

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



國藥控股股份有限公司

SINOPHARM GROUP CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)
(Stock Code: 01099)

ANNOUNCEMENT ON 2023 INTERIM RESULTS

The board of directors (the “**Board**”) of Sinopharm Group Co. Ltd. (the “**Company**” or “**Sinopharm Group**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”) together with the comparative figures for the corresponding period of last year as follows:

* *The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name “Sinopharm Group Co. Ltd.”.*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in Renminbi thousands unless otherwise stated)

	Notes	For the six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	5	300,950,280	261,471,723
Cost of sales	8	<u>(277,679,599)</u>	<u>(239,814,229)</u>
Gross profit		23,270,681	21,657,494
Other income	6	252,209	233,683
Selling and distribution expenses	8	(8,433,808)	(7,777,626)
Administrative expenses	8	(3,967,751)	(3,659,428)
Impairment losses on financial and contract assets		(1,289,559)	(987,599)
Losses on derecognition of financial assets measured at amortised cost		<u>(250,389)</u>	<u>(409,515)</u>
Operating profit		9,581,383	9,057,009
Other gains, net	7	129,950	28,268
Other expenses	7	(1,749)	9,825
Finance income		350,304	319,126
Finance costs		(1,768,134)	(1,903,436)
Finance costs, net	10	(1,417,830)	(1,584,310)
Share of profits and losses of:			
Associates		571,300	490,851
Joint ventures		<u>2,977</u>	<u>2,029</u>
		574,277	492,880
Profit before tax		8,866,031	8,003,672
Income tax expense	11	<u>(1,972,800)</u>	<u>(1,775,054)</u>
PROFIT FOR THE PERIOD		<u>6,893,231</u>	<u>6,228,618</u>
Attributable to:			
Owners of the parent		4,104,439	3,693,744
Non-controlling interests		<u>2,788,792</u>	<u>2,534,874</u>
		<u>6,893,231</u>	<u>6,228,618</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (expressed in RMB per share)			
– Basic and diluted	12	1.32	1.18

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousands unless otherwise stated)

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	6,893,231	6,228,618
OTHER COMPREHENSIVE (LOSS)/INCOME		
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Remeasurements of post-employment benefit obligations net of tax	(8,115)	(1,652)
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	1,013	3,640
Income tax effect	(253)	(910)
Fair value gains on financial asset, net of tax	760	2,730
<i>Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods, net of tax</i>	<u>(7,355)</u>	<u>1,078</u>
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	5,460	5,420
Share of other comprehensive (loss)/income of associates	(2,393)	3,197
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods, net of tax	<u>3,067</u>	<u>8,617</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	<u>(4,288)</u>	9,695
TOTAL COMPREHENSIVE INCOME, NET OF TAX	<u>6,888,943</u>	<u>6,238,313</u>
Attributable to:		
Owners of the parent	4,098,995	3,700,679
Non-controlling interests	2,789,948	2,537,634
	<u>6,888,943</u>	<u>6,238,313</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Renminbi thousands unless otherwise stated)

	<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Right-of-use assets		7,214,722	7,030,398
Investment properties		517,526	538,338
Property, plant and equipment		12,440,645	12,616,766
Intangible assets		10,138,701	10,170,919
Investments in joint ventures		23,148	20,233
Investments in associates		9,218,088	8,967,418
Equity investments designated at fair value through other comprehensive income		55,733	57,381
Financial assets at fair value through profit or loss		792,072	795,428
Finance lease receivables		2,773	5,862
Deferred tax assets		2,107,966	1,979,743
Other non-current assets		<u>3,025,143</u>	<u>3,186,266</u>
Total non-current assets		<u>45,536,517</u>	<u>45,368,752</u>
CURRENT ASSETS			
Inventories		66,922,924	60,925,831
Trade and bills receivables	14	240,051,725	169,753,132
Contract assets		1,425,090	1,447,162
Prepayments, other receivables and other assets		18,721,911	20,016,358
Financial assets at fair value through profit or loss		422	498
Finance lease receivables		564	3,778
Pledged deposits and restricted cash		10,655,222	12,037,999
Cash and cash equivalents		<u>34,377,126</u>	<u>55,221,624</u>
Total current assets		<u>372,154,984</u>	<u>319,406,382</u>
Total assets		<u>417,691,501</u>	<u>364,775,134</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

(All amounts in Renminbi thousands unless otherwise stated)

	<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the parent			
Share capital		3,120,656	3,120,656
Treasury shares		(3,838)	(3,838)
Reserves		<u>66,487,709</u>	<u>64,951,741</u>
		69,604,527	68,068,559
Non-controlling interests		<u>43,506,070</u>	<u>42,000,631</u>
Total equity		<u><u>113,110,597</u></u>	<u><u>110,069,190</u></u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

(All amounts in Renminbi thousands unless otherwise stated)

	<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		15,225,791	11,750,433
Lease liabilities		3,308,254	3,206,560
Deferred tax liabilities		877,788	936,744
Post-employment benefit obligations		382,011	380,713
Contract liabilities		62,135	96,418
Other non-current liabilities		3,418,292	3,372,119
		<u>23,274,271</u>	<u>19,742,987</u>
CURRENT LIABILITIES			
Trade and bills payables	<i>15</i>	156,639,226	137,085,061
Contract liabilities		8,885,090	10,396,326
Accruals and other payables		35,160,737	30,889,733
Dividends payable	<i>13</i>	3,028,129	255,386
Tax payable		1,293,049	1,703,258
Interest-bearing bank and other borrowings		74,669,240	52,997,246
Lease liabilities		1,631,162	1,635,947
		<u>281,306,633</u>	<u>234,962,957</u>
Total current liabilities		<u>281,306,633</u>	<u>234,962,957</u>
Total liabilities		<u>304,580,904</u>	<u>254,705,944</u>
Total equity and liabilities		<u>417,691,501</u>	<u>364,775,134</u>

Notes:

(All amounts in Renminbi thousands unless otherwise stated)

1 GENERAL INFORMATION

Sinopharm Group Co. Ltd. (the “**Company**”) was incorporated in the People’s Republic of China (the “**PRC**”) on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1: 0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares (“**H Shares**”), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”) on 23 September 2009. The Company issued 204,561,102 domestic shares to China National Pharmaceutical Group Co., Ltd. (“**CNPGC**”) under general mandate at the issue price of RMB24.97 per consideration share on 13 December 2018. On 23 January 2020, the Company placed and issued 149,000,000 new H shares at the price of HKD27.30 per H share. The actual net proceeds of the placing were HKD4,026,710,000, equivalent to RMB3,567,383,000.

The address of the Company’s registered office is 1st Floor, No.385 East Longhua Road, Huangpu District, Shanghai, the PRC.

The Company and its subsidiaries (together, the “**Group**”) are mainly engaged in: (1) the distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics, (2) the distribution of medical devices, (3) the operation of chain pharmacy stores, and (4) the distribution of laboratory supplies, manufacture and distribution of chemical reagents, and production and sale of pharmaceutical products.

The ultimate holding company of the Company is CNPGC, which was established in the PRC.

This interim condensed consolidated financial information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand, unless otherwise stated. This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standards (“**HKASs**”) 34 Interim Financial Reporting and the Rules Governing the Listing of Securities on the Stock Exchange. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited annual financial statements for the year ended 31 December 2022, which has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

3 CHANGES IN ACCOUNTING POLICIES

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 2022, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

HKFRS 17 (including the October 2020
and February 2022 Amendments to HKFRS 17)
Amendments to HKAS 8
Amendments to HKAS 12

Insurance Contracts
Definition of Accounting Estimates
Deferred Tax related to Assets and Liabilities
arising from a Single Transaction

The application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4 SEGMENT INFORMATION

Management has determined the operating segments based on the Group's business types, overall strategic planning, internal organisational structure and management requirements. The reportable operating segments derive their revenue primarily from the following four business types:

- (i) Pharmaceutical distribution – distribution of medicine and pharmaceutical products to hospitals, other distributors, retail drug stores and clinics;
- (ii) Medical device – distribution of medical devices;
- (iii) Retail pharmacy – operation of medicine chain stores;
- (iv) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, and production and sale of pharmaceutical products.

