華潤醫藥集團有限公司
China Resources Pharmaceutical Group Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 3320)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the "**Board**") of directors (the "**Directors**") of China Resources Pharmaceutical Group Limited (the "**Company**" or "**China Resources Pharmaceutical**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2021 (the "**Reporting Period**"), together with the comparative figures for the previous year/period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*4*	**114,487,606**	89,387,142
Cost of sales		**(97,022,535)**	(74,520,320)
GROSS PROFIT		**17,465,071**	14,866,822
Other income	*5*	**713,267**	655,358
Other gains and losses	*6*	**(298,070)**	(471,184)
Selling and distribution expenses		**(8,282,999)**	(6,769,705)
Administrative expenses		**(2,701,117)**	(2,148,185)
Other expenses		**(671,025)**	(497,728)
Finance income		**270,200**	333,599
Finance costs		**(1,472,035)**	(1,554,707)
Finance costs, net	*7*	**(1,201,835)**	(1,221,108)

	Notes	Six months ended 30 June **2021** **(Unaudited)** ***HK$'000***	 2020 (Unaudited) *HK$'000*
Share of profits and losses of associates and joint ventures		**142,726**	75,370
PROFIT BEFORE TAX	*8*	**5,166,018**	4,489,640
Income tax expense	*9*	**(1,071,519)**	(841,828)
PROFIT FOR THE PERIOD		**4,094,499**	3,647,812
Attributable to:			
Owners of the Company		**2,438,106**	2,577,194
Non-controlling interests		**1,656,393**	1,070,618
		4,094,499	3,647,812
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted *(HK$)*	*10*	**0.39**	0.41

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**4,094,499**	3,647,812
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**920,328**	(1,382,386)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**920,328**	(1,382,386)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**920,328**	(1,382,386)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**5,014,827**	2,265,426
Attributable to:		
Owners of the Company	**2,946,088**	1,798,798
Non-controlling interests	**2,068,739**	466,628
	5,014,827	2,265,426

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	**30 June 2021 (Unaudited)** ***HK$'000***	31 December 2020 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**17,665,117**	17,324,389
Right-of-use assets		**5,266,178**	5,317,849
Investment properties		**1,925,908**	1,935,910
Goodwill		**21,372,541**	21,072,192
Intangible assets		**6,993,066**	6,939,633
Interests in joint ventures		**13,289**	11,391
Interests in associates		**5,824,316**	5,720,721
Other non-current financial assets	*13*	**607,130**	602,344
Deferred tax assets		**1,049,470**	969,852
Other non-current assets		**2,681,153**	2,368,622
Total non-current assets		**63,398,168**	62,262,903
CURRENT ASSETS			
Inventories		**27,123,212**	24,584,761
Trade and other receivables	*14*	**80,541,723**	67,702,982
Other current financial assets	*13*	**35,207,582**	34,613,823
Amounts due from related parties		**3,494,624**	2,440,119
Tax recoverable		**71,074**	43,745
Pledged deposits		**7,164,814**	6,491,930
Cash and cash equivalents		**17,000,160**	11,231,497
Total current assets		**170,603,189**	147,108,857

	Notes	30 June 2021 (Unaudited) *HK$'000*	31 December 2020 (Audited) *HK$'000*
CURRENT LIABILITIES			
Trade and other payables	*15*	**70,121,325**	66,396,004
Contract liabilities		**2,819,482**	2,477,763
Lease liabilities		**842,192**	709,958
Amounts due to related parties		**4,340,236**	12,011,513
Bank borrowings		**55,479,763**	35,457,220
Bonds payable		**6,192,827**	4,824,692
Tax payable		**679,936**	671,127
Defined benefit obligations		**34,229**	71,378
Total current liabilities		**140,509,990**	122,619,655
NET CURRENT ASSETS		**30,093,199**	24,489,202
TOTAL ASSETS LESS CURRENT LIABILITIES		**93,491,367**	86,752,105
NON-CURRENT LIABILITIES			
Bank borrowings		**1,624,260**	792,072
Bonds payable		**2,998,187**	1,215,729
Lease liabilities		**897,003**	1,155,708
Deferred tax liabilities		**1,685,343**	1,668,871
Defined benefit obligations		**1,111,015**	1,032,467
Other non-current liabilities		**905,009**	857,814
Total non-current liabilities		**9,220,817**	6,722,661
NET ASSETS		**84,270,550**	80,029,444
EQUITY			
Equity attributable to owners of the Company			
Share capital		**27,241,289**	27,241,289
Reserves		**21,420,723**	19,228,537
		48,662,012	46,469,826
Non-controlling interests		**35,608,538**	33,559,618
TOTAL EQUITY		**84,270,550**	80,029,444

NOTES

1. CORPORATE INFORMATION

China Resources Pharmaceutical Group Limited (the "**Company**") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 28 October 2016. The address of the registered office of the Company is 41/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Group is principally engaged in the manufacturing, distribution and retail of pharmaceutical and healthcare products.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES AND DISCLOSURES

2.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

The financial information related to the year ended 31 December 2020 that is included in the interim condensed consolidated statements of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information related to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (the "**Companies Ordinance**") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on the financial statements for the year ended 31 December 2020. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

2.2. Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The nature and impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars and US dollars based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate ("**LIBOR**") as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided that the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK$9,896,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

3. SEGMENT INFORMATION

Management has determined the operating segment based on the reports reviewed by the board of directors that are used to make strategic decisions. The board of directors of the Company, being the chief operating decision maker (CODM), considers resource allocation and assesses segment performance from a different business type perspective.

Specifically, the Group has four reportable segments as follows:

(a) Pharmaceutical manufacturing business (Manufacturing segment) – research and development, manufacture and sale of a broad range of pharmaceutical and healthcare products;

(b) Pharmaceutical distribution business (Distribution segment) – distribution, warehousing, logistics, and other value-added pharmaceutical supply chain solutions and related services to pharmaceutical/medical device manufacturers and dispensers, such as hospitals, distributors and retail pharmacies;

(c) Pharmaceutical retail business (Retail segment) – operation of retailing of pharmacy stores;

(d) Other business operations (Others) – property holding.

No operating segments have been aggregated to derive the reportable segments of the Group.

Inter-segment sales are conducted at prices and terms mutually agreed amongst those operating segments, with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The board of directors of the Company assesses the performance of the operating segments based on a measure of revenue and segment results.

Segment results represent the profit earned by each segment without allocation of other income, other gains and losses, administrative expenses, other expenses, share of profits and losses of associates and joint ventures, finance income and non-leased-related finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The following tables present revenue and results for the Group's operating segments for the six months ended 30 June 2021 and 2020:

Six months ended 30 June 2021	**Manufacturing segment (Unaudited)** *HK$'000*	**Distribution segment (Unaudited)** *HK$'000*	**Retail segment (Unaudited)** *HK$'000*	**Others (Unaudited)** *HK$'000*	**Total (Unaudited)** *HK$'000*
Segment revenue					
External sales	**17,085,350**	**93,740,862**	**3,593,651**	**67,743**	**114,487,606**
Inter-segment sales	**1,710,799**	**2,563,572**	**–**	**–**	**4,274,371**
	18,796,149	**96,304,434**	**3,593,651**	**67,743**	**118,761,977**
Elimination:					
Elimination of inter-segment sales					**(4,274,371)**
Segment revenue					**114,487,606**
Segment results	**5,251,229**	**3,863,762**	**(37,709)**	**60,320**	**9,137,602**
Other income					**713,267**
Other gains and losses					**(298,070)**
Administrative expenses					**(2,701,117)**
Other expenses					**(671,025)**
Finance income					**270,200**
Finance costs (other than interest on lease liabilities)					**(1,427,565)**
Share of profits and losses of associates and joint ventures					**142,726**
Profit before tax					**5,166,018**

Six months ended 30 June 2020	Manufacturing segment (Unaudited) *HK$'000*	Distribution segment (Unaudited) *HK$'000*	Retail segment (Unaudited) *HK$'000*	Others (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Segment revenue					
External sales	12,544,443	73,758,189	2,991,556	92,954	89,387,142
Inter-segment sales	1,355,255	1,962,595	–	–	3,317,850
	13,899,698	75,720,784	2,991,556	92,954	92,704,992
Elimination:					
Elimination of inter-segment sales					(3,317,850)
Segment revenue					89,387,142
Segment results	3,808,394	4,202,692	(20,383)	59,384	8,050,087
Other income					655,358
Other gains and losses					(471,184)
Administrative expenses					(2,148,185)
Other expenses					(497,728)
Finance income					333,599
Finance costs (other than interest on lease liabilities)					(1,507,677)
Share of profits and losses of associates and joint ventures					75,370
Profit before tax					4,489,640

4. REVENUE

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of pharmaceutical products	**114,400,125**	89,317,621
Revenue from other sources		
Gross rental income from investment property operating leases:		
Lease payments, including fixed payments	**87,481**	69,521
	114,487,606	89,387,142
Geographical markets		
Mainland China	**114,183,913**	89,051,701
Hong Kong	**303,693**	335,441
Total revenue	**114,487,606**	89,387,142
Disaggregated revenue information for revenue from contracts with customers:		
Timing of revenue recognition		
Goods transferred at a point in time	**114,400,125**	89,317,621

5. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Service fee income	**346,514**	282,961
Government grants	**245,482**	275,656
Covid-19-related rent concessions from lessors	**9,896**	7,994
Others	**111,375**	88,747
	713,267	655,358

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gain/(loss) on disposal of items of property, plant and equipment, net	**2,283**	(3,966)
Impairment loss recognised on trade receivables, net	**(313,910)**	(444,536)
Impairment loss recognised on other receivables, net	**(14,468)**	(37,213)
Fair value changes on financial assets at fair value through profit or loss	**61,768**	11,662
Investment income on financial assets	**–**	4,000
Gain on disposal of a subsidiary	**7,614**	–
Others	**(41,357)**	(1,131)
	(298,070)	(471,184)

7. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Finance costs:		
Interest on bank borrowings	**1,280,241**	1,258,354
Interest on bonds payable	**121,934**	181,221
Interest on borrowings from an intermediate holding company	**13,269**	71,908
Interest on lease liabilities	**44,470**	47,030
Interest on defined benefit obligations	**12,227**	–
Less: Interest capitalised in property, plant and equipment *(Note)*	**(106)**	(3,806)
Total finance costs	**1,472,035**	1,554,707
Finance income – Interest income	**(270,200)**	(333,599)
Net finance costs	**1,201,835**	1,221,108

Note: Capitalised interest arose from funds borrowed specifically for the purpose of obtaining qualifying assets and from the general borrowing pool, which is calculated by applying a capitalisation rate of 4.75% (six months ended 30 June 2020: 4.4%) per annum to expenditure on qualifying assets.

