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 2023

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 2023 (the "**Reporting Period**"), together with the comparative figures for the previous year/period as follows:

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023
(Expressed in Hong Kong dollars "HK$")

		Six months ended 30 June	
		2023	2022
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**138,940,062**	125,716,477
Cost of sales		**(116,599,396)**	(105,884,796)
Gross profit		**22,340,666**	19,831,681
Other income	*5*	**790,279**	698,660
Other gains and losses	*6*	**(472,141)**	(358,169)
Selling and distribution expenses		**(10,436,005)**	(9,077,183)
Administrative expenses		**(3,212,649)**	(2,932,752)
Other expenses, net		**(782,583)**	(834,573)
Finance income		**262,599**	430,736
Finance costs		**(1,613,807)**	(1,363,197)
Finance costs, net	*7*	**(1,351,208)**	(932,461)

	Notes	Six months ended 30 June **2023** **(unaudited)** ***HK$'000***	 2022 (unaudited) *HK$'000*
Share of profits of associates and joint ventures		**240,477**	185,914
Profit before taxation	*8*	**7,116,836**	6,581,117
Income tax	*9*	**(1,423,679)**	(1,412,765)
Profit for the period		**5,693,157**	5,168,352
Attributable to:			
Equity shareholders of the Company		**3,038,060**	3,025,046
Non-controlling interests		**2,655,097**	2,143,306
		5,693,157	5,168,352
Earnings per share:	*10*		
Basic *(HK$)*		**0.48**	0.48
Diluted *(HK$)*		**0.48**	0.48

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2023
(Expressed in HK$)

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period	**5,693,157**	5,168,352
Other comprehensive (loss)/income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of operations outside Hong Kong	**(3,379,327)**	(4,741,831)
Item that will not be reclassified to profit or loss:		
Gain on revaluation of property, plant and equipment upon transfer to investment properties, net of tax	**213,896**	38,299
Other comprehensive loss for the period, net of tax	**(3,165,431)**	(4,703,532)
Total comprehensive income for the period	**2,527,726**	464,820
Attributable to:		
Equity shareholders of the Company	**1,671,110**	483,667
Non-controlling interests	**856,616**	(18,847)
Total comprehensive income for the period	**2,527,726**	464,820

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

(Expressed in HK$)

	Notes	**30 June 2023 (unaudited) *HK$'000***	31 December 2022 (audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*12*	**20,818,181**	19,436,499
Right-of-use assets		**5,313,559**	4,853,433
Investment properties		**2,002,248**	1,670,453
Goodwill		**23,423,044**	22,847,667
Intangible assets		**9,064,331**	8,469,223
Interests in joint ventures		**8,276**	9,245
Interests in associates		**6,581,984**	6,607,266
Other non-current financial assets	*13*	**1,086,001**	796,880
Deferred tax assets		**1,876,340**	1,606,215
Other non-current assets		**1,643,991**	4,538,082
Total non-current assets		**71,817,955**	70,834,963
Current assets			
Inventories		**34,883,425**	29,718,446
Trade and other receivables	*14*	**94,328,102**	79,529,323
Other current financial assets	*13*	**37,302,222**	35,038,263
Amounts due from related parties		**1,929,573**	1,868,972
Tax recoverable		**43,146**	127,406
Pledged and term deposits		**8,462,662**	7,075,410
Cash and cash equivalents		**23,931,658**	17,042,657
		200,880,788	170,400,477
Assets classified as held for sale		**49,391**	50,978
Total current assets		**200,930,179**	170,451,455

	Notes	**30 June 2023 (unaudited)** ***HK$'000***	31 December 2022 (audited) *HK$'000*
Current liabilities			
Trade and other payables	*15*	**86,996,250**	77,652,962
Contract liabilities		**5,001,812**	3,960,635
Lease liabilities		**510,960**	555,208
Amounts due to related parties		**3,964,029**	12,699,620
Bank borrowings		**59,956,659**	40,528,838
Bonds payable		**2,534,289**	111,715
Tax payable		**684,063**	747,029
Defined benefit obligations		**83,065**	63,150
Total current liabilities		**159,731,127**	136,319,157
Net current assets		**41,199,052**	34,132,298
Total assets less current liabilities		**113,017,007**	104,967,261
Non-current liabilities			
Bank borrowings		**7,903,467**	5,084,569
Bonds payable		**4,552,273**	5,037,660
Lease liabilities		**957,557**	862,296
Deferred tax liabilities		**1,988,150**	1,777,080
Defined benefit obligations		**862,585**	927,991
Other non-current liabilities		**1,348,007**	1,095,332
Total non-current liabilities		**17,612,039**	14,784,928
NET ASSETS		**95,404,968**	90,182,333
CAPITAL AND RESERVES			
Share capital		**27,241,289**	27,241,289
Reserves		**23,171,384**	22,318,130
Total equity attributable to equity shareholders of the Company		**50,412,673**	49,559,419
Non-controlling interests		**44,992,295**	40,622,914
TOTAL EQUITY		**95,404,968**	90,182,333

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(Expressed in HK$ unless otherwise indicated)

1. CORPORATE INFORMATION

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 manufacture, distribution and retail of pharmaceutical and healthcare products.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1. Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). It was authorised for issue on 31 August 2023.