Although the retail pharmacy and other business segments do not meet the quantitative thresholds required by HKFRS 8 Operating segments, management has concluded that these segments should be reported, as they are considered as potential growth segments and are expected to materially contribute to group revenue in the future.

4 SEGMENT INFORMATION (CONTINUED)

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of investment properties, property, plant and equipment, intangible assets, right-of-use assets, investments in associates and joint ventures, inventories, receivables and operating cash.

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

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

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

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

The segment information is as follows:

4 SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

(i) For the six months ended 30 June 2023 and 2022

	Pharmaceutical distribution RMB'000	Medical device RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Total RMB'000
Six months ended 30 June 2023 (unaudited)						
Segment results						
External segment revenue	216,550,253	62,645,844	17,362,117	4,392,066	-	300,950,280
Inter-segment revenue	<u>8,882,694</u>	<u>307,742</u>	<u>334,388</u>	<u>1,017,029</u>	<u>(10,541,853)</u>	<u>-</u>
Revenue	<u>225,432,947</u>	<u>62,953,586</u>	<u>17,696,505</u>	<u>5,409,095</u>	<u>(10,541,853)</u>	<u>300,950,280</u>
Operating profit	6,681,216	1,975,825	323,908	582,919	17,515	9,581,383
Other gains, net	21,320	17,113	1,696	89,821	-	129,950
Other expenses	(343)	(1,406)	-	-	-	(1,749)
Share of profits and losses of associates and joint ventures	<u>10,336</u>	<u>19,532</u>	<u>(601)</u>	<u>545,010</u>	<u>-</u>	<u>574,277</u>
	<u>6,712,529</u>	<u>2,011,064</u>	<u>325,003</u>	<u>1,217,750</u>	<u>17,515</u>	<u>10,283,861</u>
Finance costs, net						<u>(1,417,830)</u>
Profit before tax						8,866,031
Income tax expense						<u>(1,972,800)</u>
Profit for the period						<u>6,893,231</u>
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	842,974	436,325	8,800	1,460		1,289,559
Provision for prepayment	48	296	33	-		377
Provision/(reversal of provision) for impairment of inventories	19,360	6,331	1,764	(409)		27,046
Provision for impairment of other non-current assets	-	1,372	-	-		1,372
Depreciation of property, plant and equipment	459,996	229,478	93,382	16,750		799,606
Depreciation of investment properties	8,567	11,768	531	1,479		22,345
Depreciation of right-of-use assets	243,256	173,944	535,022	73,347		1,025,569
Amortisation of intangible assets	<u>194,468</u>	<u>22,404</u>	<u>29,862</u>	<u>5,552</u>		<u>252,286</u>
Capital expenditures	<u>920,577</u>	<u>464,036</u>	<u>940,300</u>	<u>101,486</u>		<u>2,426,399</u>

4 SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

(i) For the six months ended 30 June 2023 and 2022 (continued)

	Pharmaceutical distribution RMB'000	Medical device RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Total RMB'000
Six months ended 30 June 2022 (unaudited)						
Segment results						
External segment revenue	189,464,721	53,024,725	15,000,740	3,981,537	-	261,471,723
Inter-segment revenue	<u>7,059,221</u>	<u>659,510</u>	<u>273,356</u>	<u>877,186</u>	<u>(8,869,273)</u>	<u>-</u>
Revenue	<u>196,523,942</u>	<u>53,684,235</u>	<u>15,274,096</u>	<u>4,858,723</u>	<u>(8,869,273)</u>	<u>261,471,723</u>
Operating profit	6,014,958	2,106,505	141,775	761,167	32,604	9,057,009
Other gains/(loss), net	27,287	2,467	(72)	(1,414)	-	28,268
Other expenses	(341)	10,142	-	24	-	9,825
Share of profits and losses of associates and joint ventures	<u>6,982</u>	<u>(1,925)</u>	<u>265</u>	<u>487,558</u>	<u>-</u>	<u>492,880</u>
	<u>6,048,886</u>	<u>2,117,189</u>	<u>141,968</u>	<u>1,247,335</u>	<u>32,604</u>	<u>9,587,982</u>
Finance costs, net						<u>(1,584,310)</u>
Profit before tax						8,003,672
Income tax expense						<u>(1,775,054)</u>
Profit for the period						<u>6,228,618</u>
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	668,150	303,283	9,320	6,846		987,599
Provision/(reversal of provision) for impairment of inventories	14,817	(7,353)	3,922	223		11,609
Depreciation of property, plant and equipment	522,559	209,377	94,190	16,771		842,897
Depreciation of investment properties	5,878	11,016	577	1,329		18,800
Depreciation of right-of-use assets	318,791	127,637	488,543	25,402		960,373
Amortisation of intangible assets	<u>132,582</u>	<u>21,679</u>	<u>23,817</u>	<u>537</u>		<u>178,615</u>
Capital expenditures	<u>547,054</u>	<u>206,012</u>	<u>84,808</u>	<u>26,517</u>		<u>864,391</u>

4 SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

(ii) At 30 June 2023 and 31 December 2022

	Pharmaceutical distribution RMB'000	Medical device RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Total RMB'000
As at 30 June 2023 (unaudited)						
Segment assets and liabilities						
Segment assets						
Segment assets include:	299,599,299	97,116,020	17,733,569	21,919,126	(20,784,479)	415,583,535
Investments in associates and joint ventures	227,798	55,109	26,388	8,931,941	-	9,241,236
Unallocated assets – Deferred tax assets						2,107,966
Total assets						417,691,501
Segment liabilities						
Segment liabilities	144,694,493	70,494,935	13,651,128	5,919,385	(20,951,856)	213,808,085
Unallocated liabilities –						
Deferred tax liabilities and borrowings						90,772,819
Total liabilities						304,580,904
As at 31 December 2022 (audited)						
Segment assets and liabilities						
Segment assets						
Segment assets include:	259,104,636	85,760,800	16,335,878	20,677,359	(19,083,282)	362,795,391
Investments in associates and joint ventures	291,640	100,688	25,153	8,570,170	-	8,987,651
Unallocated assets – Deferred tax assets						1,979,743
Total assets						364,775,134
Segment liabilities						
Segment liabilities	122,666,554	67,358,860	13,265,540	5,370,788	(19,640,221)	189,021,521
Unallocated liabilities –						
Deferred tax liabilities and borrowings						65,684,423
Total liabilities						254,705,944

4 SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

The Group's operations are mainly located in the PRC and substantially all non-current assets are located in the PRC.

Information about major customers

No revenue from a singular customer in the Reporting Period amounted to over 10% of the total revenue of the Group.