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**851,900**	750,617
Depreciation of right-of-use assets	**352,412**	322,214
Amortisation of intangible assets	**160,709**	130,590
Allowance for slow-moving and obsolete inventories	**89,361**	46,071
Cost of inventories recognised as cost of sales	**96,466,240**	74,084,254
Research and development expenditure (included in other expenses)	**692,418**	455,177
Lease payments not included in the measurement of lease liabilities	**134,657**	23,484
Impairment recognised on items of property, plant and equipment	**41,357**	1,131
Foreign exchange (gain)/loss, net	**(50,172)**	2,291
Interest income	**(270,200)**	(333,599)

9. INCOME TAX EXPENSE

The Group calculates income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
PRC Enterprise Income Tax ("**PRC EIT**")	**1,089,388**	914,209
Under provisions in prior periods:		
PRC EIT	**57,395**	24,715
	1,146,783	938,924
Deferred	**(75,264)**	(97,096)
Total tax charge for the period	**1,071,519**	841,828

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic earnings per share attributable to ordinary equity holders of the Company are based on:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**2,438,106**	2,577,194
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**6,282,510,461**	6,283,741,991

Diluted earnings per share equals to basic earnings per share as there were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

11. DIVIDENDS

The directors of the Company resolved not to declare any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

	2021	2020
	HK$'000	*HK$'000*
Dividend for ordinary shareholders of the Company recognised as distribution during the period:		
Final 2020 – HK$0.12 per ordinary share (2020: Final 2019 – HK$0.11 per ordinary share)	**753,902**	691,076

A final dividend of approximately HK$753,902,000 (HK$0.12 per share) in respect of the year ended 31 December 2020 was approved at the annual general meeting of the Company on 28 May 2021 and paid to the shareholders of the Company within the end of the reporting period.

12. PROPERTY, PLANT AND EQUIPMENT

Additions and disposals

During the six months ended 30 June 2021, the Group acquired property, plant and equipment approximately amounting to HK$396,205,000 (six months ended 30 June 2020: HK$585,618,000), excluding the property, plant and equipment acquired through business combinations and property under construction.

Assets with a net book value of approximately HK$49,863,000 were disposed of by the Group during the six months ended 30 June 2021 (six months ended 30 June 2020: HK$57,707,000), resulting in a net gain on disposal of approximately HK$2,283,000 (six months ended 30 June 2020: a net loss on disposal of approximately HK$3,966,000).

13. OTHER CURRENT/NON-CURRENT FINANCIAL ASSETS

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	HK$'000	*HK$'000*
Trade and bills receivables, at fair value *(Note a)*	**27,503,493**	27,699,362
Unlisted equity investments, at fair value *(Note b)*	**607,130**	602,344
Financial products, at fair value *(Note c)*	**7,704,089**	6,914,461
Total	**35,814,712**	35,216,167
Analysed into:		
Current assets	**35,207,582**	34,613,823
Non-current assets	**607,130**	602,344
	35,814,712	35,216,167

Note a: The Group has classified trade and bills receivables that are held within a business model both to collect cash flows and to sell as financial assets at fair value through other comprehensive income.

Note b: The Group's unlisted equity investments represent investments in unlisted entities established in the PRC. These unlisted entities are principally engaged in research and development, distribution and related operations of pharmaceutical products. They are measured fair value through profit or loss.

Note c: Financial products at fair value include structured deposits entered into by the Group with banks and financial institutions. These structured deposits (where the effect of the structured element is not material) are designated as financial assets measured at fair value through profit or loss.

14. TRADE AND OTHER RECEIVABLES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	HK$'000	*HK$'000*
Bills receivable	**1,608,093**	703,357
Trade receivables	**70,117,286**	59,617,016
Impairment allowance	**(1,976,985)**	(1,692,829)
	68,140,301	57,924,187
Prepayments	**4,876,434**	3,737,216
Other receivables	**6,194,743**	5,570,605
Impairment allowance	**(277,848)**	(232,383)
	5,916,895	5,338,222
	80,541,723	67,702,982

The Group generally allows credit periods ranging from 30 to 180 days to its trade customers, which may be extended to 365 days for selected customers depending on their trade volume and settlement terms. The bills receivable generally have maturity periods ranging from 30 to 365 days.

An ageing analysis of the Group's trade receivables, based on the invoice date and net of impairment allowance, is as follows:

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
0-30 days	**17,527,391**	13,467,276
31-60 days	**9,095,585**	10,049,417
61-90 days	**9,124,279**	6,775,877
91-180 days	**15,521,744**	14,855,296
181-365 days	**13,557,328**	10,115,177
Over 1 year	**3,313,974**	2,661,144
	68,140,301	57,924,187

An ageing analysis of the Group's bills receivable, based on the issue dates, is as follows:

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
0-30 days	**158,985**	107,451
31-60 days	**46,332**	122,936
61-90 days	**231,322**	85,775
91-180 days	**906,055**	387,195
181-365 days	**265,399**	–
	1,608,093	703,357

15. TRADE AND OTHER PAYABLES

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade payables	**37,192,400**	31,124,280
Bills payable	**13,527,694**	14,477,812
Accrued salaries	**1,906,486**	2,228,579
Interest payable	**119,423**	108,240
Other tax payables	**720,297**	766,243
Other payables	**15,860,933**	16,957,675
Refund liabilities	**29,838**	22,918
Payable for acquisitions of subsidiaries	**764,254**	710,257
	70,121,325	66,396,004

The average credit period on purchases of goods range from 30 to 360 days. The bills payable have maturity periods ranging from 30 to 360 days. As at 30 June 2021, the Group's bills payable of HK$9,136,556,000 (31 December 2020: HK$14,112,454,000) were secured by the Group's bills receivable with an aggregate carrying amount of HK$1,022,042,000 (31 December 2020: HK$1,384,658,000) and pledged bank deposits of approximately HK$3,716,790,000 (31 December 2020: HK$4,089,930,000).

An ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	30 June 2021 (Unaudited) *HK$'000*	31 December 2020 (Audited) *HK$'000*
0-30 days	**19,897,652**	17,005,465
31-60 days	**6,674,801**	5,911,357
61-90 days	**3,475,312**	2,438,860
Over 90 days	**7,144,635**	5,768,598
	37,192,400	31,124,280

An ageing analysis of the Group's bills payable, based on the issue date, is as follows:

	30 June 2021 (Unaudited) *HK$'000*	31 December 2020 (Audited) *HK$'000*
0-30 days	**2,872,462**	1,922,614
31-60 days	**1,550,310**	3,039,488
61-90 days	**2,399,045**	2,889,382
Over 90 days	**6,705,877**	6,626,328
	13,527,694	14,477,812

16. BUSINESS COMBINATIONS

(a) Acquisition of Dongying Tiandong Pharmaceutical Co., Ltd. ("Tiandong Pharmaceutical")

On 17 December 2020, China Resources Double-Crane Pharmaceutical Co., Ltd. ("**CR Double-Crane**"), a subsidiary of the Group, acquired 38.75% equity interests in Tiandong Pharmaceutical at a cash consideration of RMB341,000,000 (equivalent to approximately HK$408,174,000) and classified it as an associate of the Group. On 12 January 2021, CR Double Crane entered into a Voting Rights Entrustment Agreement ("**the Agreement**") with China Resources Pharmaceutical Industrial Investment Fund LLP ("CR Pharmaceutical Fund"). Pursuant to the Agreement, CR Pharmaceutical Fund entrusted its voting rights of 31.25% interests in Tiandong Pharmaceutical to CR Double Crane. Therefore, CR Double Crane holds an aggregate 70% of voting rights of Tiandong Pharmaceutical and Tiandong Pharmaceutical became a subsidiary of CR Double Crane.

The major assets acquired through this business combination include, amongst others, property, plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents. Accordingly, the Group has initially recognised identifiable net assets of HK$903,676,000 and goodwill of HK$57,999,000 in accordance with HKFRS 3 (Revised) "Business Combinations". The fair values of the considerations transferred, the identifiable net assets and the carrying amount of goodwill of the above business combination as at the date of acquisition are provisional amounts and are subject to the finalisation of the fair value estimation.

