executives at the general manager office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following three business types in the PRC:

(1) Pharmaceutical distribution – distribution of medicine, 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, 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.

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (continued)

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

(i) For the six months period ended 30 June 2012 and 2011

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
Six months ended 30 June 2012 (Unaudited)					
Segment results					
External segment revenue	62,889,352	1,768,819	1,904,126	–	66,562,297
Inter-segment revenue	482,165	–	108,020	(590,185)	–
Revenue	63,371,517	1,768,819	2,012,146	(590,185)	66,562,297
Operating profit	2,241,239	82,504	259,059	(3,263)	2,579,539
Other gains/(losses)	4,094	608	(13,735)	–	(9,033)
Share of post-tax profits of associates	3,347	666	61,473	–	65,486
	2,248,680	83,778	306,797	(3,263)	2,635,992
Finance costs – net					(620,071)
Profit before income tax					2,015,921
Income tax expense					(486,675)
Profit for the period					1,529,246
Other segment items included in the income statement					
Provision for impairment of trade and other receivables	81,844	177	1,877		83,898
Provision for impairment of inventories	9,215	30	175		9,420
Amortisation of land use rights	10,184	101	1,916		12,201
Depreciation of property, plant and equipment	122,710	26,369	38,209		187,288
Depreciation of investment properties	–	–	5,037		5,037
Amortisation of intangible assets	51,600	754	12,404		64,758
Capital expenditures	1,297,934	25,052	45,608		1,368,594

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (continued)

(i) For the six months period ended 30 June 2012 and 2011 (continued)

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
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	3,144	2,189	39,860	–	45,193
	1,686,494	37,153	213,702	(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	3,994,608	36,719	56,217		4,087,544

(All amounts in Renminbi thousands unless otherwise stated)

6 SEGMENT INFORMATION (continued)

(ii) As at 30 June 2012 and 31 December 2011

	Pharmaceutical distribution	Retail pharmacy operations	Other business operations	Elimination	Group
As at 30 June 2012 (Unaudited)					
Segment assets and liabilities					
Segment assets	**72,046,600**	**1,564,114**	**4,278,004**	**(2,665,696)**	**75,223,022**
Segment assets include:					
Investments in associates	**3,302**	**8,986**	**643,822**	**–**	**656,110**
Unallocated assets					
– Deferred income tax assets					**292,338**
Total assets					**75,515,360**
Segment liabilities	**37,878,361**	**830,733**	**1,519,337**	**(1,276,607)**	**38,951,824**
Unallocated liabilities – Borrowings and deferred income tax liabilities					**15,035,193**
Total liabilities					**53,987,017**
As at 31 December 2011 (Audited)					
Segment assets and liabilities					
Segment assets	64,025,103	1,044,854	4,408,535	(2,134,617)	67,343,875
Segment assets include:					
Investments in associates	28,926	8,930	632,973	–	670,829
Unallocated assets					
– Deferred income tax assets					283,977
Total assets					67,627,852
Segment liabilities	31,902,135	808,773	1,506,441	(1,344,272)	32,873,077
Unallocated liabilities – Borrowings and deferred income tax liabilities					14,366,689
Total liabilities					47,239,766

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

(All amounts in Renminbi thousands unless otherwise stated)

7 REVENUE

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Sales of goods	**66,456,754**	47,910,516
Rental income	**31,111**	36,954
Franchise fees from medicine chain stores	**13,404**	12,189
Consulting income	**41,828**	29,100
Import agency income	**19,200**	11,308
	66,562,297	48,000,067

8 OTHER INCOME

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Government grants (note)	**106,726**	58,793

Note: Government grants mainly represented subsidy income provided by government authorities to certain subsidiaries.

9 OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Gain on disposal of subsidiaries	**6,793**	–
Gain on disposal of land use rights and property, plant and equipment	**2,198**	58,546
Foreign exchange (loss)/gain – net	**(8,292)**	1,022
Write-back of certain liabilities	**267**	10,718
Gain on revaluation of contingent consideration	**7,532**	–
Compensation	**(17,600)**	–
Others – net	**69**	(855)
	(9,033)	69,431

(All amounts in Renminbi thousands unless otherwise stated)