5 REVENUE

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<i>Revenue from contracts with customers</i>		
Sales of goods	299,020,951	259,954,668
Revenue from logistics service	690,888	608,825
Franchise fee and other service fee from medicine chain stores	641,643	413,579
Consulting services	137,379	140,609
Import agency income	29,961	24,930
Others	330,484	229,616
<i>Revenue from other sources</i>		
Operating lease income	98,974	99,496
	<u>300,950,280</u>	<u>261,471,723</u>

5 REVENUE (CONTINUED)

Revenue from contracts with customers

Disaggregated revenue information

For the six months ended 30 June 2023 (unaudited)

Segments	Pharmaceutical distribution <i>RMB'000</i>	Medical device <i>RMB'000</i>	Retail pharmacy <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services					
Sale of goods	215,518,418	62,279,906	16,949,190	4,273,437	299,020,951
Others	<u>1,031,835</u>	<u>365,938</u>	<u>412,927</u>	<u>19,655</u>	<u>1,830,355</u>
Total revenue from contracts with customers	<u>216,550,253</u>	<u>62,645,844</u>	<u>17,362,117</u>	<u>4,293,092</u>	<u>300,851,306</u>
Geographical market					
China	<u>216,550,253</u>	<u>62,645,844</u>	<u>17,362,117</u>	<u>4,293,092</u>	<u>300,851,306</u>

For the six months ended 30 June 2022 (unaudited)

Segments	Pharmaceutical distribution <i>RMB'000</i>	Medical device <i>RMB'000</i>	Retail pharmacy <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services					
Sale of goods	188,594,514	52,818,683	14,572,920	3,968,551	259,954,668
Others	<u>870,207</u>	<u>206,042</u>	<u>328,324</u>	<u>12,986</u>	<u>1,417,559</u>
Total revenue from contracts with customers	<u>189,464,721</u>	<u>53,024,725</u>	<u>14,901,244</u>	<u>3,981,537</u>	<u>261,372,227</u>
Geographical market					
China	<u>189,464,721</u>	<u>53,024,725</u>	<u>14,901,244</u>	<u>3,981,537</u>	<u>261,372,227</u>

6 OTHER INCOME

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants	<u>252,209</u>	<u>233,683</u>

Government grants mainly represent subsidy income received from various government authorities as incentives to certain members of the Group. There are no unfulfilled conditions or other contingencies attached to these grants.

7 OTHER GAINS, NET/OTHER EXPENSES

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other gains, net		
Write-back of certain liabilities	14,925	12,659
Gain on disposal of equity investment in an associate	4,500	7,421
Gain on disposal of investment properties, property, plant and equipment, intangible assets and right-of-use assets	140,156	12,620
Gain on disposal of subsidiaries	509	–
Foreign exchange loss, net	(477)	(4,483)
Donation	(1,364)	(16,593)
Dividend from equity investments at fair value through other comprehensive income	606	535
Fair value gain on equity investments at fair value through profit or loss, net	(76)	7,745
Others, net	<u>(28,829)</u>	<u>8,364</u>
	<u>129,950</u>	<u>28,268</u>
Other expenses		
(Provision) for other non-current assets	(1,372)	–
(Provision)/reversal of impairment of prepayment	<u>(377)</u>	<u>9,825</u>
	<u>(1,749)</u>	<u>9,825</u>

8 EXPENSES BY NATURE

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Raw materials and trading merchandise consumed	276,639,328	238,741,353
Changes in inventories of finished goods and work in progress	1,396	16,733
Employee benefit expenses (Note 9)	7,151,387	6,768,702
Provision for impairment of inventories	27,046	11,609
Lease payments not included in the measurement of lease liabilities	324,175	329,616
Depreciation of property, plant and equipment	799,606	842,897
Depreciation of investment properties	22,345	18,800
Depreciation of right-of-use assets	1,025,569	960,373
Amortisation of intangible assets	252,286	178,615
Auditor's remuneration	15,000	25,000
Advisory and consulting fees	164,601	126,101
Transportation expenses	1,198,434	1,046,514
Travel expenses	125,380	92,493
Market development and business promotion expenses	1,591,375	1,392,984
Utilities	125,380	109,647
Others	617,850	589,846
	<hr/>	<hr/>
Total cost of sales, selling and distribution expenses and administrative expenses	<u>290,081,158</u>	<u>251,251,283</u>

9 EMPLOYEE BENEFIT EXPENSES

	For the six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, wages, allowances and bonuses (i)	5,567,290	5,287,051
Contributions to pension plans (ii)	682,394	598,322
Post-employment benefits	1,871	1,895
Housing benefits (iii)	279,519	251,294
Other benefits (iv)	620,313	630,140
	<u>7,151,387</u>	<u>6,768,702</u>

Notes:

- (i) Bonus was determined based on the performance of the Group as well as employees' performance and contribution to the Group.
- (ii) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 8% (2022: 8%) of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 12% to 20% (2022: 12% to 20%) of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees. Contributions total RMB30,201,000 (31 December 2022: RMB32,572,000) were payable to the fund pension plan of China National Pharmaceutical Group at 30 June 2023.

There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

- (iii) Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% (2022: 5% to 12%) of the employees' relevant income.
- (iv) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

10 FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense:		
– Bank and other borrowings	1,208,906	1,427,442
– Discounting of bills receivable	354,232	287,495
– Net interests on net defined benefit liability	5,575	5,665
– Lease liabilities	99,048	93,193
	<hr/>	<hr/>
Gross interest expense	1,667,761	1,813,795
Bank charges	106,960	99,489
Less: capitalised interest expense	(6,587)	(9,848)
	<hr/>	<hr/>
Finance costs	1,768,134	1,903,436
	<hr/>	<hr/>
Finance income:		
– Interest income on deposits in bank or other financial institutions	(311,635)	(279,285)
– Interest income on long-term deposits	(38,669)	(39,841)
	<hr/>	<hr/>
Net finance costs	1,417,830	1,584,310
	<hr/> <hr/>	<hr/> <hr/>

11 TAXATION

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	2,159,410	2,025,047
Deferred income tax	(186,610)	(249,993)
	<u>1,972,800</u>	<u>1,775,054</u>

During the six months ended 30 June 2023, enterprises incorporated in the PRC are normally subject to enterprise income tax (“EIT”) at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.

Two of the Group’s subsidiaries were subject to Hong Kong profits tax at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the year, except for one subsidiary of the Group which was a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HKD2,000,000 (2022: HKD2,000,000) of assessable profits of this subsidiary was taxed at 8.25% and the remaining assessable profits were taxed at 16.5%.

12 EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,120,656,000 (31 December 2022: 3,120,656,000) in issue excluding treasury shares at the end of the Reporting Period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 30 June 2022.

12 EARNINGS PER SHARE (CONTINUED)

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to equity holders of the parent used in the basic and diluted earnings per share calculation	<u>4,104,439</u>	<u>3,693,744</u>
Shares		
	Number of shares	
Weighted average number of ordinary shares in issue during the period ('000)	<u>3,120,656</u>	<u>3,120,656</u>
Treasury shares ('000)	(3,838)	(3,838)
Weighted average number of ordinary shares outstanding used in the basic and diluted earnings per share calculation ('000)	<u>3,116,818</u>	<u>3,116,818</u>
Basic and diluted earnings per share (RMB per share)	<u>1.32</u>	<u>1.18</u>

13 DIVIDENDS

The final dividend for year 2022 of RMB0.82 per share (tax inclusive), amounting to RMB2,558,938,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 15 June 2023 (“**2022 AGM**”). Pursuant to the relevant resolution passed at 2022 AGM, the final dividend for year 2022 was paid on 14 August 2023 to the shareholders whose names appeared on the register of members of the Company on 26 June 2023.

No interim dividend was proposed for the six-month period ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

14 TRADE AND BILLS RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables	232,775,490	155,578,573
Bills receivable	11,651,923	17,248,559
Less: Provision for impairment	<u>(4,375,688)</u>	<u>(3,074,000)</u>
	<u>240,051,725</u>	<u>169,753,132</u>

The fair value of trade receivables approximates to their carrying amounts.

The term of bills receivable are less than 12 months mostly. Retail sales at the Group's medicine chain stores are generally made in cash or by debit or credit cards. For medicine and device distribution businesses, sales are made on credit terms ranging from 30 to 210 days mostly. The ageing analysis of trade receivables, based on the invoice date and net of provisions, as at the end of the Reporting Period, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 year	218,629,226	147,857,116
1 to 2 years	8,966,035	4,045,001
Over 2 years	<u>870,214</u>	<u>682,725</u>
	<u>228,465,475</u>	<u>152,584,842</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing.