(b) Acquisition of Anhui Run Furong Pharmaceutical Co., Ltd. ("Run Furong Pharmaceutical")

On 11 January 2021, China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. ("**CR Sanjiu**"), a subsidiary of the Group, entered into an agreement with Anhui Golken Lotus Chinese Herbal Medicine Co., Ltd. ("**Anhui Golken Lotus**") to acquire its 60% equity interests in Run Furong Pharmaceutical and Run Furong Pharmaceutical became a subsidiary of CR Sanjiu. The cash consideration was RMB98,404,000 (approximately HK$118,202,000).

The major assets acquired through this business combination include, amongst others, property, plant and equipment, right-of-use assets, inventories and trade and other receivables. Accordingly, the Group has initially recognised identifiable net assets of HK$196,952,000 and goodwill of HK$31,000 in accordance with HKFRS 3 (Revised) "Business Combinations". The fair values of the considerations transferred, the identifiable net assets and the carrying amount of goodwill of the above business combination as at the date of acquisition are provisional amounts and are subject to the finalisation of the fair value estimation.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Year 2021 has been a year of ongoing recovery and normalisation for the Chinese economy. An 18.3% year-on-year gross domestic product (GDP) growth was recorded for the first quarter. Year-on-year growth for the second quarter was estimated at approximately 8%, as the Chinese economy started to fare in normalised conditions with the presence of COVID-19 pandemic.

The pharmaceutical industry also underwent a phase of recovery. According to data released by the National Bureau of Statistics, for the period from January to May 2021, the pharmaceutical manufacturing sector reported a 27.6% year-on-year growth in revenue against a relative low comparative basis for 2020, while total profit grew by 83.3% year-on-year. The National Medical Products Administration Institute of Medical Economics estimated an approximately 8.2% year-on-year growth for China's pharmaceutical manufacturing sector for the full year of 2021.

Following the comprehensive roll-out of centralised procurement at national, provincial and syndicate levels with 5 rounds of centralised procurement completed, national centralised procurement has become normalised and institutionalised, governing rules are fundamentally in place. With top-tier design and resolute implementation of centralised procurement at the national level, provincial centralised procurement and syndicate centralised procurement have also generally been enhanced. A number of provinces, including Jiangsu, Shanxi, and Anhui, started centralised procurement in 2021. In the meantime, various procurement syndicates, such as syndicates in Xinjiang, Chongqing syndicate and Heilongjiang syndicate, have also commenced centralised procurement. The wide range of centralised procurement policies have posed an enormous challenge for businesses in terms of entry barrier.

Driven by the pandemic, return of talents and rapid applications of technology, new drug research and development (R&D), merger and acquisition financing and project trading remained active. According to the date of NMPA, the approvals of 15 domestically manufactured innovative drugs, more than 22 merger and acquisition and joint venture projects in the biopharmaceutical sector and more than 150 financing deals for an aggregate financing amount of over RMB40 billion were recorded during the first half of 2021 in China. Innovation leveraging capital resources and conducted in flexible models has become one of the hallmarks of the pharmaceutical industry.

At both central and local government levels, a number of policies for the encouragement of Traditional Chinese Medicines (TCM) development have been announced, providing for more vigorous TCM quality control and support for innovation R&D on products, such as time-honored classical formula preparations and pediatric TCM over-the-counter (OTC) drugs. Such policies have encouraged the development of TCM preparations at medical institutions and provided favourable policy factors for the development of TCM pharmaceutical enterprises.

With the support of policies relating to digitalised healthcare services, digitalised tools have covered the major application scenarios in the entire consultation and treatment process. Digitalisation has become a common feature of the post-pandemic era, while pharmaceutical enterprises take on an important factor in the transition to digitalisation, as an increasing number of pharmaceutical enterprises are developing patient-centric innovative solutions through the dynamic integration of online and offline marketing.

In future, given the circumstances of the sustained presence of COVID-19 pandemic, aggravated aging population and improving living standards, driven by policy, capital, talent and technology, the pharmaceutical industry will continue to encounter enormous challenges as well as opportunities. The sustained growth in demand for medicines and health on the part of the general public will hold out broad market prospects for pharmaceutical enterprises, while comprehensive centralised procurement, drug approval policies guided by clinical requirements and intense competition in sub-segments will set extremely high requirements for pharmaceutical enterprises, with differentiation and qualitative innovation emerging as crucial factors to win in competition. The mass exit of non-competitive enterprises is anticipated, which will further drive the integration and concentration of the industry.

Group Results

In the first half of 2021, China embraced the post-pandemic era, while the international pandemic situation remained volatile and austere amidst even more austere and complicated conditions in the international landscape. Meanwhile, reform of the domestic pharmaceutical industry was further gaining pace, as industry competition entered a stage of elimination. Seizing opportunities presented by the development and reform of China's pharmaceutical and healthcare industry, the Group achieved qualitative sustainable development as it orchestrated business realignment and industry upgrade through the optimisation of resource allocation in ongoing enhancement of its core competitiveness, fueled by research and development (R&D), innovation and merger and acquisition and with the aid of digitalisation and internationalisation. During the Reporting Period, the Group recorded total revenue of HK$114,487.6 million, representing a year-on-year increase of 28.1% compared to HK$89,387.1 million for the first half of 2020 (representing a year-on-year increase of 17.9% in terms of RMB) which reflected mainly recouping growth in business results following the easing of the pandemic situation. In the first half of 2021, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses, accounted for 14.9%, 81.9% and 3.1% of the total revenue, respectively.

During the Reporting Period, the Group recorded gross profit of HK$17,465.1 million, representing a 17.5% increase from HK$14,866.8 million for the first half of 2020 (representing a year-on-year increase of 8.1% in terms of RMB). The overall gross profit margin was 15.3%, representing a decrease of 1.3 percentage points compared to 16.6% in the first half of 2020. This was primarily due to a decline in the average gross profit margin of the pharmaceutical distribution business during the Reporting Period.

In the first half of 2021, the Group recorded net profit of HK$4,094.5 million, representing a 12.2% increase from HK$3,647.8 million for the first half of 2020 (representing a year-on-year increase of 3.3% in terms of RMB). Excluding the effect of anti-epidemic supplies exports during the first half of 2020, the Group's net profit during the Reporting Period would have grown by 47.5% (growth of 35.7% in terms of RMB).

In the first half of 2021, the Group recorded a profit attributable to owners of the Company of HK$2,438.1 million, representing a decrease of 5.4% when compared with that of HK$2,577.2 million for the first half of 2020 (representing a year-on-year decrease of 12.9% in terms of RMB) mainly due to a YOY decline in profit contribution from the distribution business sector. Basic earnings per share were HK$0.39 for the first half of 2021 (HK$0.41 in the first half of 2020).

1. Pharmaceutical Manufacturing Business

The Group's pharmaceutical manufacturing business expanded its business presence through multiple means, including endogenous development and external acquisition, to fill up voids. Product R&D and innovation was enhanced while international cooperation continued to roll out such that ongoing optimisation to product mix was facilitated through proprietary R&D and imports. In the meantime, we vigorously embraced digitalisation and intelligentisation and proactively adapted ourselves to revolutionary changes in the industry to lead in the development of the industry, while realising joint brand empowerment through the integration of resources to reinforce and enhance our brand influence and consistently increase our market share.

During the Reporting Period, the Group's pharmaceutical manufacturing business generated segment revenue of HK$18,796.1 million, representing a year-on-year increase of 35.2% compared with the first half of 2020 and an increase of 24.5% on a year-on-year basis in terms of RMB. This reflected mainly notable growth in revenue from the core CHC segment and prescription drug segment following the easing of the pandemic and the prominent effect of the digital transformation strategy.

The Group owns the most comprehensive portfolio of pharmaceutical products with the widest coverage of therapeutic areas, including chemical drugs (prescription and OTC drugs), biopharmaceutical drugs, TCM (prescription and OTC drugs) and nutritional and healthcare products. These fully cover all major therapeutic and disease areas that hold out sound potential for business growth, such as cardiovascular and cerebrovascular diseases, alimentary tract, endocrine diseases, respiratory diseases, orthopedics, hematology, oncology, medical nutrition, gastroenterology, pediatrics, genitourinary system, cough and cold, anti-infection, dermatology, and therapeutic infusion solutions, etc. In the first half of 2021, the Group manufactured over 560 products, of which approximately 300 were included in the National Reimbursement Drug List and 129 were included in the National Essential Drug List. All of the Group's pharmaceutical manufacturing subsidiaries have formed professional sales and marketing teams, which have established close and long-term business partnership with over 100,000 medical institutions.

During the Reporting Period, the gross profit margin of the Group's pharmaceutical manufacturing business was 59.3%, representing a decrease of 2.0 percentage points as compared to the gross profit margin of the same period last year, which was mainly due to the decline in gross profit margin for the Group's prescription drug business under the combined effect of centralised procurement and changes in product mix.