The interim condensed consolidated financial information has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 2.2.

The preparation of the interim condensed consolidated financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim condensed consolidated financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The interim condensed consolidated financial information and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

The interim condensed consolidated financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim condensed consolidated financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 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 predecessor auditor has reported on those financial statements. The predecessor auditor's report was unqualified; did not include a reference to any matters to which the predecessor auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2.2. Changes in accounting policies

New and amended HKFRSs

The Group has applied the following new and amended HKFRSs issued by the HKICPA to this interim condensed consolidated financial information for the current accounting period:

- HKFRS 17, *Insurance contracts*

- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and* errors: *Definition of accounting estimates*

- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

The adoption of the above new and amended HKFRSs did not have any significant impact on the Group's interim condensed consolidated financial information.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The management is assessing the impact of such standards and will adopt the relevant standards in the subsequent periods as required.

3. SEGMENT INFORMATION

Management has determined the operating segments 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 operating 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 devices 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 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 results 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 2023 and 2022:

Six months ended 30 June 2023	**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	**23,179,856**	**110,562,793**	**5,122,363**	**75,050**	**138,940,062**
Inter-segment sales	**2,272,088**	**3,573,631**	**–**	**–**	**5,845,719**
	25,451,944	**114,136,424**	**5,122,363**	**75,050**	**144,785,781**
Elimination:					
Elimination of inter-segment sales					**(5,845,719)**
Segment revenue					**138,940,062**
Segment results	**7,292,656**	**4,523,583**	**50,597**	**(1,846)**	**11,864,990**
Other income *(Note 5)*					**790,279**
Other gains and losses *(Note 6)*					**(472,141)**
Administrative expenses					**(3,212,649)**
Other expenses, net					**(782,583)**
Finance income *(Note 7)*					**262,599**
Finance costs (other than interest on lease liabilities)					**(1,574,136)**
Share of profits of associates and joint ventures					**240,477**
Profit before taxation					**7,116,836**

Six months ended 30 June 2022	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	20,053,033	101,559,153	4,060,863	43,428	125,716,477
Inter-segment sales	2,124,332	2,836,672	–	–	4,961,004
	22,177,365	104,395,825	4,060,863	43,428	130,677,481
Elimination:					
Elimination of inter-segment sales					(4,961,004)
Segment revenue					125,716,477
Segment results	6,371,996	4,302,463	345	39,053	10,713,857
Other income *(Note 5)*					698,660
Other gains and losses *(Note 6)*					(358,169)
Administrative expenses					(2,932,752)
Other expenses, net					(834,573)
Finance income *(Note 7)*					430,736
Finance costs (other than interest on lease liabilities)					(1,322,556)
Share of profits of associates and joint ventures					185,914
Profit before taxation					6,581,117

4. REVENUE

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

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sale of pharmaceutical products	**138,873,401**	125,645,572
Revenue from other sources		
Gross rental income from investment property operating leases:		
Lease payments, including fixed payments	**66,661**	70,905
	138,940,062	125,716,477
Geographical markets		
Mainland China	**138,461,043**	125,398,192
Hong Kong	**406,330**	318,285
Others	**72,689**	–
Total revenue	**138,940,062**	125,716,477
Disaggregated revenue information of revenue from contracts with customers:		
Timing of revenue recognition		
Goods transferred at a point in time	**138,873,401**	125,645,572

5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Service fee income	**437,520**	335,508
Government grants	**218,748**	204,425
Others	**134,011**	158,727
	790,279	698,660

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Gain on disposal of items of property, plant and equipment, net	**2,534**	6,742
Impairment loss recognised on trade receivables, net	**(447,454)**	(488,642)
Impairment loss recognised on other receivables, net	**(42,407)**	(43,105)
Fair value changes on financial assets at fair value through profit or loss	**55,135**	32,702
Expenses relating to derecognition of trade receivables measured at fair value through other comprehensive income	**(113,412)**	(180,023)
Gain on disposal of subsidiaries	**–**	399,226
Fair value changes on investment properties	**52,912**	(61,795)
Others	**20,551**	(23,274)
	(472,141)	(358,169)

7. FINANCE COSTS, NET

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Finance costs:		
Interest on bank borrowings	**1,400,994**	1,207,344
Interest on bonds payable	**91,116**	82,526
Interest on borrowings from an intermediate holding company	**81,996**	17,862
Interest on lease liabilities	**39,671**	40,641
Interest on defined benefit obligations	**4,119**	14,824
Less: Interest capitalised in property, plant and equipment *(Note)*	**(4,089)**	–
Total finance costs	**1,613,807**	1,363,197
Finance income — Interest income	**(262,599)**	(430,736)
Net finance costs	**1,351,208**	932,461

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 3.74%–4.65% (There were no interest capitalised on qualifying assets for the six months ended 30 June 2022).

8. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**1,030,586**	991,498
Depreciation of right-of-use assets	**365,075**	360,123
Amortisation of intangible assets	**320,034**	251,194
Allowance for slow-moving and obsolete inventories	**33,342**	37,752
Cost of inventories recognised as cost of sales	**116,412,171**	105,302,156
Research and development expenditure (included in other expenses, net)	**947,059**	789,319
Lease payments not included in the measurement of lease liabilities	**94,627**	77,871
Impairment loss recognised on items of property, plant and equipment	**24,185**	1,352
Foreign exchange (gain)/loss, net	**(219,488)**	11,903

9. INCOME TAX

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	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current		
PRC Enterprise Income Tax ("**PRC EIT**"):	**1,444,698**	1,408,700
Underprovision in prior periods:		
PRC EIT	**64,875**	62,025
	1,509,573	1,470,725
Deferred	**(85,894)**	(57,960)
Total tax charge for the period	**1,423,679**	1,412,765

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on:

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to equity shareholders of the Company used in the basic earnings per share calculation	**3,038,060**	3,025,046
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**	6,282,510,461

According to the calculation on the dilutive impact of the 2021 restricted stock incentive plan of Jiangzhong Pharmaceutical Co., Ltd., the 2022 restricted stock incentive plan of China Resources Sanjiu Medical & Pharmaceutical Company Limited ("**CR Sanjiu**") and the 2022 restricted stock incentive plan of China Resources Double-Crane Pharmaceutical Co., Ltd., the basic and diluted EPS are the same as the restricted shares had an anti-dilutive effect on the basic EPS.

11. DIVIDENDS

The directors of the Company resolved not to declare any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

	2023	2022
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Dividend for equity shareholders of the Company recognised as distribution during the period:		
Final 2022 — HK$0.16 per ordinary share (2022: Final 2021 — HK$0.15 per ordinary share)	**1,005,202**	942,377

A final dividend of approximately HK$1,005,202,000 (HK$0.16 per share) in respect of the year ended 31 December 2022 was approved at the annual general meeting of the Company on 29 May 2023 and remained unpaid to the shareholders of the Company as at the end of the reporting period.

12. PROPERTY, PLANT AND EQUIPMENT

Additions and disposals

During the six months ended 30 June 2023, the Group acquired property, plant and equipment approximately amounting to HK$425,629,000 (six months ended 30 June 2022: HK$293,219,000), excluding the property, plant and equipment acquired through business combinations and property under construction.

Assets with a net book value of approximately HK$23,939,000 were disposed of by the Group during the six months ended 30 June 2023 (six months ended 30 June 2022: HK$31,516,000), resulting in a net gain on disposal of approximately HK$2,534,000 (six months ended 30 June 2022: a net gain on disposal of approximately HK$6,742,000).

13. OTHER CURRENT/NON-CURRENT FINANCIAL ASSETS

	30 June 2023 (unaudited) *HK\$'000*	31 December 2022 (audited) *HK\$'000*
Trade and bills receivables, at fair value *(Note a)*	**30,642,949**	26,634,011
Equity investments, at fair value through other comprehensive income *(Note b)*	**86,245**	–
Equity investments, at fair value through profit or loss *(Note c)*	**999,756**	796,880
Financial products, at fair value *(Note d)*	**6,659,273**	8,404,252
Total	**38,388,223**	35,835,143
Analysed into:		
Current assets	**37,302,222**	35,038,263
Non-current assets	**1,086,001**	796,880
	38,388,223	35,835,143

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 upon transition to financial assets at fair value through other comprehensive income.

Note b: The Group's equity investments at fair value through other comprehensive income represented investments in private entities established in the PRC. These entities are principally engaged in pharmaceutical related operations. The above equity investments were designated as financial assets at fair value through other comprehensive income.

Note c: The Group's equity investments at fair value through profit or loss represented investments in entities established in the PRC. These entities are principally engaged in research and development, distribution and related operations of pharmaceutical products. The above equity investments failed the solely payments of principal and interest ("**SPPI**") criterion were classified as financial assets at fair value through profit or loss.

Note d: Financial products at fair value included 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) failed the SPPI criterion and designated as financial assets measured at fair value through profit or loss.