15 TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	123,067,671	99,451,067
Bills payable	33,571,555	37,633,994
	<u>156,639,226</u>	<u>137,085,061</u>

The trade payables are non-interest-bearing and are normally settled within 180 days. The fair value of trade payables approximates to their carrying amount.

The ageing analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Below 3 months	110,803,931	98,405,927
Between 3 and 6 months	26,495,936	20,372,122
Between 6 months and 1 year	13,514,114	9,066,377
Between 1 and 2 years	3,493,694	7,104,143
Over 2 years	2,331,551	2,136,492
	<u>156,639,226</u>	<u>137,085,061</u>

The Group has trade payable financing program with certain banks whereby the banks repaid trade payables on behalf of the Group with an equivalent sum drawn as borrowings. Such drawdown of borrowings is a non-cash transaction while repayment of the borrowings in cash is accounted for as financing cash outflows.

During the six months ended 30 June 2023, trade payables of RMB912,407,000 (the six months ended 30 June 2022: RMB211,293,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 30 June 2023, the balance of bank borrowings related to this program was RMB1,376,065,000 (31 December 2022: RMB458,739,000).

16 EVENTS AFTER THE REPORTING PERIOD

There are no significant subsequent events after the end of Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Macro-economy: Normalising operation of the economy and society and promoting the stability and improvement using policies

In the first half of 2023, as the economy and society resumed normal operation in an all-round way, macroeconomic policies played a significant role to help the economy steadily develop with high quality. Judging from various data, the market demand has gradually recovered, the production and supply have continued to increase, and the economic operation has steadily turned for the better. However, the world political and economic situations are complicated, and the foundation for the sustained recovery of the domestic economy is still unstable, facing some risks and challenges.

According to the accounting data released by the National Bureau of Statistics of China, the GDP in the first half of 2023 was RMB59.30 trillion, representing a year-on-year increase of 5.5% at constant prices. On a quarterly basis, as compared to the same period of the previous year, GDP grew 4.5% in the first quarter and grew 6.3% in the second quarter. When compared with the previous quarter, the growth rates of GDP in the first and second quarters were 2.2% and 0.8%, respectively.

According to the statistics of financial data released by the People's Bank of China, the market liquidity remained reasonable and abundant, the financing cost of the real economy was stable with a slight decline, and the supporting role of finance in the economy continued to be strengthened. During the Reporting Period, the People's Bank of China lowered the reserve requirement ratio by 0.25 percentage point to release the long-term liquidity and serve the real economy. Both the Loan Prime Rate ("LPR") of 1-year loans and the LPR of 5-year loans dropped by 10 basis points, and the weighted average interest rate of newly released corporate loans was 3.96%, representing a decrease of 25 basis points as compared with the corresponding period of last year, promoting the corporate financing costs to remain stable with a slight decline.

Industry development: Bouncing back of demand for medical services and deepening of medical reform and accelerating transformation

In the first half of 2023, the medical industry showed a good recovery trend. With the orderly relaxation of pandemic prevention and control measures, the rigid demand for health services has been gradually released, the quantity of hospital diagnosis and treatment has continued to increase, and the operation of medical institutions has gradually returned to the pre-pandemic state, driving an increasing terminal demand for drugs and medical devices. According to the data released by the National Healthcare Security Administration, from January to June 2023, the total expenditure of the basic medical insurance fund (including maternity insurance) was RMB1,303.55 billion, representing a year-on-year increase of 18.2%, and the expenditure of the basic medical insurance fund (including maternity insurance) for employees was RMB820.039 billion, representing a year-on-year increase of 19.4%.

With the continuous deepening of China medical insurance reform, the medical security system has been continuously improved and the medical services have developed rapidly, which played an important role in accelerating the transformation and development of China's pharmaceutical and health undertakings and encouraging the transformation and innovation of the industry and other aspects, while effectively easing the burden of residents' medical expenses. In July 2023, with the consent of the State Council, six authorities such as the National Health Commission, the National Healthcare Security Administration and the National Medical Products Administration, jointly issued the Key Work Tasks for Deepening the Reform of Pharmaceutical and Health System in the Second Half of 2023, confirming the key tasks and work arrangements for further deepening the medical reform, among which, the construction of a multi-level medical security system, the reform of payment methods, the reform of medical service prices, the volume-based procurement of drugs and consumables, the comprehensive supervision in the pharmaceutical field, etc. will remain the focus of the future reform.

Business Review

During the Reporting Period, under the leadership of the Board and the management, the Group fully focused on the primary task of high-quality development of businesses and accelerated the integrated operation of businesses and the innovative transformation of supply chain services while ensuring the orderly recovery of production and operation after the end of the COVID-19 pandemic. In the first half of the year, the Group continued to strengthen and optimize the core business, the overall business operation was stable, the benefits of scale was accelerated, and the leading position of the Group in the industry continued to be a solid foundation for realising the annual development strategy.

During the Reporting Period, the Group recorded the revenue of RMB300,950.28 million, representing a year-on-year increase of 15.10%. The Group recorded a net profit of RMB6,893.23 million for the current period, representing a year-on-year increase of 10.67%. The profit attributable to owners of the parent was RMB4,104.44 million, representing a year-on-year increase of 11.12%. Both the profit for the current period and the profit attributable to owners of the parent achieved double-digit growth, and the growth rates of indicators continued to exceed the industry average.

At the same time, according to the business development planning of the Group during the "14th Five-Year Plan" period, the operating revenue of the three main business segments all achieved double-digit growth during the Reporting Period, and the market share increased steadily. As of the end of the Reporting Period, the revenue from the pharmaceutical distribution business was RMB225,432.95 million, representing a year-on-year increase of 14.71%, and the growth rate was significantly higher than that in previous years; the revenue from the pharmaceutical distribution segment accounted for 72.37% of the Group's total revenue, representing a decrease of 0.32 percentage point compared with the same period of the previous year, but the decline slowed down significantly; the revenue from the medical device business was RMB62,953.59 million, representing a year-on-year increase of 17.27%, and accounting for 20.21% of the Group's total revenue, representing an increase of 0.35 percentage point compared with the same period of the previous year; the revenue from the retail pharmacy

business was RMB17,696.51 million, representing a year-on-year increase of 15.86%, and accounting for 5.68% of the Group's total revenue, representing an increase of 0.03 percentage point compared with the same period of the previous year.

The Group focused on the optimisation of profitability and business quality while promoting the continuous improvement of operational efficiency. During the Reporting Period, the selling and administrative expenses ratio and the financial expenses ratio of the Group decreased compared with the same period of the previous year, and the scale effect appeared steadily. As of the end of the Reporting Period, the selling and administrative expenses ratio of the Group was 4.12%, representing a year-on-year decrease of 0.25 percentage point, among which the selling expenses ratio was 2.80%, representing a year-on-year decrease of 0.17 percentage point, and the administrative expenses ratio was 1.32%, representing a year-on-year decrease of 0.08 percentage point. The financial expenses ratio in the first half of the year was 0.47%, representing a decrease of 0.14 percentage point compared with the same period of the previous year. The turnover days receivable were optimised by 9 days compared with the same period of the previous year, and the operating cycle was optimised by 7 days compared with the same period of the previous year.