10 EXPENSES BY NATURE

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Raw materials and trading merchandise consumed	**61,128,744**	44,141,774
Changes in inventories of finished goods and work in progress	**(107,894)**	(141,357)
Employee benefit expenses (Note 11)	**1,327,212**	966,791
Provision for impairment of trade receivables	**81,956**	7,886
Provision for impairment of other receivables	**1,942**	1,130
Provision for impairment of inventories	**9,420**	2,468
Operating leases in respect of leasehold land and buildings	**247,957**	159,325
Depreciation of property, plant and equipment (Note 16)	**187,288**	146,343
Depreciation of investment properties (Note 16)	**5,037**	6,243
Amortisation of intangible assets (Note 16)	**64,758**	58,259
Amortisation of land use rights (Note 16)	**12,201**	11,192
Auditors' remuneration	**10,189**	5,071
Advisory and consulting fees	**35,482**	24,962
Transportation expenses	**217,354**	161,301
Travel expenses	**92,965**	74,399
Promotion and advertising expenses	**419,134**	288,945
Utilities	**46,755**	34,469
Others	**308,984**	287,840
Total cost of sales, distribution and selling expenses and general and administrative expenses	**64,089,484**	46,237,041

(All amounts in Renminbi thousands unless otherwise stated)

11 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Salaries, wages and bonuses	**1,033,983**	748,938
Contributions to pension plans (i)	**96,444**	78,705
Post-employment benefits (Note 21)	**10,593**	12,147
Housing benefits (ii)	**33,604**	28,945
Other benefits (iii)	**152,588**	98,056
	1,327,212	966,791

Notes:

(i) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in Mainland China. The Group also contributes to another retirement scheme managed by an individual assurance company for the employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 7% to 10% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 28% of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

(ii) Housing benefits represent contribution to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

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

(All amounts in Renminbi thousands unless otherwise stated)

12 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Interest expense:		
– Borrowings	**434,272**	176,679
– Discounting of notes receivable	**98,798**	125,460
– Discounting of accounts receivable	**101,047**	58,670
Gross interest expense	**634,117**	360,809
Bank charges	**52,735**	34,510
Less: capitalised interest expense	**(12,677)**	(3,758)
Finance costs	**674,175**	391,561
Finance income:		
– Interest income on bank deposits	**(54,104)**	(47,448)
Net finance costs	**620,071**	344,113

13 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Current PRC income tax	**508,359**	390,828
Deferred taxation	**(21,684)**	(1,708)
	486,675	389,120

Effective from 1 January 2008, income tax rates for all PRC enterprises have been unified at 25%. 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.

14 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	
	2012	2011
	(Unaudited)	(Unaudited)
Profit attributable to shareholders of the Company (RMB'000)	**959,121**	784,469
Weighted average number of ordinary shares in issue ('000)	**2,402,625**	2,308,808
Basic earnings per share (RMB per share)	**0.40**	0.34

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

15 DIVIDENDS

The final dividend for year 2011 of RMB0.19 per share (tax inclusive), amounting to RMB456,499 thousands in total, was approved by the shareholders on 5 June 2012 and was paid on 20 July 2012 to the shareholders whose names appeared on the register of members of the Company on 16 June 2012.

No interim dividend was proposed for the six-month period ended 30 June 2012.

(All amounts in Renminbi thousands unless otherwise stated)

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

	Land use rights	Investment properties	Property, plant and equipment	Intangible assets
Six months ended 30 June 2012 (Unaudited)				
Opening net carrying amount as at 1 January 2012	**932,511**	**154,069**	**4,430,655**	**4,642,436**
Additions	**74,499**	**–**	**438,623**	**10,426**
Acquisition of subsidiaries (Note 25)	**13,891**	**–**	**57,951**	**773,204**
Transfer	**–**	**2,634**	**(2,634)**	**–**
Disposals	**(6,051)**	**(296)**	**(23,263)**	**(1,369)**
Depreciation or amortization (Note 10)	**(12,201)**	**(5,037)**	**(187,288)**	**(64,758)**
Closing net carrying amount as at 30 June 2012	**1,002,649**	**151,370**	**4,714,044**	**5,359,939**
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	199,614	74	485,534	2,952,064
Transfer	–	3,231	(3,231)	–
Disposals	–	(673)	(28,392)	–
Depreciation or amortization (Note 10)	(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

(All amounts in Renminbi thousands unless otherwise stated)

17 INVESTMENTS IN ASSOCIATES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Share of net assets	575,381	585,867
Goodwill	80,729	84,962
End of the period/year	656,110	670,829

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Beginning of the period	670,829	486,412
Acquisitions	–	7,329
Share of post-tax profit	65,486	45,193
Unrealized profit in transaction with associates	–	6,390
Dividends declared by associates attributable to the Group	(50,637)	(47,902)
Reclassified to subsidiaries upon gaining control over invested companies	(29,568)	(5,335)
End of the period	656,110	492,087

18 TRADE RECEIVABLES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Accounts receivable	34,060,971	24,463,832
Notes receivable	2,606,051	2,417,433
	36,667,022	26,881,265
Less: Provision for impairment	(371,306)	(289,444)
	36,295,716	26,591,821

The fair values of trade receivables approximate their carrying amounts.