14. TRADE AND OTHER RECEIVABLES

	30 June 2023 (unaudited) *HK$'000*	31 December 2022 (audited) *HK$'000*
Bills receivable	**735,961**	1,435,566
Contract assets	**4,903**	23,402
Trade receivables	**83,552,068**	68,825,101
Impairment allowance	**(2,874,762)**	(2,451,623)
	80,677,306	66,373,478
Prepayments	**6,538,877**	5,507,354
Other receivables	**6,785,434**	6,580,909
Impairment allowance	**(414,379)**	(391,386)
	6,371,055	6,189,523
	94,328,102	79,529,323

The Group generally allows credit periods, ranging from 30 to 365 days, to its trade customers. The bills receivable generally have maturity periods ranging from 30 to 180 days.

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

	30 June 2023 (unaudited) *HK$'000*	31 December 2022 (audited) *HK$'000*
0 to 30 days	**7,273,173**	15,076,080
31 to 60 days	**12,308,459**	10,424,496
61 to 90 days	**10,945,021**	6,488,391
91 to 180 days	**22,058,009**	16,669,849
181 to 365 days	**20,826,822**	13,214,045
Over 1 year	**7,265,822**	4,500,617
	80,677,306	66,373,478

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

	30 June 2023 (unaudited) *HK$'000*	31 December 2022 (audited) *HK$'000*
0 to 30 days	**208,343**	640,258
31 to 60 days	**114,818**	216,588
61 to 90 days	**131,199**	97,999
91 to180 days	**281,601**	480,721
	735,961	1,435,566

15. TRADE AND OTHER PAYABLES

	30 June 2023 (unaudited) *HK$'000*	31 December 2022 (audited) *HK$'000*
Trade payables	**45,981,038**	39,713,952
Bills payable	**14,302,730**	14,817,283
Accrued salaries	**2,778,275**	3,211,660
Interest payable	**17,785**	12,857
Other tax payables	**795,025**	1,149,285
Other payables	**22,655,281**	18,249,398
Refund liabilities	**51,976**	57,805
Payable for acquisitions of subsidiaries	**414,140**	440,722
	86,996,250	77,652,962

The average credit period for purchases of goods ranges from 30 to 90 days. The bills payable have maturity periods ranging from 30 to 180 days. As at 30 June 2023, the Group's bills payable of HK$11,854,927,000 (31 December 2022: HK$14,293,021,000) were secured by the Group's bills receivable with an aggregate carrying amount of HK$690,510,000 (31 December 2022: HK$420,897,000) and pledged deposits of HK$4,787,247,000 (31 December 2022: HK$4,976,930,000).

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

	30 June 2023 (unaudited) *HK$'000*	31 December 2022 (audited) *HK$'000*
0 to 30 days	**21,828,335**	18,759,111
31 to 60 days	**8,115,004**	7,645,847
61 to 90 days	**4,530,340**	3,664,413
Over 90 days	**11,507,359**	9,644,581
	45,981,038	39,713,952

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

	30 June 2023 (unaudited) *HK$'000*	31 December 2022 (audited) *HK$'000*
0 to 30 days	**2,408,144**	2,876,015
31 to 60 days	**1,855,460**	2,546,268
61 to 90 days	**2,313,038**	2,531,018
Over 90 days	**7,726,088**	6,863,982
	14,302,730	14,817,283

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2023, the global economy is gradually regaining its footing. In the first half of the year, amidst a complex economic environment worldwide, while macroeconomic performance in China exhibited a robust rebound. China accelerated its efforts to construct a new development pattern and focused on promoting high-quality development. The market demand improved steadily and production and supply increased continuously in China. According to the National Bureau of Statistics of China, the gross domestic product recorded a year-on-year growth of 5.5% in the first half of the year.

As the strategic industry of vital importance to the national economy and the people's livelihood, economic development and national security, the pharmaceutical industry is an important foundation for the construction of "Healthy China". During the "14th Five-Year Plan" period, China's pharmaceutical industry has entered into the stage of high-quality development. Under the Development Plan for the Pharmaceutical Industry under the "14th Five-Year Plan", it is proposed to achieve growth in key economic indicators in moderate to high rate and an annual growth rate of over 10% in research and development (R&D) investment by 2025, which will further enhance the concentration of leading enterprises in the industry. According to the National Bureau of Statistics of China, in the first half of 2023, revenue of the pharmaceutical manufacturing industry recorded a slight decrease of 2.9%, while the overall performance of the industry showed signs of recovery.

"Healthy China" strategy is being fully promoted as evidenced by the change of focus of the health sector from disease treatment to people's health, driving the comprehensive development of the pharmaceutical and health industry covering prevention, healthcare, therapy and recovery. Technological advancements and cross-sector collaborations are accelerating, particularly in the field of biotechnologies, with new-generation technologies such as novel antibodies, nucleic acid medicines and cell and gene therapy becoming increasingly mature. This has led to the emergence of new business segments with promising growth. Information technologies are deeply integrated into various stages of the pharmaceutical industry, including drugs R&D, production and manufacturing, and distribution. More refined policies regarding traditional Chinese medicines (TCM), including the Implementation Plan for the Major Projects for the Revitalization and Development of Traditional Chinese Medicines (《中醫藥振興發展重大工程實施方案》) and Special Administrative Rules for the Registration of Chinese Traditional Medicines (《中藥註冊管理專門規定》), were rolled out successively in the first half of the year. These policies were favourable for fostering the high-quality development of the TCM industry.