In the first half of this year, the Group insisted on innovation-driven, actively implemented its development strategy during the "14th Five-Year Plan", and integrated resources, and coordinated innovation on the basis of continuously deepening the network layout, achieving a double harvest of economic and social responsibilities. According to the latest market ranking in 2023, the Group ranked 24th in the "Fortune China Top 500 Listed Companies", and 22nd in the Top 100 Brand Value List of Listed Chinese Companies with a brand value of RMB193.5 billion. In terms of corporate governance, the Company strove to improve the efficiency of ESG governance, which has been widely recognised by the industry and the capital market. As of the end of June 2023, the Group was not only successfully shortlisted for the "Fortune 2023 China ESG Influence List" and the "List of Top 100 ESG Listed Companies in China", but also successfully shortlisted for the "Hang Seng Southbound Trading China Central Enterprises ESG Leading Index" newly published by Hang Seng Index.

Pharmaceutical distribution: Rapid recovery of pharmaceutical and medical device distribution and increase in the proportion of marketing transformation

In April 2023, the results of the volume-based procurement (VBP) of the eighth batch of drugs were announced, involving 39 varieties and 106 product specifications, with an average price reduction of 56%, which has been successively implemented in various places since July this year. According to the statistical data of the National Healthcare Security Administration, more than 330 large varieties had been included in the VBP of eight batches of drugs. By the end of 2023, the number of VBP drugs by each province at the national and provincial levels will increase to 450, and chemical drugs, biological drugs and Chinese patent medicines will be covered. The VBP rules have become more reasonable and balanced after being optimised several times. The relevant requirements of the government to ensure the supply guarantee of VBP of products will further highlight the network coverage advantage of the national distribution leading enterprises.

In the post-COVID-19 pandemic era, the pharmaceutical distribution segment has achieved rapid growth with the further normalisation of medical services and the continuous improvement of the concentration of industry. As of the end of the Reporting Period, the revenue from pharmaceutical distribution was RMB225,432.95 million, representing a year-on-year increase of 14.71%. The operating profit margin of the pharmaceutical distribution business was 2.96%, which was basically the same as that of the same period of the previous year. At the same time, the Group focused on core and key regions to further enhance the share of its business in relevant markets. During the Reporting Period, the pharmaceutical distribution business achieved rapid growth in northwest, northeast and north China and other regions, the revenue growth rates of Qinghai, Shanghai, Jiangxi, Heilongjiang and other provinces and municipalities directly under the central government included exceeding 20% compared with the same period of the previous year.

The rapid transformation of the industry structure continued to promote the service transformation and model innovation of the pharmaceutical supply chain. During the Reporting Period, the Group, on the basis of circulation and distribution business, continued to strengthen the business interconnection with strategic customers, actively promoted the marketing transformation of third-and fourth-tier companies, strengthened its service advantages and integration capabilities, and constructed a one-stop supply chain service system. The Group actively focused on general distribution, general agent varieties, constructed a nationwide integrated professional marketing network in the fields of cancer, infection and respiratory diseases, and is committed to providing end-to-end and nationwide integrated product and service solutions. As of the end of the Reporting Period, the Group's marketing revenue increased by more than 20% compared with the same period of the previous year, and the advantages of specialisation and systemisation of marketing services continued to emerge.

Medical device: Stable growth in response to the VBP and service innovation and manufacturing synergy

During the Reporting Period, as the recovery rhythm of outpatient service and operation volume at the hospital was further accelerated in the post-COVID-19 pandemic era, the rigid demand signified an obvious rebound trend, and the supply and use of consumables and reagents on conventional hospital side increased compared with the same period of the previous year. At the same time, the influence of VBP on the device distribution industry was further revealed. Since 2020, the National Healthcare Security Administration has commenced the VBP of three batches of high-value medical consumables in total, with an average decline of more than 80%. The fourth batch of consumables VBP, mainly including intraocular lens and orthopedic trauma consumables, was expected to be carried out in the second half of 2023. Facing the market factors such as the intensified competition environment in the industry and the accelerated expansion of VBP, the gross profit margin of device distribution business has declined as a whole.

During the Reporting Period, as the response to the COVID-19 pandemic changed from “prevention” to “treatment”, the growth rate and revenue ratio of pandemic prevention consumables and reagents decreased significantly compared with the same period of the previous year. The Group actively followed the policy direction of updating and upgrading of medical devices and seized the trend change of “expansion of quality medical resources and balanced regional layout” to effectively strengthen the

integrated management of internal centralised procurement and supply chain and continuously improve the business scale and network coverage. As of the end of the Reporting Period, the Group's revenue from the medical device business was RMB62,953.59 million, representing an increase of 17.27% compared with the same period of the previous year, and still maintained a high-speed growth trend. The operating profit margin of medical device business was 3.14%, representing a decrease of 0.78 percentage point compared with the same period of the previous year.

In terms of the varieties of devices, the application of policy tools such as financial subsidy and special refinancing interest subsidy accelerated the filling of shortcomings of medical resources such as ICU, and the successive arrival of hospital construction completion tide promoted the sales growth rate and proportion of medical device products of the Group to increase significantly in the first half of the year. In addition, with the relaxation of the prevention and control policy of COVID-19 pandemic and the recovery of outpatient service and operation, the repair and maintenance service in medical device segment of the Group also increased significantly compared with the same period of the previous year, becoming a new business highlight.

At the same time, following the new trend of service transformation in the field of device distribution, the Group continued to strengthen the construction of professional service system, built the comprehensive service capability of the medical device segment, promoted the business synergy and technology empowerment, expanded intelligent supply chain services, and vigorously promoted the rapid development of intelligent supply chain projects such as centralised distribution and SPD management of medical consumables. As of the end of June 2023, the centralised distribution and SPD projects provided by the Group had covered 28 provinces. During the Reporting Period, There were 50 new SPD projects, 79 new single hospital centralised distribution projects, and 3 new regional hospital consortia/medical communities centralised distribution projects. During the Reporting Period, the number of winning bids of the Group continued to rank among the top in the industry in the newly-added SPD projects of medical institutions above Grade II. In addition, a number of SPD projects carried out by the Group have successively become "demonstration cases of pharmaceutical supply chain innovation" selected by the Pharmaceutical Supply Chain Branch of the China Association of Pharmaceutical Commerce, which once again confirmed the competitive advantages and barriers of the Group's device supply chain services. The Group helped medical institutions to develop with high quality through innovative service modes such as digitalisation, visualisation and intelligence, promoting the continuous growth of the proportion of service income of medical device segment.

During the Reporting Period, following the transformation trend of the high-end medical devices being replaced by the medical devices made in China, the Group's subsidiary CNMDC and GE Healthcare (China) signed an investment agreement to jointly invest to establish a professional medical device company, which is positioned in the production and manufacturing of domestic imaging equipment industrial platform, thus accelerating the progress of industrial layout. At the same time, Sinopharm Xinguang, established last year, was shortlisted for "List of National Science and Technology SMEs" issued by the Ministry of Science and Technology. During the Reporting Period, the Group commenced the registration and declaration of 4K fluorescent endoscope and 4K fluorescent defogging endoscope, further enhancing the coverage and service capability of the Group in the whole life cycle of medical device, and laying a solid foundation for the Group to strengthen the upstream and downstream linkage and cooperation of the supply chain and expand the growth potential of new businesses.

Retail pharmacy: Retail policies bringing intensified competition and strategies leading coordination between wholesale and retail

In the first half of 2023, with the successive introduction of policies such as inclusion of designated retail pharmacies into social security fund for pooling reimbursement management and employee medical insurance outpatient integral coverage, prescription outflow ushered in a breakthrough this year, and the medium-and long-term trend of separation of medical services and pharmaceutical sales brought great changes to the retail business pattern, which made the scale of retail pharmacy industry continue to grow, increased the concentration of retail pharmacy industry and further accelerated the growth of leading enterprises in retail pharmacy industry. Changes on the policy side continued to affect the category composition and profit level of retail industry, and also brought diversified profit growth points to the “medical, medicine, patient, insurance” and non-pharmaceutical markets. The active participation of capital market and cross-border e-commerce has intensified the new market competition situation and brought new challenges and transformation opportunities to the retail industry.