In terms of product categories, the revenue from sales of prescription drugs was HK$8,599.1 million during the Reporting Period, representing a year-on-year increase of 23.7% as compared to the same period last year (year-on-year increase of 13.8% in terms of RMB), mainly due to recouping growth in revenue from medical end-sales following the easing of the pandemic, with notable growth in revenue from the anti-tumor, TCM formula granules, infusion and glucose reduction businesses in particular. The Group's consumer healthcare (CHC) business (mainly comprising OTC medicines and healthcare products) recorded revenue of HK$9,413.3 million, an increase of 53.3% compared to the same period last year (year-on-year increase of 41.2% in terms of RMB), Significant year-on-year increase in revenue from the Dong-E-E-Jiao product line, pediatrics, cold businesses and orthopedics were reported. Revenue from biopharmaceutical drugs amounted to HK$72.7 million. For the first half of 2021, the percentage of pharmaceutical sales revenue contributed by chemical drugs, TCM, biopharmaceutical drugs, and other products were 41.8%, 50.4%, 0.4%, and 7.4%, respectively.

Complementary external acquisition to secure a preemptive position in competition for quality

The Group has strong capabilities and experience in mergers and acquisitions and integration capabilities, and has been actively deploying in business sectors where it has yet to establish its presence to nurture new opportunities in the industry, During the Reporting Period, the Group continued to be engaged in the optimisation of business mix, expansion of business footprint and diversification of product portfolio through strategic deployment in new-technology and high-growth sectors, while integrating the resources of acquired entities with the aid of advanced management concepts and operational capacity, in a bid to sustain and enhance the Group's profitability.

In February 2021, China Resources Double-Crane Pharmaceutical Company Limited ("**CR Double Crane**") announced the acquisition of 33.33% equity interests in Zhejiang Peptites Biotech Co., Ltd.(浙江湃肽生物有限公司)("**Zhejiang Peptites**") by way of capital injection with a capital contribution of approximately RMB258 million. Peptide, the principal product of Zhejiang Peptites, is known for its high bioactivity, good therapeutic effect and low toxicity. The acquisition is conducive to CR Double-Crane establishing its presence in the biopharmaceutical sector to accelerate its transformation and upgrade.

In July 2021, the transfer of 69,331,978 non-restricted tradable shares of Boya Bio-pharmaceutical Group Co., Ltd. ("**Boya Bio-pharmaceutical**") to China Resources Pharmaceutical Holdings Company Limited ("**CR Pharmaceutical Holdings**") was completed and the proposed entrustment of voting rights to CR Pharmaceutical Holdings has taken effect. Upon the date of completion of the share transfer and voting entrustment, the Group held approximately 29.17% voting rights in the total share capital in Boya Bio-pharmaceutical. In addition, CR Pharmaceutical Holdings proposed to subscribe for no more than 86,830,732 shares issued to CR Pharmaceutical Holdings by Boya Bio-pharmaceutical by way of cash. Following the completion of the transaction, the Group will own no more than 40.99% voting rights in Boya Bio-pharmaceutical in aggregate and CR Pharmaceutical Holdings will become the controlling shareholder of Boya Bio-pharmaceutical. Blood products represent a fast-growing sector. On the supply side, they are resource-based products, while on the demand side, they are characterised by inflexible demand. This means that the competitive scenario is stable with a low risk of product competition and substantial price falling. As such, it is a very stable cashflow generating business expecting long-term growth and a segment with advantageous potential that would help CR Pharmaceutical to maintain its leading position in the industry. Meanwhile, its high entry barrier and proven extensive applications have forged a lasting and strong bulwark for this segment. Moreover, blood products are resources in national strategic reserves with which the security of the nation's bio-industry is at stake. Therefore, the Group's investment in the blood product industry also represents an important move to fulfill its responsibility as a central enterprise. As a leading player in the domestic pharmaceutical industry, the Group covers the production, distribution and retail of pharmaceuticals and healthcare products while claiming a strong advantage in logistics, affording a natural advantage for the blood product industry which has very exacting requirements for the cold chain in logistics. Given the current competitive landscape characterised by inventory competition, stringent criteria for the approval of new blood stations and near saturation of the supply of blood stations in certain provinces, blood station resources have become the most important core competitive strength in the blood product industry. On the back of its strong ability in resource integration, the Group is hopeful of further enhancing the competitive strength of Boya Bio-pharmaceutical for establishing additional blood stations.

In July 2021, the Group announced the acquisition of 10% issued share capital (51,458,400 shares) in aggregate of Immunotech Biopharm Ltd ("**Immunotech**") at a total consideration of HK$799.66 million, representing a price of HK$15.54 per share. Upon completion of the transaction, CR Pharmaceutical will become one of the major shareholders of Immunotech. Through the acquisition, CR Pharmaceutical will be engaged in in-depth cooperation with Immunotech to jointly develop the cellular immunotherapy market in China. Cellular immunotherapy is an important development direction for tumor therapy in the future with broad market prospects. Through the investment in Immunotech, the Group has completed its strategic layout in the field of cellular immunotherapy.

Enhancing product R&D and innovation with ongoing product mix optimisation

During the Reporting Period, the Group persisted in the strategy of innovative development with a consumer-centric approach and accelerated the incubation of new products through in-house R&D as well as cooperation with third parties while terminating low-efficiency products in a timely manner, as it consistently optimised its business portfolio and diversified its product lines in a bid to cement its position in existing core markets and increased its market shares.

In the big health sector, China Resources Jiangzhong Pharmaceutical Group Co., Ltd. ("**CR Jiangzhong Group**") was focused on advantageous product types. On top of reinforcing its position as a gastrointestinal specialist, it was also constructing a product matrix for upper respiratory diseases. In view of the constant upgrade in public demand for health protection, CR Jiangzhong introduced comprehensive revamping to Jiangzhong Caoshanhu Tablet, its signature product that had been in the market for 35 years, through brand new packaging, more precise positioning and more effective marketing. During the Reporting Period, CR Jiangzhong announced the new development of strategy of "Food As Medicines", aiming to create a big health business with "TCM+" features with ultra-innovative concepts while launching a number of new products, such as Yitong Probiotics (益童益生菌), a probiotics product based on a golden formula coordinating three star bacteria strains; Yitong Bazhen Paste (益童八珍糕), an upgraded and optimised version of a classical formula dated back to the Qianlong era, as well as nutritious and beauty nourishing products such as Lemon Mint Yeast, Fish Maw Pudding and E-Jiao Red Date Protein Powder.

Dong-E-E-Jiao Company Limited (“**Dong-E-E-Jiao**”) persisted in a consumer-centric approach with a strong focus on growing and retaining customers, in a bid to cement its leading market position for core products, as it consistently capitalised on its brand productivity to offer convenient and fashionable product experience and services to drive positive market growth. With the launch of nutritious products in the forms of snacks and drinks, more young consumers were attracted to Chinese nutritious health products. During the Reporting Period, Dong-E-E-Jiao reported overall improvements in E-Jiao powder products driven by the launch of Huajianling (花簡齡), a convenient nutritious snack brand manufactured with the “innovative instant soluble glow technology”. Other newly launched products included E-Jiao Red Date Juice Gomme, a blood-enriching and beauty-nourishing product with 100mg marine collagen peptide enhancement per unit, as well as “E-Jiao Red Date Pudding”, a vitality enhancing snack with Changbaishan red ginseng that offers vitality nourishment, taste and beauty nourishment in one product to meet the needs of the young consumer group.

During the Reporting Period, CR Double-Crane received the Drug Registration Certificate for Medium-chain and Long-chain Triglycerides Lipid Emulsion Injection (C8~24) issued by the NMPA, granting approval for its production. In June 2021, CR Double-Crane received the Drug Registration Certificate for Linezolid tablets issued by NMPA, granting approval for its production, which was deemed as passing on the consistency evaluation. The drug is used for the treatment of the following diseases caused by specific microbial sensitivity strain: hospital-acquired pneumonia; community-acquired pneumonia; complicated skin and soft tissue infections, including diabetic foot infection without osteomyelitis; non-complicated skin and soft tissue infections; and vancomycin-tolerant enterococcus faecium. The obtaining of Drug Registration Certificates for the said series of drug products will further enrich the Group’s product lines and enhance the market competitiveness of its products.

In June 2021, Shenzhen CR Jiuchuang Pharmaceutical Co., Ltd., a subsidiary of China Resources Sanjiu Medical & Pharmaceutical Company Limited ("**CR Sanjiu**") received the Drug Registration Certificate issued by NMPA for Mitoxantrone Hydrochloride Injection for tracking (commercial name: Futashu 復他舒), a Class II new drug which was listed as a major project for manufacturing technologies of major new drugs under the national "13th Five-Year-Plan" and the first officially approved product in China for tracking draining lymph node in thyroid operations, clinically proven for safety and sound lymph tracking effort. During the Reporting Period, in response to consumers' health management needs, CR Sanjiu launched the 999 Pudilan anti-inflammatory tablets (999 蒲地藍消炎片), 999 Piyanping selenium sulfide wash (999 皮炎平二硫化硒洗劑) and 999 Xiongqi tadalafil tablets (999 雄起他達拉非片). The launch of this series of products has facilitated the optimisation of the Group's business deployment and ongoing diversification of its product lines.

Active engagement in intelligentisation and digitalisation to lead industry development with renovation in multiple aspects

The Group continued to enhance the integration of new technologies, such as Big Data, artificial intelligence and industrial Internet, into its business, as it actively explored Internet applications in the medical and pharmaceutical sectors, with a view to expanding new channels and enhancing end-servicing capabilities through technology-driven business innovation as well as digitalisation and intelligentisation in operation. During the Reporting Period, the business units of the Group actively implemented +Internet practices.