The coordinated reform of the three sectors of "healthcare, pharmaceutical and medical insurance" is gaining momentum, with policy focus on new infrastructure for healthcare and medical services, contributing to the expansion of the pharmaceutical market and the development of medical devices. Drug approval policies emphasize the importance of "authentic" innovation guided by clinical value, resulting in increased research complexity and higher R&D costs. Regular centralized procurement policy is being implemented, with a broader scope and coverage. Although the reduction in price has moderated, it is still approximately 50%. The first phase of centralized procurement for TCM at national level has been initiated.

Overall, the pharmaceutical industry is facing complex and significant changes in its internal and external environments. Factors such as increasing demand from aging population, consumption upgrade, technological advancement, and the comprehensive promotion of the "Healthy China" strategy are driving continuous expansion of the PRC pharmaceutical market. However, comprehensive centralized procurement, increased benchmarks for innovative drug R&D and intense competition in sub-segments have set extremely high requirements for pharmaceutical enterprises. Driven by policy, technology and capital, the pharmaceutical industry will continue to encounter enormous challenges and opportunities, leading to a notable trend of structural adjustment. Differentiation and high-quality innovation will be the key elements for success in this competitive landscape, further promoting integration and consolidation within the pharmaceutical industry.

GROUP RESULTS

In the first half of 2023, capitalizing on opportunities arising from the development and reform of China's healthcare industry, the Group vigorously implemented the "Healthy China" strategy led by innovation and empowered by technology. We increased R&D investment and strengthened digitalization and intellectualization to promote industrial upgrade, enhance efficiency and facilitate model innovation. We continuously optimized resource allocation and synergy integration to enhance operating quality and efficiency and further improve our core competitiveness, thereby realizing our high-quality and sustainable development.

During the Reporting Period, the Group recorded total revenue of HK$138,940.1 million, representing an increase of 10.5% (17.9% in RMB terms) compared to HK$125,716.5 million for the first half of 2022. In the first half of 2023, revenue of the Group's three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses, accounted for 16.7%, 79.6% and 3.7% of the Group's total revenue, respectively.

During the Reporting Period, the Group recorded gross profit of HK$22,340.7 million, representing an increase of 12.7% (20.2% in RMB terms) from HK$19,831.7 million for the first half of 2022. The overall gross profit margin was 16.1%, representing an increase of 0.3 percentage points compared to 15.8% for the first half of 2022. This was primarily due to the increase in the proportion of revenue from the pharmaceutical manufacturing business with higher gross margin, and the increase in gross margin of the pharmaceutical manufacturing business during the Reporting Period.

In the first half of 2023, the Group recorded a net profit of HK$5,693.2 million, representing an increase of 10.2% (17.1% in RMB terms) from HK$5,168.4 million for the first half of 2022. The Group generated a profit attributable to owners of the Company of HK$3,038.1 million, representing an increase of 0.4% (6.7% in RMB terms) compared with that of HK$3,025.0 million for the first half of 2022. Excluding the effect from one-off items including the disposal of a subsidiary in the same period of the previous year, the profit attributable to owners of the Group during the Reporting Period recorded a steady increase of 12.1% on a year-on-year basis (19.5% in RMB terms). Basic earnings per share were HK$0.48 during the Reporting Period (HK$0.48 in the first half of 2022).

1. Pharmaceutical Manufacturing Business

The Group strengthened resource integration in its pharmaceutical manufacturing business, continuously increased R&D investment, and accelerated the launch of new products. We optimized the business layout and product mix, promoted the digitalization of the entire value chain, and strengthened the transformation and upgrading of industrial manufacturing. More diversified marketing initiatives were adopted to expand our presence in end markets, further solidifying and enhancing our brand influence and market position.

During the Reporting Period, the Group's pharmaceutical manufacturing business generated segment revenue of HK$25,451.9 million, representing an increase of 14.8% (22.5% in RMB terms) year-on-year. All business segments, such as TCM, chemical drugs, nutraceuticals and biologics, recorded a general increase in revenue. The gross profit margin of the pharmaceutical manufacturing business was 58.8%, representing an increase of 0.6 percentage points compared with the same period last year, primarily due to the optimization of product and business structures and technological advancement.