During the Reporting Period, facing the rapid transformation of the retail pharmacy market, the Group continued to focus on the change of C-side demand, and created a full-scenario, full-cycle and full-channel business model that integrates online and offline, and continued to promote the rapid development of retail business. As of the end of the Reporting Period, the Group’s revenue from the retail pharmacy business was RMB17,696.51 million, representing a year-on-year increase of 15.86%, and the operating profit margin of the retail business was 1.83%, representing an increase of 0.90 percentage point compared with the same period of the previous year. According to the “Top 100 Chinese Pharmacies Value List” in 2023, the revenue from Drug Stores of the Group’s retail pharmacy segment ranked first in the industry.

In order to further follow the trend of national separation of medical services and pharmaceutical sales, accelerate the construction of a comprehensive medical health service platform and provide comprehensive service solutions covering “medical, medicine, patient, insurance”, the Group actively strengthened the coverage of retail channel network, gathered retail core resources to consolidate the scale advantages, and continuously improved the accessibility and ability of services directly facing C-side customers during the Reporting Period. As of the end of the Reporting Period, the total number of retail stores was 11,352, representing a net increase of 599 in total compared with the end of 2022, among which there were 9,867 Guoda Drug Stores, representing a net increase of 554 compared with the end of 2022, 1,485 professional pharmacies, representing a net increase of 45 compared with the end of 2022, 1,027 dual-channel pharmacies, representing a net increase 144 compared with the end of 2022, and 2,937 pooling medical insurance outpatient pharmacies, representing a net increase of 1,082 compared with the end of 2022.

In addition, the Group’s retail business actively promoted the application of new technologies, new tools and new models, and expanded the scale of online business. The Group, while relying on the hospital prescription traffic access, continuously deepened cooperation with third-party platforms, optimised the online and offline integrated operation mode, gradually strengthened the introduction of public domain traffic resources and private domain traffic mining, strengthened the overall planning and coordination of distribution and retail resources, and created a unique differentiated prescription circulation mode

of Sinopharm Group. During the Reporting Period, the project of Sinopharm Station, which was established during the COVID-19 pandemic, was further improved, and the interconnection between the prescription circulation platform and pharmacies was continuously optimised. In combination with the construction of the information system platform, the terminal distribution and service experience for C-side customers were continuously improved, and the multi-channel synergetic service capability has been significantly enhanced.

Transformation and innovation: Improving quality and efficiency using integrated operation and consolidation and steady progression of logistics

In the complicated and changeable market environment, the Group has accelerated the concentration and integration of national resources, and steadily promoted the specialised operation and integrated operation of various formats. As of the end of the Reporting Period, the centralised management transformation of the headquarters of the Group was progressing steadily, and the construction of the shared service platform was carried out in an orderly manner. The Group actively improved the management efficiency, strengthened the collaborative and rapid response among front, middle and back offices and continuously streamlined the business management processes while striving to strengthen the compliance supervision to control operational risks.

At the same time, the construction of the cross-regional logistics integration of the Group was fully carried out during the Reporting Period. Through the vertical management system of the Logistics Division, the Group strove to strengthen the coordinated integration of national logistics resources, established two platforms focusing on logistics operation and asset management, continuously improved the logistics efficiency and third-party service capabilities, effectively strengthened the real-time management and control of logistics operations, and built a brand-new competitive advantage in the logistics segment. During the Reporting Period, the Group has started the integrated operation and governance of core logistics hubs in Beijing, Guangzhou and Shanghai. The Group continuously improved the real-time perception and tracking capabilities, optimised the resource matching and synergy, and supported the brand-new service model and demand under the trend of national integrated transformation of pharmaceutical and medical advice distribution through innovative technologies such as equipment interconnection and system integration, As of the end of the Reporting Period, the Group's service income from third-party logistics increased by more than 25% compared with the same period of the previous year.

Future Plans

Looking forward to the second half of 2023, the Group will actively follow the changes in industry policies, technologies and market landscape, fully implement the strategy of service transformation and innovation-driven development, continue to promote the progress of digital transformation, and accelerate the cultivation and incubation of innovative businesses. At the same time, the Group will further improve the operation efficiency and compliance supervision, build efficient management systems and mechanisms, continue to lead the development and reform of the industry in the process of continuously consolidating the Group's core competitive advantages, and steadily transform itself into "an efficient pharmaceutical supply chain organiser and an industry comprehensive service solution provider".

In terms of the pharmaceutical distribution segment, the Group will further focus on the medical insurance negotiation and the agency right of drugs of VBP, consolidate the advantages of key regions, deepen the terminal network coverage and continuously increase the market share. Through the efficient integration of upstream and downstream resources in the system, the Group will co-ordinate business resources to provide all customers with customised and one-stop derivative service models with higher dimensions, effectively strengthen the cooperation depth with strategic customers, and continuously improve the service capacity of up-and-down coordination by exploring ways to adapt to differentiated marketing strategies and segmented marketing service models, so as to realise the value enhancement of the supply chain.

In terms of the medical device segment, the Group will actively respond to the expansion of VBP and the new policy requirements such as “DRGs/DIP”, undertake the distribution projects of VBP of consumables, continuously promote the channel optimisation and enhance the professional service capabilities of third parties such as incidental services, decontamination and maintenance services, and after-sales maintenance services. At the same time, the Group will steadily promote the intelligent supply chain service project and the regional centralised distribution scheme, promote the product research and development and commercialisation process of the device manufacturing units in an orderly manner, accelerate the construction of a service system covering the whole life cycle of medical device, and continue to promote the high-quality development of the medical device segment by virtue of its brand reputation and leading advantages.

In terms of the retail pharmacy segment, the Group will proactively face the transformation of the industry landscape, strengthen the strategic guidance, strive to promote the improvement of the management and control ability and operation quality of the headquarters, dig the advantages of integrated online and offline services, and accelerate the construction of a comprehensive medical and health service platform for C-side. At the same time, the Group will seize the opportunity of industry transformation, coordinate wholesale and retail business resources, strive to optimise and expand the network layout of retail stores through external mergers and acquisitions and endogenous growth, accelerate the expansion of the number of professional pharmacies such as dual-channel pharmacies, and pooling medical insurance outpatient pharmacies, and actively enhance the market share and profitability of retail pharmacy by relying on the synergy between professional pharmacies and traditional pharmacies.

In terms of the field of business innovation, the Group will continue to promote the transformation and innovation of businesses. The Group will accelerate the application of digital intelligence achievements and the building of digital capacity by further strengthening the integration of industry-academy-research with the scientific research institutes and scientific and technological enterprises inside and outside the Group, accelerate the process of manufacturing R&D with the support of scientific and technological innovation, and actively play the leading and supporting role of scientific and technological innovation in its high-quality development.

In terms of business control, the Group will steadily and rapidly promote the progress of digital transformation, and constantly improve and establish an efficient data governance system, accumulate high-value data assets, continuously improve the business response and governance efficiency and enhance the data analysis and application capabilities by closely focusing on the needs of main business and innovative business scenarios. In addition, in view of the business characteristics in the post-COVID-19 pandemic era, the Group will focus on the recovery of accounts receivable with a maturity of more than one year, inventory risk and liquidity control, credit exposure and other potential risks, coordinate development and safety, continuously improve the level of compliance supervision, and prevent and control business operation risks.

Looking forward to the future, the Group will, based on the steady growth of the main business, strive to improve the profitability and operational efficiency through the innovation of business governance model, and enhance the service value and business stickiness through the transformation of supply chain services, so as to accelerate the transformation and upgrading of the Group to the world-leading medical and health supply chain comprehensive service provider.