In marketing, the Group vigorously explored a variety of digital marketing approaches based on its own business characteristics and in tandem with market trends. During the Reporting Period, CR Sanjiu, CR Jiangzhong and CR Zizhu Pharmaceutical Co., Ltd. ("**CR ZiZhu**") were respectively engaged in the implementation of new retail models, with developments in the B2C and O2O models on mainstream e-commerce and O2O platforms. CR Sanjiu has currently completed its channel deployment for a diverse range of products. such as drugs, healthcare products and medical devices at JD, Ali and PDD, while also establishing its presence on emerging Internet e-commerce platforms including Meituan, Douyin and Kuaishou. Dong-E-E-Jiao made a major effort in the construction of a servicing regime featuring "small headquarters and big businesses", as it expedited the construction of a corporate data management regime by adjusting its organisational regime and setting up a "digital transformation accelerator", such that its effort could be more focused on the customers. Meanwhile, the reshaping of its organisational format has facilitated demand at the frontline sales end and supported for the headquarters underpinned by improvements in the operating, customer servicing and product innovation abilities of the enterprise. Online sales amount of approximately RMB300 million was reported for the Reporting Period, representing year-on-year growth of nearly 25.0%. Moreover, Dong-E-E-Jiao, CR Sanjiu and CR Zizhu played to their respective strengths by constructing membership regimes for different sub-segments. For example, CR Zizhu established a private platform catering to female genital health, while Dong-E-E-Jiao commenced the construction of a private platform focused on E-Jiao-based nutrition and vitality enhancement products.

In connection with intelligent manufacturing, CR Sanjiu sought breakthrough with a focus on the continuous production model based on online monitoring technologies, in a major effort to build a new end-to-end network distributed-cloud coordinated TCM manufacturing model driven by innovative technologies such as digital twin, Cloud Computing, IOT and blockchain. On top of the informatisation of production and operation, the TCM tracking, production management, equipment management, warehouse management and digital twin systems have been built, facilitating end-to-end digital management of the pharmaceutical industry chain comprising raw materials, production, warehousing, quality and equipment. Through the inter-connection of all business systems and accumulation of all business data from the end-to-end process, the intelligentisation of production decision has been achieved. With the aid of the digital twin technology, simulated models for all workshops were created to provide support for decision-making relating to capacity expansion. During the Reporting Period, CR Sanjiu's "New TCM Formula Granule Intelligent Manufacturing Model Application Project" and "TCM Injection End-to-end Industry Chain Digital Manufacturing Technology Development Project" both passed the inspection process of the PRC Ministry of Industry and Information Technology (MIIT), establishing themselves as benchmark projects for the pharmaceutical industry and exemplary cases for the research on digital management for group corporations.

Stepping up with international market development for domestic and overseas breakthroughs when the opportunity arises

In an active bid to obtain global resources, the Group enhanced the acquisition of global products and technologies as it continued to identify products with relatively high clinical value and market value, while seeking ongoing diversification of its product and R&D pipelines to drive upgrade in industrial product types, production capacity and R&D capability. We continued to seek international opportunities in strategic cooperation, product introduction and joint ventures, with a view to swift diversification and optimisation of its product portfolio.

Following the implementation of three selected international projects in 2020, the Group further advanced another two international projects, among selected projects of last year which were meticulously selected last year, during the Reporting Period and secured 12 new overseas cooperation projects in relation to innovative products for the treatment of: blood, cancer, terminal kidney diseases, ophthalmological diseases and endometriosis.

In implementation of China's "Summary of Medium– to Long-term Planning for Foreign Exchange and Cooperation in Traditional Chinese Medicine (2011-2020)" and "Traditional Chinese Medicine "Belt and Road" Development Planning (2016-2020) and in order to facilitate exchanges in traditional medical culture among member nations of the Shanghai Cooperation Organisation, promote the export of traditional Chinese medicine, make contributions on behalf of China to world health and traditional world medicines, and enhance the influence of traditional Chinese medicine, the Group advanced, over a united effort of multiple departments, the registration and export of TCM, including cold granules and orthopedic pain plasters, among others, in Central Asian countries such as Uzbekistan during the Reporting Period. Currently, business consensus has been reached with foreign companies with plans to enter into product authorisation and cooperation agreement, in an effort to explore and advance market development in the "Belt and Road" countries.

In March 2021, CR Sanjiu and Ryukakusan, a leading Japanese brand for throat drugs, officially entered into a strategic cooperation agreement, pursuant to which CR Sanjiu will be responsible for the marketing and online as well as offline sales of Ryukakusan's lozenge granule products in China. Given the rapid development of new retail models and the trend of consumption upgrade, CR Sanjiu and Ryukakusan will seize opportunities in the industry and join forces to develop the throat health market of China and defend the throat health of Chinese consumers. The collaborative products will be officially launched in the China market during the second half of the year.

In June 2021, Runsheng Pharmaceutical Co., Ltd., ("**Runsheng**"), a company jointly invested in by CR Sanjiu and CR Pharmaceutical Industrial Investment Fund, submitted an ANDA application to FDA for its Advair Diskus generic drug. The application has been admitted by FDA and is currently in the vetting process. As a product type that had not more than three similar counterparts, the application was given the status of priority review by FDA. Salmeterol Xinafoate and Fluticasone Propionate Powder for Inhalation is a high-end generic drug for Advair® Diskus® of GSK used for maintenance therapy of asthma and airflow blocking and reducing acute exacerbation of chronic obstructive pulmonary disease (COPD) for patients aged four or above. CR Sanjiu obtained the China region dealership for Salmeterol Xinafoate and Fluticasone Propionate Powder for Inhalation after its launch, which will help to fill up CR Sanjiu's void in the inhaler segment.

In July 2021, CR Double-Crane obtained exclusive authorisation from U.S. company Novita for the development, production and commercialisation of NP-G2-044 fascin inhibitor, a new target medicine, in Greater China (Mainland China, Hong Kong China, Macau China and Taiwan China). As the world's first molecular fascin inhibitor, NP-G2-044 can effectively curb the protein function of fascin, thereby lowering tumor invasion and blocking tumor metastasis. Having completed Stage I clinical trial in the United States and currently being prepared for Stage II clinical trial, this chemical compound is a prospective oral medicine for controlling tumor metastasis that could fill the void in tumor metastasis therapy.

2. Pharmaceutical Distribution Business

In the pharmaceutical distribution business, the Group has implemented a regional development and established platform companies with core competitiveness in capability and service to drive development in multiple business segments, while vigorously building specialised management teams. Digital transformation was driven by innovation and capital, as the "Internet + business" model was optimised on an ongoing basis. Robust product barrier ability was enhanced to drive the development of international business, while ongoing optimisation of the product mix was in progress with a special focus on expansion into the primary medical market. The development of corporate businesses has been expedited to strengthen our specialized servicing ability in medical device distribution.

During the Reporting Period, the Group's pharmaceutical distribution business achieved segment revenue of HK$96,304.4 million, representing an increase of 27.2% compared with the first half of 2021 and an increase of 17.1% on a RMB basis. During the first half of 2021, the gross profit margin of the distribution business was 6.2%, representing a decrease of 1.7 percentage points as compared to the same period of last year, which was mainly attributable to the decrease in revenue from export of anti-epidemic supplies, which had a higher gross profit margin, following the easing of the pandemic.

The Group advanced its "medical + pharmaceutical digitalisation" strategy with full force and made a major effort to expand its online business, cross-border e-commerce and Internet medical healthcare, consistently driving new development in the pharmaceutical business through innovation. During the Reporting Period, the AI visit application created by the Group became operational at Aerospace General Hospital, while the Shandong regional centre of the "CR Micro Medicine" Haemophilia Digital Innovation Centre has commenced online operation at the Shandong Medical Insurance and Big Health Platform. The Group and China Resources Medical Holdings Company Limited ("**CR Medical Holdings**") launched in joint venture the「健宮醫院」Internet hospital project which allowed multi-point medical practices. Meanwhile we cooperated with upstream pharmaceutical enterprises in projects such as "scientific laboratory construction and clinical competence enhancement" and undertook the online consultation business of CR Medical Holdings. The haemophilia care centre went online at the Shandong Medical Insurance Big Health Platform, while we entered into strategic cooperation with Immunotech for the joint development of innovation platform and Internet medical healthcare and digital innovation centre for special illnesses. The Group made consistent improvements to its distribution regime and explored retail business scenarios, underpinned by the prospective layout of Internet-based services. During the Reporting Period, CR Pharma e-Store, our business-to-business (B2B) online platform recorded a transaction amount of RMB13.8 billion, increasing by 24% compared to the same period last year. At the same time, the Group actively provided services such as business-to-consumer (B2C), O2O operation, supply-chain finance and virtual united warehouse to end customers, which enhanced the comprehensive competitiveness of the Group's commercial segment in the end-market. As at the end of the period, close to 1,000 community drugstores were using our operational agency service on a trial basis.

During the first half of 2021, the Group continued to enhance its capability for coordinated acquisition of product resources by leveraging the ability of its product strategy committee to negotiate for product varieties on a consolidated basis, as it actively participated in drug distribution under centralised procurement and entered into cooperation with a number of pharmaceutical enterprises which had passed the consistency evaluation. In the meantime, the Group was actively developing capabilities for customs import service and registration tests, while increasing cooperation with high-calibre international partners to enhance the import of different product types. During the Reporting Period, the Group entered into strategic cooperation with a number of internationally renowned enterprises such as Roche and secured national general distributorship, strategic distributorship and import agency for several heavy-weight products, in a further enrichment of the product portfolio of Group's distribution business in tumor treatment, blood products and testing and analytical instruments. The Group has also started cross-border cooperation with Taiho and Mitsui to drive international business development.