The Group owns comprehensive portfolio of pharmaceutical products with the wide coverage of therapeutic areas, including chemical drugs, bio-pharmaceuticals, TCM and nutraceuticals. 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, nephrology, rheumatology and immunology, medical nutrition, pediatrics, genitourinary system, dermatological diseases, blood products, therapeutic infusions, antitumor drugs, medicine for cough and cold and anti-infection drugs. As at the end of the Reporting Period, the Group manufactured a total of 782 products, of which 427 were included in the National Reimbursement Drug List and 202 were included in the National Essential Drug List. All of the Group's pharmaceutical manufacturing subsidiaries have formed professional sales and marketing teams, covering over 100,000 medical institutions.

Sales revenue from pharmaceutical manufacturing business by product categories (HK$ million)		**In the first half of 2023**	**In the first half of 2022**	**Year-on-year growth**
TCM		**12,165.5**	**9,453.0**	**28.7%**
Of which:	*OTC drugs*	9,326.3	7,246.0	28.7%
	Prescription drugs	2,839.2	2,207.0	28.6%
Chemical drugs		**10,442.6**	**10,108.8**	**3.3%**
Of which:	*OTC drugs*	2,749.7	2,432.3	13.0%
	Prescription drugs	6,843.9	6,851.3	–0.1%
	APIs	849.0	825.2	2.9%
Biopharmaceutical drugs		**1,270.9**	**1,195.9**	**6.3%**
Nutraceuticals and others		**1,572.9**	**1,419.7**	**10.8%**
Total		**25,451.9**	**22,177.4**	**14.8%**

In terms of product categories, the revenue from the TCM business of pharmaceutical manufacturing business segment of the Group was HK$12,165.5 million during the Reporting Period, representing a year-on-year increase of 28.7% (37.8% in RMB terms), of which revenue from the TCM OTC drugs business increased by 28.7% (38.0% in RMB terms) year-on-year, with significant growth in revenue from the cardiovascular and cerebrovascular diseases, cold and gastroenterology businesses and the E-Jiao products; while the revenue from the TCM prescription drugs business increased by 28.6% (37.3% in RMB terms) year-on-year, with significant growth in the revenue from the cardiovascular and cerebrovascular diseases, and TCM decoction pieces businesses. The chemical drugs business recorded revenue of HK$10,442.6 million, representing a year-on-year growth of 3.3% (10.1% in RMB terms), of which revenue from the chemical OTC drugs business increased by 13.0% (20.6% in RMB terms) year-on-year, mainly attributable to the revenue growth in the dermatology, pediatrics, gastroenterology and reproductive health businesses; while the revenue from the chemical prescription drugs business remained at similar level (increased by 6.6% in RMB terms) year-on-year; and the revenue from API business increased by 2.9% (9.8% in RMB terms) year-on-year. During the Reporting Period, the biopharmaceutical drugs business achieved revenue of HK$1,270.9 million, representing a growth of 6.3% (13.4% in RMB terms) as compared to the same period last year, mainly due to the increase in revenue from the sales of blood products. The revenue from nutraceuticals and other business recorded revenue of HK$1,572.9 million, representing a growth of 10.8% (18.3% in RMB terms) as compared to the same period last year, with growth in the revenue from the gastrointestinal and liver healthcare products and Taohuaji business.

Consolidating resource advantages to facilitate industrial chain integration

The Group actively promoted the optimization and integration of internal resources, continually refining the business structure to achieve complementary advantages and enhance synergistic effects. The Group implemented the national regional strategy, and promoted collaboration among business sectors and between the upstream and downstream of the industry in key national regions such as Beijing-Tianjin-Hebei Area, Greater Bay Area, and Yangtze River Delta. In August 2023, China Resources Boya Bio-pharmaceutical Group Company Limited ("**CR Boya Bio-pharmaceutical**"), a subsidiary of the Group, announced that China Resources Pharmaceutical Commercial Group Company Limited ("**CR Pharmaceutical Commercial**") planned to acquire 75% equity interests in Guangdong Fuda Pharmaceutical Co., Ltd. (廣東復大醫藥有限公司) held by CR Boya Bio-pharmaceutical. This internal business reorganization allowed CR Boya Bio-pharmaceutical to focus more on its core operation and expand and strengthen its blood product business, and at the same time enabled CR Pharmaceutical Commercial to strengthen its distribution business and enrich the upstream resources of blood products, thereby streamlining the business structure and enhancing the overall operational efficiency of the Group. In addition, the Group improved its business layout through CR Pharmaceutical Industry Fund (the "**CR Pharmaceutical Industry Fund**"). The CR Pharmaceutical Industry Fund realized synergistic value with China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. ("**CR Sanjiu**") and China Resources Double-Crane Pharmaceutical Co., Ltd. ("**CR Double-Crane**") in terms of the merge and acquisition for Respirent Pharmaceuticals Co., Ltd. (潤生藥業有限公司) and Dongying Tiandong Pharmaceutical Co., Ltd. (東營天東製藥有限公司), and achieved business synergies with the Group in research and development, pharmaceutical manufacturing, distribution and other aspects.