Financial Summary

The financial summary set out below is extracted from the unaudited financial statements of the Group for the Reporting Period which were prepared in accordance with the Hong Kong Accounting Standards 34 *Interim Financial Reporting*.

During the Reporting Period, the Group recorded revenue of RMB300,950.28 million, representing an increase of RMB39,478.56 million or 15.10% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a net profit of RMB6,893.23 million, representing an increase of RMB664.61 million or 10.67% as compared with the corresponding period of last year; profit attributable to owners of the parent amounted to RMB4,104.44 million, representing an increase of RMB410.70 million or 11.12% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB1.32, representing an increase of 11.86% as compared with the corresponding period of last year.

Unit: in millions of RMB unless otherwise stated

	Six months ended 30 June 2023	Six months ended 30 June 2022	Change
Operating result			
Revenue	300,950.28	261,471.72	39,478.56
Earnings before interest and tax	10,283.86	9,587.98	695.88
Profit attributable to owners of the parent	4,104.44	3,693.74	410.70
Profitability			
Gross margin	7.73%	8.28%	decrease by 0.55 percentage point
Operating margin	3.18%	3.46%	decrease by 0.28 percentage point
Net profit margin	2.29%	2.38%	decrease by 0.09 percentage point
Earnings per share – Basic (RMB)	1.32	1.18	0.14

Unit: in millions of RMB unless otherwise stated

	Six months ended 30 June 2023	Six months ended 30 June 2022	Change
Key operational indicators			
Trade receivables turnover ratio (days)	125	134	(9)
Inventory turnover ratio (days)	41	41	0
Trade payables turnover ratio (days)	95	97	(2)
Current ratio (times)	1.32	1.31	0.01

Unit: in millions of RMB unless otherwise stated

	30 June 2023	31 December 2022	Change
Asset position			
Total assets	417,691.50	364,775.13	52,916.37
Equity attributable to owners of the parent	69,604.53	68,068.56	1,535.97
Gearing ratio	72.92%	69.83%	increase by 3.09 percentage points
Cash and cash equivalents	34,377.13	55,221.62	(20,844.49)

Revenue

During the Reporting Period, the Group recorded revenue of RMB300,950.28 million, representing an increase of 15.10% as compared with RMB261,471.72 million for the six months ended 30 June 2022. This increase was due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business.

- **Pharmaceutical distribution segment:** During the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB225,432.95 million, representing an increase of 14.71% as compared with RMB196,523.94 million for the six months ended 30 June 2022 and accounting for 72.37% of the total revenue of the Group. Such increase was mainly due to the increase in the distribution scale of retail pharmacies and the growth of the acquisition rate of the varieties involved in the volume-based procurement.
- **Medical device segment:** During the Reporting Period, the revenue from medical device of the Group was RMB62,953.59 million, representing an increase of 17.27% as compared with RMB53,684.24 million for the six months ended 30 June 2022 and accounting for 20.21% of the total revenue of the Group. Such increase was primarily due to the business expansion of the Group's medical device business.
- **Retail pharmacy segment:** During the Reporting Period, the revenue from retail pharmacy of the Group was RMB17,696.51 million, representing an increase of 15.86% as compared with RMB15,274.10 million for the six months ended 30 June 2022 and accounting for 5.68% of the total revenue of the Group. Such increase was primarily due to the growth in retail pharmacy market and the expansion of the network of the Group's retail pharmacies.
- **Other business segment:** During the Reporting Period, the revenue from other business of the Group was RMB5,409.10 million, representing an increase of 11.33% as compared with RMB4,858.72 million for the six months ended 30 June 2022, primarily due to the increase in revenue from logistics and marketing businesses.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB277,679.60 million, representing an increase of 15.79% as compared with RMB239,814.23 million for the six months ended 30 June 2022, which was comparable with the growth rate of the sales revenue.

Gross Profit

During the Reporting Period, the gross profit of the Group was RMB23,270.68 million, representing an increase of 7.45% as compared with RMB21,657.49 million for the six months ended 30 June 2022.

The gross profit margin of the Group for the six months ended 30 June 2023 was 7.73%, and the gross profit margin for the corresponding period in 2022 was 8.28%.

Other Income

During the Reporting Period, the other income of the Group was RMB252.21 million, representing an increase of 7.93% as compared with RMB233.68 million for the six months ended 30 June 2022, primarily due to the increase in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB8,433.81 million, representing an increase of 8.44% as compared with RMB7,777.63 million for the six months ended 30 June 2022. Such increase in selling and distribution expenses was primarily attributable to the increase in operation scale, the expansion of business and the expansion of the network coverage through, among others, establishing new companies.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were RMB3,967.75 million, representing an increase of 8.43% from RMB3,659.43 million for the corresponding period in 2022.

The proportion of the administrative expenses of the Group to the total revenue of the Group decreased from 1.40% for the six months ended 30 June 2022 to 1.32% for the Reporting Period.

Operating Profit

As a result of the above-mentioned factors, during the Reporting Period, the operating profit of the Group was RMB9,581.38 million, representing an increase of 5.79% from RMB9,057.01 million for the six months ended 30 June 2022.

Other Gains, Net

During the Reporting Period, the other gains, net of the Group was RMB129.95 million, representing an increase of RMB101.68 million as compared with RMB28.27 million for the six months ended 30 June 2022. Such increase was mainly due to the subsidiary receiving a large amount of demolition compensation.

Other Expenses

The other expenses of the Group for the Reporting Period were RMB1.75 million, whereas the reversal of other expenses of the Group for the six months ended 30 June 2022 were RMB9.83 million.

Finance Costs, Net

During the Reporting Period, the finance costs, net of the Group were RMB1,417.83 million, representing a decrease of RMB166.48 million as compared with RMB1,584.31 million for the six months ended 30 June 2022.

Share of Profits and Losses of Associates

During the Reporting Period, the Group's share of profits and losses of associates was RMB571.30 million, representing an increase of 16.39% as compared with RMB490.85 million for the six months ended 30 June 2022.

Share of Profits and Losses of Joint Ventures

During the Reporting Period, the Group's share of profits and losses of joint ventures was RMB2.98 million, representing an increase of 46.80% as compared with RMB2.03 million for the six months ended 30 June 2022.

Income Tax Expense

During the Reporting Period, the income tax expense of the Group was RMB1,972.80 million, representing an increase of 11.14% as compared with RMB1,775.05 million for the six months ended 30 June 2022, primarily because the increase in the profit before tax of the Group resulted in the corresponding increase in income tax expense. The Group's effective income tax rate increased from 22.18% for the six months ended 30 June 2022 to 22.25% for the six months ended 30 June 2023.

Profit for the Reporting Period

As a result of the above-mentioned factors, the profit for the Reporting Period of the Group was RMB6,893.23 million, representing an increase of 10.67% from RMB6,228.62 million for the six months ended 30 June 2022. The Group's net profit margin for the Reporting Period and for the corresponding period of 2022 was 2.29% and 2.38%, respectively.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit attributable to owners of the parent was RMB4,104.44 million, representing an increase of 11.12% or RMB410.70 million from RMB3,693.74 million for the six months ended 30 June 2022.

Profit Attributable to Non-controlling Interests

During the Reporting Period, profit attributable to non-controlling interests was RMB2,788.79 million, representing an increase of 10.02% from RMB2,534.87 million for the six months ended 30 June 2022.

Liquidity and Capital Sources

Working capital

As at the end of the Reporting Period, the Group's cash and cash equivalents amounted to RMB34,377.13 million (31 December 2022: RMB55,221.62 million), primarily comprising cash, bank savings and cash generated from operating activities during the current period.

Cash Flow

The cash of the Group is primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, the facilities of the Group and the business growth and expansion.