In an active bid to forge a second growth curve, the Group has prospectively deployed in premium segments such as medical beauty and large devices. During the Reporting Period, the Group advanced the specialisation of its medical device distribution business with vigorous efforts through the establishment of nationwide specialised platforms, specialised product lines, specialised service companies and specialised medical device headquarters, with the establishment of independent medical device companies in 16 provinces, while continuing to pursue in-depth development of key segments such as orthopedics, interventional supplies, IVD in vitro diagnostics and general supplies. During the Reporting Period, the Group's medical device distribution business reported sales revenue of approximately RMB10.3 billion, representing an increase of close to 62% as compared to the same period of last year, excluding all the effect of all anti-pandemic supplies exports. The Group actively extended its medical device business to the production side, as the specialised orthopedic service platform and platform for marketing licensee officially came into operation.

Medical beauty represents a premium competitive ground with a high medical threshold and high ceiling for spending. The Group has formed an in-depth layout for the medical beauty business through major strategies on four ends: production, service, quality control and business customers, with the aim of becoming a leading enterprise in the domestic medical beauty sector by the end of the "14th Five-Year Plan". The Group actively acquired medical beauty resources in both the domestic and overseas markets, as it was engaged in active negotiations for national general distributorships for 3 new medical beauty products, marketed through its regional companies close to 100 product types from more than 20 domestic and foreign manufacturers and served as the South China distribution platform for the hyaluronan products of Galderma. In the meantime, we were engaged in intensive development of regional markets. As at the end of the Reporting Period, the Group's medical beauty business recorded sales revenue of over RMB200 million from more than 1,300 institutional customers.

In the meantime, in response to the trend of market restructuring, the Group's distribution business stepped up with efforts to expand medical terminals, strengthen construction of platforms at local and municipal levels and extend our network downwards to penetrate the small-town and rural markets. We sought to increase our share of the end markets by driving the development of multiple business formats in advantageous areas, while enhancing our academic competence and innovative digital marketing to meet the requirements for specialised promotion for medical specialties and treatment of broad chronic diseases in the primary market. As at the end of the Reporting Period, the Group's pharmaceutical distribution network covered 28 provinces, municipalities and autonomous regions across the country with close to 110,000 clients, including 8,771 second–and third-class hospitals and close to 60,000 primary medical institutional clients.

The Group is consistently strengthening the construction of an integrated, specialised, large-scale and standardised modern logistics system to build an integrated pharmaceutical logistics network with comprehensive functions, nationwide coverage and emphasis on both efficiency and safety, in order to foster core competitive advantages. As at the end of the Reporting Period, the Group's distribution business had 171 logistics centers, with main warehouses in Beijing and Shanghai, which were capable of the storage and distribution of temperature-controlled drugs throughout the nation, as well as business data feedback and the transmission of purchase orders via the proprietary smart logistics platform ILP, integrated WMS, TMS and cold chain systems, allowing the Group to provide end-to-end management of vaccines, blood products and other products requiring specific temperature control. In the meantime, the Group commenced a special digitalisation project for its logistics platform to integrate logistics resources through digitalisation and intelligentisation, as well as to provide digitalised and visualised third-party logistics service to manufacturers and other clients, in ongoing enhancement of its servicing ability in the distribution business.

3. Pharmaceutical Retail Business

In the pharmaceutical retail business, the Group stepped up with the integration of resources and enhanced the construction of an integrated retail operation regime, while actively introducing innovative drugs and other premium products and expediting the development of pharmacies in the form specialty pharmacy and community pharmacy. We sought to foster competitive strengths in terms of standardisation, differentiation and specialisation, while vigorously advancing the building of regimes and business development in relation to the new retail business.

During the Reporting Period, the Group's retail pharmaceutical business recorded revenue of HK$3,593.7 million, representing an increase of 20.1% over the first half of 2021 (an increase of 10.6% in terms of RMB), mainly due to faster growth in revenue from the high-worth drug direct-to-patient ("**DTP**") business. The Group's DTP business achieved revenue of approximately RMB2,096 million in the first half of 2021, representing an increase of approximately 21.3% year-on-year. The gross profit margin of the retail business was 9.0%, representing a decrease of 2.1 percentage points as compared with the same period of last year. The decrease in gross profit margin was attributable to the increase in the weighting of DTP business which had a lower gross profit margin.

Driven by policies such as "prescription outflow", retail pharmacies were undergoing a process of transition towards standardisation and specialisation, while designated medical insurance resources were tilted towards premium pharmacies, contributing to the further accelerating concentration of the retail market. The Group continued to enhance the fostering of specialised capabilities in store operation and management in a persistent effort to build high-quality pharmacies. During the Reporting Period CR Pharmaceutical built the DTP backstage integrated operation and pharmaceutical service platform and made improvements to the construction template of the infusion centre. CR drugstores accounted for 34 places in the "2020-2021 Top 100 Standalone Pharmacies in China", a nearly two-fold year-on-year increase in the numbers of stores making the list. In the latest league table of domestic top 100 pharmacies in terms of revenue per ping, CR drugstores monopolised the top three spots. Meanwhile, we continued to enhance operational planning and standardisation control for retail stores and improved the coverage of the retail ERP system, while vigorously expanding the network of specialty pharmacies for the DTP business. During the Reporting Period, the Group established a pharma–diagnosis-healthcare complex in Jiangsu providing health management services relating to TCM nutrition and others. The development of pharma–diagnosis-healthcare complexes in Beijing, Qingdao, Jiangsu, Kunshan and Zhengzhou has also commenced, aiming to provide customers with comprehensive services such as intelligent inspection and test, online consultation and chronic illness management, among others. As of 30 June 2021, the Group had a total of 846 self-operated retail pharmacies, including 203 DTP specialty pharmacies across 89 cities in the PRC.

The rise of the Internet coupled with the backdrop of epidemic control have propelled the rapid development of Internet-based medical consultation services, while the "Internet+" development of the pharmaceutical industry was also gaining pace. Meanwhile, the Group established a new strategic management regime on the back of capability building and model shifting in a bid to integrate internal resources in depth, step up with third-party cooperation to seek complementary benefits in capabilities and resources, while promoting innovative business models and diversified marketing approaches. During the Reporting Period, CR Pharmaceutical explored new servicing models through joint ventures with competent partners and enhanced its supply chain development. A nationwide sales platform for oncological drugs and innovative drugs was established in joint venture with Vivo Capital, while "潤藥寶", an exclusive product for patients' benefit, was launched in association with Taiping General Insurance to establish four major patient-centric service regimes.

4. Product Research and Development

The Group regards to research and development innovation as an important driving force for its long-term development and has continuously increased its investment in research and development. During the Reporting Period, R&D expenditure amounted to approximately RMB622.0 million. Guided by national policies, industry technology development trends, and market demands, the Group enhanced its core competitiveness through a combination of generic and innovation products and focused its research and development in the fields of the cardiovascular system, respiratory system, anti-tumor, gastrointestinal tract and metabolism, central nervous system, immune system, anti-infection, hematology, and genitourinary system. At the end of the Reporting Period, the Group had 3 State-certified engineering technology research centers, 3 State-certified enterprise technology centers, and 17 research centers certified at the provincial and municipal levels, as well as post-doctoral research workstations with more than 1,200 research and development staff.

The Group enhances its development of industry – academia – research alliance with first-class domestic and international research institutions through a multi-pronged R&D strategy combining in-house research and external cooperation. We have also continued to improve our R&D mechanism to develop a market-based talent recruitment system and a talent grooming system catering to the requirements at different levels, underpinned by a stronger effort on the recruitment of leadership people. In 2021, Dr. Yang Jianguo joined China Resources Biopharmaceutical Co., Ltd. ("**CR Biopharm**"), a subsidiary of the Group. Dr. Yang was previously a research scientist at the School of Pharmacy of the University of Illinois, a biochemist at Abbott, a senior scientist at AstraZeneca and the principal scientist at Sanofi. Joining CR Biopharm as chief strategic officer, he will help the Group to bolster its R&D capacity and promote external cooperation.

During the Reporting Period, the Group established the Academician Zhao Yufen Work Station and Joint Innovation Platform, which was principally engaged in the industry – academia – research coordinated R&D on innovative polypeptide drugs with a special focus on peptide drug conjugate, peptide drug for respiratory distress treatment, polypeptide separation and purification and its higher order structure characterisation. The research was based on the screening of lead compound, whereby target compounds with development value were identified, followed by foundation research focused on drug developability, manufacturing and preparation technology and commercialisation. Meanwhile, in addition to the improvement of the existing R&D technology platform, an early-stage R&D platform for small molecule new drugs and antibody drugs has also been developed and completed, while an R&D technology platform for peptide drugs and biochemical drugs has been obtained through merger and acquisition. As at the end of the Reporting Period, the small molecule innovative drug R&D platform had covered the key technologies for the pre-clinical and early clinical development stages of small molecule new drugs and formed fully proprietary R&D capabilities.

During the Reporting Period, the Group continued to diversify and optimise its innovative R&D pipeline through authorised introductions and industry-academia-research alliances, in an active effort to enhance external innovation and cooperation.