The Group promoted the management of the entire value chain of TCM through a systematic approach. By utilizing modern technology, it aimed to deeply explore the value of TCM, continuously upgraded the industry chain and established a leading advantage in the field of Chinese medicine. The Group protected and developed the cultivation of Chinese medicinal materials in the upstream of the industry chain, carried out breeding of authentic medicinal herbs, and safeguarded the quality of products from the source. In the middle of the industry chain, it focused on the research and development of classic prescriptions and innovative Chinese medicine, and accelerated the construction of the Chinese medicine industry cluster. In the downstream, it integrated consumer data and evidence-based clinical research to optimize the industry chain in a reverse manner. It also collaborated extensively with professional institutions such as Institute of Chinese Materia Medica China Academy of Chinese Medical Sciences to promote the construction of the "High-quality Development Alliance for the Chinese Medicine Industry Chain". In January

2023, CR Sanjiu completed the acquisition of shares in KPC Pharmaceuticals, Inc. ("**KPC**") and became its controlling shareholder. During the Reporting Period, the integration of brands, products, channels, terminals, management systems and other aspects between the two companies progressed smoothly. In the future, KPC will strategically focus on the field of chronic disease management, mainly with the use of Sanqi (Panax notoginseng), and on the national pharmaceutical business of the "Kun TCM 1381 (昆中藥1381)" brand. Both companies will collaborate to promote the development of the Sanqi industry chain. In June 2023, the "2022 Top 100 Chinese TCM Enterprises" was released, and the Group's subsidiaries, namely CR Sanjiu, KPC, Dong-E-E-Jiao Company Limited ("**Dong-E-E-Jiao**") and China Resources Jiangzhong Pharmaceutical Group Co., Ltd. ("**CR Jiangzhong**"), were listed and ranked among top 30.

Deeply cultivating intelligent manufacturing to create excellent operations

The Group's pharmaceutical manufacturing sector deeply cultivated intelligent manufacturing capitalizing on the development trend of the pharmaceutical industry and information technology, and utilized digital technology to continuously improve production efficiency and product quality. CR Sanjiu jointly developed automated quality control equipment, and built intelligent quality testing laboratories. CR Jiangzhong's TCM Science and Technology Innovation City project in Ganjiang New Area operated smoothly. The project has entered the phase of integration testing, and is expected to be put into operation within the year. Jiangzhong Pharmaceutical Co., Ltd ("**Jiangzhong Pharmaceutical**") became the first enterprise to obtain the "Level 4 of Matured Intelligent Manufacturing Capability" in Jiangxi Province. CR Double-Crane's industrial park division advanced the construction of a digitalized and intellectualized benchmark plant, with focus on enhancing intellectualization and digitalization in core aspects such as supply chain, quality system and manufacturing management. Dong-E-E-Jiao continued to develop and iterate the big data platform centering on the product lifecycle, and utilized Internet of Things (IoT) technology for intelligent management of the warehouse in the logistic center. This project was selected as a key project of digital economy in Shandong Province. CR Boya Bio-pharmaceutical conducted researches on digital solutions for plasma collection, storage and transportation and manufacturing, and implemented cloud-based plasma collection station management system and IoT-based plasma identification system.

Furthermore, the Group continued to promote production capacity optimization and integration, strengthen the management across the entire industrial chain, effectively control cost, and improve operational efficiency. Adhering to the low cost strategy of the entire value chain, CR Double-Crane further consolidated the production bases and optimized the production capacity of large volume parenteral (LVP) and key preparations. Efforts were made to refine management through optimizing the production processes, centralized procurement of supplies and controlling energy consumption. Production cost of key products decreased on a year-on-year basis. CR Sanjiu and CR Jiangzhong strengthened the tracking and monitoring of TCM prices, and implemented category-based procurement and strategic reserves for key raw materials to effectively mitigate the impact of TCM price fluctuations on costs. Dong-E-E-Jiao systematically consolidated the upstream production base of donkeys and implemented standardized management planning and resources sharing, establishing an integrated industrial chain of "breeding + slaughter + deep processing + sales".