(All amounts in Renminbi thousands unless otherwise stated)

18 TRADE RECEIVABLES (continued)

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 2012 (Unaudited)	As at 31 December 2011 (Audited)
Below 3 months	**25,281,007**	20,482,995
3 to 6 months	**7,867,476**	4,094,860
6 months to 1 year	**3,278,436**	2,206,129
1 to 2 years	**200,103**	64,512
Over 2 years	**40,000**	32,769
Total	**36,667,022**	26,881,265

The trade receivables are denominated in RMB.

19 SHARE CAPITAL

	Number of shares	**Domestic shares with par value of RMB1 per share**	**H Shares with par value of RMB1 per share**	**Total**
As at 1 January 2012 and 30 June 2012	2,402,625	1,574,284	828,341	2,402,625

(All amounts in Renminbi thousands unless otherwise stated)

20 BORROWINGS

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Non-current		
Bank borrowings	261,225	221,697
Bond	4,967,510	4,960,656
	5,228,735	5,182,353
Current		
Bank borrowings	9,223,555	8,666,785
Total borrowings	14,452,290	13,849,138

At respective balance sheet dates, borrowings were repayable as follows:

	Bank borrowings		Bond	
	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Within 1 year	9,223,555	8,666,785	–	–
Between 1 to 2 years	143,875	46,058	1,987,607	–
Between 2 to 5 years	117,350	61,925	2,979,903	4,960,656
Over 5 years	–	113,714	–	–
	9,484,780	8,888,482	4,967,510	4,960,656

(All amounts in Renminbi thousands unless otherwise stated)

20 BORROWINGS (continued)

Movements in borrowings are as follows:

Six months ended as at 30 June 2012 (Unaudited)	
Opening balance at 1 January 2012	**13,849,138**
Additions from acquisition of subsidiaries (Note 25)	**97,083**
Other increase in borrowings	**10,466,296**
Amortised bond issuance expense	**6,854**
Repayment of borrowings	**(9,967,081)**
Closing balance as at 30 June 2012	**14,452,290**

Six months ended 30 June 2011 (Unaudited)	
Opening balance at 1 January 2011	3,435,082
Additions from acquisition of subsidiaries	1,118,835
Issue of bond	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

Interest expense on borrowings and loans for the six months ended 30 June 2012 is approximately RMB434,272 thousands (For the six months ended 30 June 2011: RMB176,679 thousands) (Note 12).

During the six months ended 30 June 2012, borrowings under the trading financing programs were amount to RMB2,670,121 thousands. As at 30 June 2012, all these borrowings had been repaid to banks.

(All amounts in Renminbi thousands unless otherwise stated)

21 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	
	2012	2011
	(Unaudited)	(Unaudited)
Current service cost	**2,106**	1,861
Past service cost	**492**	2,651
Interest cost	**7,995**	8,055
Remeasurement	**–**	(420)
Total expenses, included in staff costs	**10,593**	12,147

The amounts recognized in the consolidated balance sheet are analyzed below:

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Present value of funded obligations	**15,287**	14,977
Fair value of plan assets	**(8,994)**	–
Deficit of funded plans	**6,293**	14,977
Present value of unfunded post-employment benefit obligations	**413,652**	420,474
Liability in the balance sheet	**419,945**	435,451

(All amounts in Renminbi thousands unless otherwise stated)

22 OTHER NON-CURRENT LIABILITIES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Medical reserve funds (i)		
– general	318,263	336,972
– for 2009 H1N1 vaccines	67,495	273,272
Office relocation funds (ii)	156,038	47,548
Government grants for construction of logistic centers (iii)	49,010	43,107
Government grants for products development	29,753	27,710
Others	105,625	84,242
	726,184	812,851

(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 responding 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 2012, 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 centres. As at 30 June 2012, such constructions will not be completed within one year and therefore, the balance is recorded as other non-current liabilities.