As of 30 June 2021, the Group had approximately 200 new products under research, including 68 innovative drugs under research, mainly in the fields of anti-tumor and immunity, metabolism and endocrine diseases, respiratory system, hematology, cardiovascular disease and classical Chinese medicine formulas. During the Reporting Period, the Group obtained 61 patent authorizations and filed 54 new patent applications. Production registration applications for 15 products, including Denogestrel/Denogestrel Tablets (2mg), Tenofovir Alafenemide Fumarate and Ibuprofen Suspension, among others, were submitted to the NMPA, while production approvals from the NMPA were obtained for 6 products, including Mitoxantrone Hydrochloride Injection for tracking purposes, Medium and Long Chain Fat Emulsion Injection, Finasteride Tablet (1mg), Linazolamide Tablet, Moxifloxacin Hydrochloride Eye Drops and Parecoxib Sodium for Injection, in a further diversification of the product portfolio of the Group's pharmaceutical manufacturing business. Among these products, Mitoxantrone Hydrochloride Injection for tracking purposes, a Class 2 new drug, has been included as a significant project in significant new drug innovation and manufacturing under the nation's "13th Five-Year-Plan", and is also the first officially approved domestic product for using in thyroid surgery to track draining lymph nodes.

During the Reporting Period, the Group accelerated the multi-point deployment of original biologics, improved innovative drugs, and biosimilars in a bid to achieve comprehensive balance in the mid-and long-term R&D risks and values of the projects under research. Currently, our biopharmaceutical business has three products (Baijieyi, Ruitongli, and Jialinhao) in the market. The research on the new indications for acute stroke and acute pulmonary embolism of Ruitongli, which has been included in the National Reimbursement Drug List, is currently in the phase II clinical stage, while another clinical study application submitted to the NMPA for an expanded new indication, deep vein thrombosis, has also been approved. As at the end of the Reporting Period, the Group had 12 biological drugs under research, of which 9 were bio-innovation drugs focused on therapeutic areas such as anti-tumor, immunity and endocrine diseases.

The Group attaches great importance to and jointly promotes the consistency evaluation of the quality and efficacy of generic drugs through multiple channels. As at the end of the Reporting Period, more than 64 projects had been earmarked for consistency evaluation, while more than 30 projects had undergone bioequivalence clinical trials, among which application for Sodium Valproate Tablets, Fluconazole sodium chloride injection, Mannitol Sodium Chloride Injection and Allopurinol Tablets had been completed. During the Reporting Period, two products, Nifedipine Sustained-release Tablets (II) and Irbesartan Dispersible Tablets, passed the consistency evaluation, as we became the first domestic manufacturer to have passed the evaluation for Irbesartan Dispersible Tablets.

OUTLOOK AND FUTURE STRATEGIES

The “14th Five-Year Plan” is a critical period for the nation’s new journey in the comprehensive development into a modernised socialist country, as well as a crucial period for the transformation, upgrade, phasing-out and innovation of the pharmaceutical industry. Fully leveraging this important period for industry consolidation, CR Pharmaceutical will seize opportunities and establish its presence at vantage points to open up new frontiers amidst an evolving landscape in tandem with the trend. With ongoing efforts to reinforce our fundamentals and cement our industry position, we will accelerate innovation and transformation to enhance the quality of our development. Year 2021 marks the commencement of the “14th Five-Year Plan”. For the year, CR Pharmaceutical has adopted “Reform, Innovation and Qualitative Development” as the management theme; R&D investment will be increased to strive for breakthroughs in innovation; stronger efforts will be made in external merger and acquisition with a special focus on reinforcing, complementing and strengthening our business chain; internal improvement will also be emphasised to enhance the quality of development; the development of digitalisation and intelligentisation capabilities will be strengthened and model innovation will be encouraged to enhance management efficiency; risk control measures will be fortified to ensure stable operations and provide a solid foundation for developments during the “14th Five-Year Plan”.

1. To increase effort in R&D innovation, expedite development of key regional innovation R&D platform and enhance capability in innovation R&D

The Group will seize sound opportunities presented by the national development of pharmaceutical innovation to achieve breakthroughs in investment in innovation R&D, building of platform for innovation, incentive mechanism for innovation, application of results in projects and progress of key projects. Key measures include the following:

1) In connection with R&D investment: To substantially increase the Group's total R&D investment as a proportion of revenue. Regarding the direction of R&D investment, the development of innovation platform capabilities will be strengthened on the one hand, such as further improving the construction of R&D platforms for chemical drugs and innovative biopharmaceuticals and advancing the construction of the TCM innovation platform. Meanwhile, our product pipelines will be diversified as we step up with developments in anti-tumor, immunity and cardiovascular drugs. The development of products such as antibody, vaccine and recombinant protein will be a major focus.

2) In connection with the construction of innovation platform: To accelerate the construction of an innovation R&D platform for chemical drugs and biopharmaceuticals in Guangdong – Hong Kong – Macau and Yangtze River Delta Region, advance the construction of a TCM innovation platform at a faster pace, and improve capabilities in innovation R&D. High-end preparation technology, sophisticated synthetic technology and products with special packaging will be developed. A platform of differentiated technologies for products such as oral sustained-release preparation, inhaler and emulsion injection preparation will also be built.

3) In connection with innovation incentive mechanism: To develop a market-oriented incentive mechanism that will enhance the effect of appraisal and incentive, with a special emphasis on the development of innovative capabilities and the commercialisation of innovative efforts. OKR performance management will be explored and promoted and new staff incentive schemes will be formulated. As a pilot enterprise for "Exemplary Scientific Reform Actions", CR Biopharmaceutical will introduce in stages well-matched strategic investors which share the same goals and offer significant synergies to increase the efficiency of capital allocation and corporate operation. China Pharmaceutical R&D Center has set up a joint laboratory with the Shenzhen Research Institute of Tsinghua University in an attempt at collaborating in innovation and motivating team vigor.

4) In connection with project introduction: To consistently diversify our internal innovative product pipeline as well as to enhance external cooperation based on the model of "self-innovative research + introduction", we will strengthen the development of industry – academia – research alliances with top-notch domestic and international R&D institutions, such as National Center for Nanoscience and Technology, Tsinghua University, Nankai University and other leading scientific research institutions, to forge long-term, comprehensive cooperation with a strong focus on technology R&D, commercialisation, resource sharing and talent training for the advancement of project cooperation and commercialised application. Our ability to integrate resources for innovation will be further enhanced.

5) In connection with R&D teams: To place a stronger emphasis on innovation R&D in talent recruitment and training, with a view to the rapid enhancement of R&D capability through the recruitment of high-calibre personnel and merger and acquisition of R&D teams. A talent development regime compatible with our business development planning and innovative enterprises will be developed. The talent supply mechanism will be facilitated through two approaches, namely "external recruitment + internal training". Plans are in the pipeline to recruit 60 experts in innovation R&D, comprising 20 in chemical drug innovation R&D and 40 in biopharmaceutical R&D. We will step up with the acquisition of high-calibre R&D technical personnel, with a special focus on clinical experts in drug discovery and clinical plan formulation.

2. To expedite investment in merger and acquisition in order to seize opportunities presented by deepened industry reform and enhance our presence in innovation and high growth areas

External mergers and acquisitions have always been one of the key engines of the Group's rapid development. Seizing the historic opportunity presented by the integration and concentration of the Chinese pharmaceutical industry, the Group will accelerate its merger and acquisition and continue to increase and enhance its merger and acquisition investment in areas such as innovative drugs, biopharmaceuticals, vaccines and medical devices to strive for breakthrough in new frontiers. At the same time, we will seek to establish our presence in new technologies commanding high growth through a diversified range of investment means. By fully exploiting the advantage of the industry fund and its function as a pathfinder, with a special emphasis on establishing presence in unclaimed areas with sound potential, the Group will be able to incubate new business opportunities as well as to support and serve the development of profit centres in investment and merger and acquisition. In the pharmaceutical manufacturing business, the Group will aim to consolidate premium resources in the industry with a special focus on corporate goals in consumer healthcare (CHC), biopharmaceuticals and innovation drugs, as well as exclusive product categories or competitive categories with higher technological thresholds, such as specialty generic drugs. In the pharmaceutical distribution and retail businesses, we will focus on medical care, medical devices, retail and new retail businesses, with a special emphasis on merger and acquisition and platform building in relation to leading enterprises with a top status in the relevant sub-segments and key product lines.

3. To enhance the quality of internal development by consistently optimising our business mix, reinforcing fundamental management and facilitating quality and efficiency enhancement, with a view to sustainable healthy development

In tandem with policy changes and structural market adjustments, the Group will continue to optimise and drive the transformation and upgrading of its business mix in active response to the impact of such policies as centralised procurement and health insurance cost control.

1) Normalisation of cost reduction and efficiency enhancement: through a range of measures such as green low-carbon recycling development, the Group will build an operational regime for green production. The deployment of production capacity will be optimised, whereby outdated capacity will be phased out and the intelligent manufacturing will be upgraded to achieve economies of scale. Technology innovation and process innovation will be continuously pursued to enhance the Group's competitive strengths. Efforts will be made to advance operational excellence and reinforce fundamental management, especially in relation to the control over raw material procurement, marketing expenses, per capita output and logistical efficiency.