Net cash used in operating activities

The Group's cash outflow from operations primarily derives from payments for the purchase of material and services in its pharmaceutical distribution, retail pharmacy, medical device and other business segments. During the Reporting Period, the Group's net cash used in operating activities amounted to RMB43,326.42 million. The net cash used in operating activities of the Group was RMB34,293.39 million for the six months ended 30 June 2022. Such increase was primarily attributable to the delayed collection of trade receivables and positive payment in trade payables during the Reporting Period.

Net cash generated from investment activities

During the Reporting Period, the net cash generated from investment activities of the Group was RMB1,180.48 million. The net cash generated from investment activities for the six months ended 30 June 2022 was RMB391.03 million. Such increase was primarily due to the changes in the restricted cash during the Reporting Period.

Net cash generated from financing activities

During the Reporting Period, the net cash generated from financing activities of the Group was RMB21,295.99 million, representing a decrease of RMB1,217.57 million as compared with RMB22,513.56 million for the six months ended 30 June 2022. Such decrease was primarily due to the increase in bond repayments during the Reporting Period.

Capital Expenditure

The Group's capital expenditures were primarily utilised for the development and expansion of distribution channels, upgrading of its logistic delivery systems and new store decoration and equipment purchase. The Group's capital expenditures for the Reporting Period amounted to RMB988.15 million, representing an increase of RMB123.76 million as compared with RMB864.39 million for the six months ended 30 June 2022, mainly due to the increase in the expenditure on the purchase of property, plant and equipment.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to expand, it may incur additional capital expenditures. The Group's ability to obtain additional funding is subject to a variety of uncertain factors, including the future operating results, financial condition and cash flows of the Group, economic, political and other conditions in mainland China and Hong Kong, and the PRC government's policies relating to foreign currency borrowings.

Capital Structure

Fiscal resources and fiscal policies

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve financial risks and reduce finance costs. The businesses of the Group were exposed to a variety of financial risks: market risk (including foreign currency risks, fair value and cash flow interest rate risk), credit risk and liquidity risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

The Group had successfully issued super short-term financing bonds in an aggregate amount of RMB6.8 billion in the first half of 2023 for the purposes of expanding financing channels and reducing finance costs to repay bank loans as well as to replenish working capital.

The Group's borrowings are mainly denominated in RMB.

As at 30 June 2023, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in Hong Kong Dollars (“**HKD**”) and small amount denominated in USD (“**USD**”), Euro (“**EUR**”), CHF, GBP and JPY.

Indebtedness

As at 30 June 2023, the Group had aggregated banking facilities of RMB299,933.51 million (31 December 2022: RMB274,967.78 million), of which RMB140,388.89 million (31 December 2022: RMB142,732.70 million) were not yet utilised and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. As at 30 June 2023, among the Group’s total borrowings, RMB74,669.24 million (31 December 2022: RMB52,997.25 million) will be due within one year and RMB15,225.79 million (31 December 2022: RMB11,750.43 million) will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing the bank loans with its lenders.

Gearing ratio

As at 30 June 2023, the Group’s gearing ratio was 72.92% (31 December 2022: 69.83%), which was calculated based on the total liabilities divided by the total assets as at 30 June 2023.

Foreign Exchange Risks

The Group’s operations are mainly located in the PRC and most of its transactions are denominated and settled in RMB. However, the Group is exposed to foreign exchange risks under certain circumstances, including cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group had no corresponding hedging arrangements.

Pledge of Assets

As at 30 June 2023, part of the Group’s borrowings and bills payable were secured by trade and bills receivables with book value of RMB3,495.56 million (31 December 2022: RMB2,366.86 million) , bank deposits of RMB10,655.22 million (31 December 2022: RMB12,038.00 million), properties, plant and equipment with book value of RMB32.65 million (31 December 2022: RMB20.38 million).

Going Concern

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

CONTINGENT LIABILITIES AND MATERIAL LITIGATIONS

As at 30 June 2023, the Group neither had any material contingent liabilities, nor had any material litigations.

MAJOR INVESTMENT

During the Reporting Period, the Group did not make any major investment or have any plan for major investment or purchase of capital asset.

MAJOR ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not conduct any material acquisition and disposal with respect to subsidiaries, associates and joint ventures.

HUMAN RESOURCES

As at 30 June 2023, the Group had a total of 113,362 employees (as at 30 June 2022: 112,859). In order to meet the development needs and support and promote the realisation of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimised management mechanism in accordance with the requirements of specialised operation and integrated management, so as to actively advance the organisational reform and accelerate the cultivation and recruitment of the talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency, has conducted periodic performance reviews on its employees and adjusted their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

For remuneration and performance, the Group has established a normative salary management system based on the principle of “performance-oriented compensation, prioritising efficiency and considering fairness”. The Group has implemented top-down performance assessment to establish a compensation system with position and ability as basis and performance as the cornerstone. The employee remunerations include basic salary, performance remuneration, bonus and piece rate wage. Remuneration is adjusted based on factors such as the results of the corporation, work performance and competency as well as job responsibilities of employees.

The Group has followed the performance-oriented principle, attended to balance; adopted a diversified structure, made dynamic adjustments; created values, made incremental distributions; shared benefits and risks with our employees; based on the principle of aligning with market benchmarks and international standards, adopted a combination of short-term and medium- and long-term incentives and designed a compensation structure comprising “basic remuneration, performance-based remuneration, and medium- and long-term incentives”. The basic salary is the basic fixed annual income; the performance-based salary is the immediate variable income paid upon assessments conducted based on the achievement of the annual performance targets; the “medium- and long-term incentive” is the share incentive scheme, which is contingent on the excellent performance in the medium and long term, designed to bind interests and share risks with shareholders. Details of the employee benefit expenses of the Group during the Reporting Period are set out in note 9 to the consolidated financial statements.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities of the Company

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

Dividends

Pursuant to the relevant resolution passed at the 2022 annual general meeting of the Company convened on 15 June 2023, the Company paid the final dividend for the year ended 31 December 2022 to the shareholders of the Company on 14 August 2023, totaling approximately RMB2,558,938,000.

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

Audit Committee

As at the date of this announcement, the Audit Committee of the Company consists of three independent non-executive Directors, namely Mr. Wu Tak Lung (Chairman), Mr. Li Peiyu and Mr. Shi Shenghao, and one non-executive Director, namely Mr. Li Dongjiu. The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023 and agreed on the accounting treatment adopted by the Company.

Compliance with the Corporate Governance Code Set out in Appendix 14 to the Listing Rules

The Company has adopted all the code provisions contained in the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) as the Company’s code on corporate governance. During the Reporting Period, the Company had complied with the code provisions set out in the Code.

Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Trading in Securities by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the Standards for governing the transactions of the Company’s listed securities by the Directors and Supervisors. Having made specific enquiry of all the Directors and Supervisors, all of them confirmed that they had complied with the required standard regarding securities transactions by the Directors and Supervisors as set out in the Model Code during the Reporting Period.

Disclosure of Information

This results announcement will be published on the websites of the Company (<http://www.sinopharmgroup.com.cn>) and the Hong Kong Stock Exchange (<http://www.hkexnews.hk>). The Company’s interim report for 2023 which contains all the information required under the Listing Rules will be dispatched to the shareholders and published on the websites of the Company and the Hong Kong Stock Exchange in due course.

By order of the Board
Sinopharm Group Co. Ltd.
Yu Qingming
Chairman

Shanghai, the PRC
25 August 2023

As at the date of this announcement, the executive directors of the Company are Mr. Yu Qingming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. Hu Jianwei, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wang Kan, Mr. Wen Deyong, Mr. Li Dongjiu and Ms. Feng Rongli; and the independent non-executive directors of the Company are Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung, Mr. Yu Weifeng and Mr. Shi Shenghao.