(All amounts in Renminbi thousands unless otherwise stated)

23 TRADE PAYABLES

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Accounts payable	25,767,791	20,224,416
Notes payable	6,724,834	6,829,579
	32,492,625	27,053,995

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 2012 (Unaudited)	As at 31 December 2011 (Audited)
Below 3 months	26,263,097	23,076,124
3 to 6 months	3,666,487	1,886,778
6 months to 1 year	2,110,331	1,656,735
1 to 2 years	258,499	230,915
Over 2 years	194,211	203,443
	32,492,625	27,053,995

24 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of additional interest in subsidiaries

During the period, the Group acquired following additional interests in subsidiaries from non-controlling interests:

Subsidiaries	Acquired interests Acquired %	Cash consideration
Zhejiang Intlmedicine Drugstore Co., Ltd.	39	5,377
Sinopharm Holding Suzhou Boai Pharmaceutical Co., Ltd.	30	11,523
Sinopharm Holding Wulanchabu Co., Ltd.	19	1,950
		18,850

(All amounts in Renminbi thousands unless otherwise stated)

24 TRANSACTIONS WITH NON-CONTROLLING INTERESTS (continued)

(a) Acquisition of additional interest in subsidiaries (continued)

The effect of changes in the ownership interest of the these subsidiaries on the total equity of the Group during the period is summarised as follows:

	Effect on the total equity
Carrying amount of non-controlling interests acquired	1,869
Consideration paid to non-controlling interests	18,850
Excess of consideration paid	16,981

(b) Disposal of interest in subsidiaries without loss of control

During the period, the Group reduced equity interests in Sinopharm Holding Hebei Pharmaceutical Co., Ltd., Sinopharm Holding Handan Co., Ltd., Sinopharm Holding Tangshan Xintiandi Co., Ltd., Guangxi Wuzhou Huawu Traditional & Herbal pharmaceutical Co., Ltd. and Sinopharm Holding Xinjiang Kuitun Medical & Herbal Medicines Co., Ltd. without loss of control.

The effect of changes in the ownership interest of these five entities on the equity of the Group during the period is summarized as follows:

	Effect on the total equity
Carrying amount of non-controlling interests disposed	46,336
Consideration received from non-controlling interests	70,707
Gain on disposal within equity	(24,371)

(c) Effects of transactions with non-controlling interests on the total equity for the period ended 30 June 2012

	Effect on the total equity
Changes in total equity arising from:	
– acquisition of additional interest in a subsidiary	16,981
– disposal of interest in a subsidiary without loss of control	(24,371)
Net effect for transactions with non-controlling interests on total equity	(7,390)

(All amounts in Renminbi thousands unless otherwise stated)

25 BUSINESS COMBINATIONS

Business combinations not under common control

Acquisitions during the period comprises:

The Group acquired equity interests in certain subsidiaries from third parties which are mainly engaged in distributions of medicines and pharmaceutical products and operations of pharmaceutical chain stores to extend the market share of the Group, during the period as follows:

Subsidiaries acquired	Acquired interests
Sinopharm Holding Nantong Co.,Ltd.	80%
Sinopharm Holding Instrument (Beijing) Co., Ltd.	70%
Shanghai Meitai Medical Instruments Co., Ltd.	70%
Sinopharm Holding Wuhu Co.,Ltd.	70%
Sinopharm Holding Liuan Co.,Ltd.	60%
Sinopharm Holding Weihai Co.,Ltd.	90%
Sinopharm Holding Jining Co.,Ltd.	70%
Jiangmeng Guoda Jiyuantang Pharmacy Chain Store Co., Ltd.	65%
Sinopharm Jiankun (Beijing) Medical Co., Ltd.	51%
Sinopharm Holding Zhaoqing Co., Ltd.	100%
Sinopharm Holding Jiangmeng Renren Co., Ltd.	100%

The acquisition date is also the date on which the Group effectively obtains the rights to control these entities.

In addition, the Group acquired, in May 2012, an additional 45% equity interests in Shanghai Donghong Medical Co., Ltd. ("Shanghai Donghong"), a then existing 35% owned associate, from an third party. After the acquisition, the Group holds 80% equity interests in Shanghai Donghong which became a subsidiary of the Group.

The effect of the acquisitions during the period is summarised as follow:

Purchase consideration	
– Cash paid (note (i))	515,213
– Consideration payable	9,250
– Contingent consideration (note (ii))	279,143
Total purchase consideration	803,606
Fair value of previous stake at the dates of acquisitions	51,584
	855,190

(All amounts in Renminbi thousands unless otherwise stated)

25 BUSINESS COMBINATIONS (continued)

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	Acquirees' carrying amounts at acquisition date
Cash and cash equivalents	138,206	138,206
Property, plant and equipment	57,951	56,883
Land use rights	13,891	13,891
Intangible assets	325,996	55
Deferred income tax assets	3,951	3,951
Inventories	288,219	288,219
Other non-current assets	3,442	3,442
Trade and other receivables	1,010,408	1,010,408
Trade and other payables	(1,104,080)	(1,104,080)
Deferred income tax liabilities	(81,752)	–
Other non-current liabilities	(457)	(457)
Borrowings	(97,083)	(97,083)
Net assets	558,692	313,435
Non-controlling interest (Note (iii))	(150,710)	
Goodwill	447,208	
Net assets acquired	855,190	
Purchase consideration settled in cash	515,213	
Cash and cash equivalents in subsidiaries acquired	(138,206)	
Cash outflow on acquisition	377,007	

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.