2) Ongoing product mix optimisation: to stabilise cornerstone product, while actively developing new products and expanding into new businesses to diversify our product lines in continuous optimisation of our business portfolio according to consumers' requirements. We will improve our ability in specialist areas and enhance our presence in high-potential areas such as anti-tumor and psychiatric/neurological drugs. The Group will also facilitate expansion into new businesses such as commercial segment and medical devices to foster new business growth niches. Active investigations will be made in "+Internet" applications for the development of new models, with a view to enhancing our overall supply chain servicing capability and fostering core competitive strengths.

4. **To drive reforms with effective outcomes seizing the opportunity presented by SOE reform**

To deepen mixed ownership reform in an active and cautious manner and advance the mixed ownership reform of CR Biopharmaceutical; to optimise business deployment and business mix, actively leveraging opportunities for cooperation in strategic reorganisation and merger and acquisition among central enterprises, the central government and local governments in areas such as blood products, vaccines, bio-diagnostic reagents, innovative drugs and innovative medical devices; to increase management efficiency by optimising management control hierarchy, enhancing effort to reduce institutions at the headquarters and streamlining and clarifying the powers and responsibilities and subject and scope of operational control of subsidiaries; to drive officers' motivation for work by implementing the manager tenure system and contract-based management and improving and optimising incentives for direct managers; to protect officers' motivation for work and venture with the implementation of "three zone differentiations".

5. **To focus on business synergies and resource integration, optimise resource allocation and enhance operational efficiency**

CR Pharmaceutical will unleash further synergies, to develop a cross-regional, multi-dimensional and multi-model synergy mechanism and drive the implementation of synergy projects.

1) Regional synergy: to forge regional advantages through cooperation in advantageous businesses in the context of the Company's overall regional strategic planning and to forge overall competitive advantages through cooperation in advantageous businesses and swift expansion of regional markets in the context of the Group's regional strategic planning and the regional deployment strategy of various enterprises.

2) Resources sharing: To form a regional business profile underpinned by top-to-bottom joint actions and complementary advantages and a synergetic platform for the pharmaceutical segment to develop in-depth synergies in government affairs, market channels and customer resources by fully leveraging the combined advantage of CR Pharmaceutical, CR Holdings and each profit centres in regional resources.

3) Synergistic operation through a multi-model approach: To select the best models based on two major criteria, the market-oriented principle and innovation, which include joint negotiations, joint equity investment, uniform media communication, shared logistics and the building of technology platforms.

4) Key initiatives: in connection with the return to Hong Kong operations, to procure synergy with the Group's businesses in Hong Kong, such as Vanguard, properties and logistics and identify opportunities for cooperation in new businesses acquired by the Group; to bring into full play the synergistic value of the industry fund: to clarify the positioning of CR Pharmaceutical Industry Fund and define its investment directions to ensure strong synergy with the businesses; to drive synergy between the industrial and commercial segments and among different industrial segments: for example, through the joint launch of initiatives such as "CR Pharmaceutical Brand Day".

5) To build a specialised platform: joint establishment of a specialised platform featuring characteristics of the pharmaceutical and health industry in accordance with the trend of digitalisation and intelligentisation on the back of coordinated efforts from the Group headquarters, each profit centres and partners, in order to forge core competitive strengths.

6. **To explore the introduction of new products and technologies overseas in a bid to expand and diversify international cooperation and enhance our general competitiveness**

The Group will continue to improve the expansion and development of platforms for international cooperation and further diversify its channels for international cooperation. Leveraging its existing business and competitive advantages, the Group will seek further optimisation and upgrade of its product portfolio and business models through a variety of means, such as product import, distribution agency, commissioned production, joint ventures and cooperative development. By globally identifying launched or unlaunched product resources and introducing products with higher clinical value and market value, the Group will consistently diversify its product portfolio and R&D pipeline to drive upgrades in product categories for the industry, production capacity and R&D capability. Cooperation with distinguished foreign R&D institutions will be enhanced to step up with the build-up of technological strength. Cooperation with world-leading pharmaceutical enterprises will also be strengthened to increase distributorships or the localisation of import products with a view to product mix optimisation. The development of overseas business at an appropriate timing will also be pursued, with the aim of enhancing our competitiveness in commercial circulation.

7. **Benchmarking against first-rate enterprises for a major uplift in management standards**

Efforts will be made to conduct comprehensive analysis on the best practices of first-rate international enterprises, identify weak links in corporate management in a probing manner, and enhance development of the system regime, organisational regime, accountability regime, execution regime and assessment regime for corporate management. We aim to achieve comprehensive enhancement of our management competence and business standard, specifically in eight areas: strategic management, organisational management, operational management, financial management, technology management, risk management, human resources management and informatisation management. The corporate management regime will be optimised to enhance management competence, reinforce management foundation and strengthen management innovation, with a view to achieving notable improvements in overall management competence.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent treasury management policy to maintain a solid and healthy financial position.

The Group funds its operations principally from cash generated from its operations, bank loans and other debt instruments and equity financing from investors. Its cash requirements relate primarily to production and operating activities, business expansion, repayment of liabilities as they become due, capital expenditures, interest and dividend payments.

As at 30 June 2021, the Group had cash and cash equivalents of HK$17,000.2 million, which were denominated primarily in RMB and HKD.

As at 30 June 2021, the RMB-denominated and HKD-denominated bank borrowings accounted for approximately 80.7% and 19.3%, respectively of the Group's total bank borrowings. Among the total bank borrowings as at 30 June 2021, a substantial portion of approximately 97.2% would be due within one year.

As at 30 June 2021, the Group's current ratio (being the ratio of total current assets to total current liabilities) was 1.2:1 (31 December 2020: 1.2:1).

As at 30 June 2021, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 62.1% (31 December 2020: 52.6%).

In the first half of 2021, the Group's net cash used in operating activities amounted to HK$1,347.9 million (in the first half of 2020: net cash from operating activities of HK$11.1 million). In the first half of 2021, the Group's net cash used in investing activities amounted to HK$3,393.9 million (in the first half of 2020: net cash used in investing activities of HK$3,855.9 million). In the first half of 2021, the Group's net cash from financing activities amounted to HK$10,248.4 million (in the first half of 2020: net cash from financing activities HK4,742.0 million).

As at 30 June 2021, the Group had not used any financial instruments for hedging purposes.

PLEDGE OF ASSETS

As at 30 June 2021, the Group's total borrowings amounted to HK$57,104.0 million (31 December 2020: HK$36,249.3 million), of which HK$60.1 million (31 December 2020: HK$101.1 million) were secured and accounted for 0.1% (31 December 2020: 0.3%) of the total borrowings.

Certain of the Group's trade and bills receivables with an aggregate net book value of HK$11.5 million (31 December 2020: HK$112.5 million) have been pledged as security.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no material contingent liabilities (31 December 2020: nil).

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's operations are located in the PRC and most of its transactions are denominated and settled in RMB. The Group is exposed to foreign exchange risks on certain cash and cash equivalents, bank borrowings and trade payables denominated in foreign currencies, the majority of which is denominated in USD. During the Reporting Period, the Group did not enter into any derivatives contracts to hedge against the foreign exchange risk.

CAPITAL EXPENDITURE

The Group's capital expenditure comprised mainly additions to property, plant and equipment, intangible assets, investment properties and right-of-use assets, but excluding additions resulting from acquisitions through business combination. In the first half of 2021, the Group's capital expenditure amounted to HK$1,164.2 million (the first half of 2020: HK$1,202.8 million), which was primarily utilised for expansion and upgrading of manufacturing facilities, development of distribution networks, and upgrading of logistic systems. Such capital expenditure was funded primarily by using cash generated from the Group's operating activities, bank borrowings and proceeds from the Company's initial public offering.

HUMAN RESOURCES

As at 30 June 2021, the Group employed around 64,000 staff in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market rate while performance bonuses are granted on a discretionary basis. Other employee benefits include medical insurance, training etc..

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months period ended 30 June 2021.

CORPORATE GOVERNANCE

The Group is committed to maintain high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code during the Reporting Period, save and except the following:

In respect of code provision A.4.1 of the CG Code, all the non-executive Directors are not appointed for a specific term, and in respect of code provision D.1.4 of the CG Code, the Company did not have formal letters of appointment for Directors. Since all Directors are subject to re-election by the Shareholders at the annual general meeting and at least about once every three years on a rotation basis in accordance with the articles of association of the Company, there are sufficient measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code. In respect of code provision E.1.2 of the CG Code, the chairman of the Board was not able to attend the annual general meeting of the Company held on 28 May 2021 due to other business commitment.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period and up to the date of this announcement, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS BY ERNST & YOUNG

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021 have not been audited, but have been reviewed by Ernst & Young, the Company's external auditors, whose review report is contained in the Company's interim report for the six months ended 30 June 2021 to be despatched to each shareholder.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2021.

PUBLICATION OF THE INTERIM RESULTS AND 2021 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.crpharm.com), and the 2021 interim report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
China Resources Pharmaceutical Group Limited
Wang Chuncheng
Chairman

Hong Kong, 25 August 2021

As at the date of this announcement, the Board of the Company comprises Mr. Wang Chuncheng as chairman and non-executive Director, Mr. Han Yuewei, Mr. Li Xiangming and Mdm. Weng Jingwen as executive Directors, Mr. Yu Zhongliang, Mdm. Guo Wei, Mr. Hou Bo and Mr. Qing Mei Ping Cuo as non-executive Directors and Mdm. Shing Mo Han Yvonne, Mr. Kwok Kin Fun, Mr. Fu Tingmei and Mr. Zhang Kejian as independent non-executive Directors.