(All amounts in Renminbi thousands unless otherwise stated)

25 BUSINESS COMBINATIONS (continued)

Business combinations not under common control (continued)

Notes:

(i) Cash paid for acquisition

Cash paid for current period acquisition comprises the cash payment for these acquired entities in both 2012 and 2011.

(ii) 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 RMB279,143 thousands.

Based on the projected profit performance of the acquires, the fair value of the contingent consideration arrangement was estimated to be RMB279,143 thousands. As at 30 June 2012, there was no adjustment to the contingent consideration arrangement.

(iii) 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.

(iv) The revenue and net profit of these newly acquired subsidiaries from the respective acquisition dates to 30 June 2012 are summarized as follows:

	From the dates of acquisitions to 30 June 2012 (Unaudited)
Revenue	1,399,683
Net profit attributable to shareholders of the Company	23,245

(All amounts in Renminbi thousands unless otherwise stated)

26 COMMITMENTS

(a) Capital commitments

Capital commitments at balance sheet date are as follows:

	As at 30 June 2012 (Unaudited)	As at 31 December 2011 (Audited)
Property, plant and equipment:		
– contracted but not provided for	**168,905**	239,994
– authorized but not contracted for	**1,434,813**	1,458,268
Acquisition of equity interests		
– contracted but not provided for	**211,358**	427,100
– authorized but not contracted for	**95,344**	–
	1,910,420	2,125,362

(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 2012 (Unaudited)	As at 31 December 2011 (Audited)
Within 1 year	**239,946**	243,538
Later than 1 year and not later than 5 years	**439,991**	428,037
Later than 5 years	**155,594**	166,597
	835,531	838,172

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.

(All amounts in Renminbi thousands unless otherwise stated)

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 2012 (Unaudited)	As at 31 December 2011 (Audited)
Within 1 year	42,962	49,061
Later than 1 year and not later than 5 years	94,299	101,595
Later than 5 years	44,477	43,604
	181,738	194,260

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.

(All amounts in Renminbi thousands unless otherwise stated)

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(i) Significant transactions with related parties

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Significant transactions with related parties except for other state-owned enterprises		
CNPGC and subsidiaries of CNPGC		
Sales of goods	**90,599**	14,287
Provision of logistic service	**–**	931
Purchase of goods	**206,848**	179,251
Rental	**96**	–
Interest expenses	**972**	3,169
Purchase of fixed assets	**–**	145
Associates of the Group		
Sales of goods	**85,028**	83,822
Purchase of goods	**449,629**	392,564
Associates of CNPGC		
Purchase of goods	**357,003**	221,548
Other income	**290**	186
The subsidiaries of entity which has significant influence over the Company		
Sales of goods	**71,538**	54,231
Purchase of goods	**187,628**	11,142

(All amounts in Renminbi thousands unless otherwise stated)

27 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(ii) Significant balances with related parties

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Significant balances with related parties except for other state-owned enterprises		
CNPGC and subsidiaries of CNPGC		
Trade receivables	**49,595**	3,908
Other receivables	**298**	1,000
Prepayments	**38,773**	38,202
Trade payables	**84,803**	66,823
Other payables	**7,700**	59,683
Other non-current liabilities	**241,273**	241,273
Associates of the Group		
Trade receivables	**18,612**	11,210
Other receivables	**–**	25,831
Prepayments	**309**	3,071
Trade payables	**264,461**	279,537
Other payables	**8**	881
Associates of CNPGC		
Other receivables	**209**	–
Prepayments	**3,014**	999
Trade payables	**90,695**	17,572
Other payables	**1,856**	100
The subsidiaries of entity which has significant influence over the Company		
Trade receivables	**43,671**	47,998
Prepayments	**1,364**	1,805
Trade payables	**103,232**	35,555

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

Approved by shareholders on 3 August 2012, the Company will issue corporate bonds at a total par value no more than RMB8,000,000 thousands in the PRC. As at the report date, the issuance has not been approved by China Securities Regulatory Commission.