Activating marketing potential from multiple dimensions and expand the space for sustainable growth

The Group further consolidated the core competitive strengths of its core products and expanded its prominence in different markets. As an industry leader in China's consumer healthcare (CHC) market, the Group's brands and products have been well recognized by the market. In the second OTC Conference of China, the ranking of China's non-prescription medicines manufacturers in 2022 was released. CR Sanjiu once again topped the list, and Dong-E-E-Jiao, Jiangzhong Pharmaceutical and China Resources Zizhu Pharmaceutical Co., Ltd. ("**CR Zizhu**") were among the finalists. Many star products of the Group were selected into the "Gold List of China OTC Drugs". The Group's "Dong-E-E-Jiao", "Jiangzhong" and "Yuting" brands were listed among the "2023 China's 500 Most Valuable Brands" released by the World Brand Lab. During the Reporting Period, the Group's revenue in the field of CHC amounted to RMB11.5 billion, representing a year-on-year increase of approximately 35%, further consolidating its leading position and competitive advantage in the industry. In particular, sales revenue in the field of cold increased by over 50% (in RMB terms) year-on-year, and the sales revenue from E-Jiao syrup increased by over 40% (in RMB terms) year-on-year. In terms of prescription drugs, the Group focused on the primary and chronic disease markets while enhancing channel efficiency to boost the growth of core products sales. In the LVP segment, CR Double-Crane capitalized on the rapidly recovering primary medical market and utilized full production capacity to ensure sufficient market supply. It also accelerated the expansion into the therapeutic infusion market. During the Reporting Period, the sales revenue from LVP recorded a significant year-on-year increase of 28% (in RMB terms). Meanwhile, it also emphasized the patient-centric chronic disease and health management and strengthened its presence in the primary market. The sales revenue from the core product "No. 0 (0號)" in the field of hypotension grew steadily during the Reporting Period.

During the Reporting Period, the Group further expanded and cultivated the market for products with strong potentials, establishing a product echelon to drive a second growth curve. In respect of Mitoxantrone Hydrochloride Injection for tracking purposes of a Class 2 new drug, CR Sanjiu built a network of academic experts in thyroid and mammary gland surgery, accelerated the construction of hospital channels and enhanced out-of-hospital marketing through the "dual-channel (雙通道)" strategy. The sales revenue from such product increased rapidly year-on-year. CR Double-Crane focused on enhancing its academic promotion and service capabilities in specialist areas, expedited the development of differentiated products and further expanded into the relevant markets by capitalizing on the opportunities from successful tenders for centralized procurement. Pregabalin Capsule, an analgesia medicine listed in 2020, was selected in the fourth batch of national centralized procurement, leading to a significant year-on-year growth of 35% (in RMB terms) in sales revenue during the Reporting Period. The sales revenue of Teniposide Injection, an anti-tumor medicine, also surged by over 270% (in RMB terms) on a year-on-year basis during the Reporting Period, driven by its strong presence in major hospitals and the formulation of medication specifications. Moreover, CR Double-Crane revitalized the production of "dormant" products with market potential and further developed its out-of-hospital business layout. During the Reporting Period, the sales of such revived products amounted to around RMB170 million. In particular, the oropharyngeal OTC product "Qingli (清利)" (dequalinium chloride lozenges), which resumed production at the beginning of the year, generated sales revenue of approximately RMB18 million. CR Boya Bio-pharmaceutical expanded the special academic promotion of human prothrombin complex concentrate (PCC), which was listed in 2021, in hospitals. At present, the market share of PCC has increased to approximately 14%. Dong-E-E-Jiao prioritized the development of instant E-Jiao powder products and strengthened digital marketing by leveraging its brand awareness and brand value. Engaging in cross-segment marketing, it further enhanced product popularity. During the Reporting Period, the sales revenue of E-Jiao powder doubled on a year-on-year basis.

The Group's pharmaceutical manufacturing segment accelerated the listing of high-quality new products and bolstered its ability to procure core upstream raw materials to support future business development. During the Reporting Period, the Group received Drug Registration Certificates issued by National Medical Products Administration ("**NMPA**") for 10 products in the chemical drug segment, further enriching the Group's product portfolio in therapeutic areas such as high blood pressure, anti-infection, alimentary tract and metabolism. CR Jiangzhong obtained approval for two formula food products for special medical use, expanding the rehabilitation nutrition business with growth potential. CR Boya Bio-pharmaceutical obtained the approval for registration and business license of the plasma collection station in Yangcheng of Shanxi in June 2023. This will further enhance the supply of raw material plasma for CR Boya Bio-pharmaceutical, which will boost the rapid development of the blood product business of the Group.

In addition, the Group actively expanded its digital channels by utilizing innovative brand promotion approaches and explored opportunities in traditional e-commerce, live streaming platforms, interest e-commerce and other online channels to strengthen its precision marketing and optimize consumers' experience. During the Reporting Period, the online sales of the pharmaceutical manufacturing segment recorded a remarkable year-on-year increase of 43% (in RMB terms) in sales revenue. Specifically, the online sales of medicines for cold, the liver and gall as well as pediatric medicines and the nourishing vitality and blood category all kept ranking top in the "618" event. The Group also made efforts to strengthen its academic marketing system and enhance its academic promotion capabilities, consolidating its leading positions in both academic standing and branding. CR Double-Crane embraced the centralized procurement based on the "multiple products and point-to-group" strategy and continually raised marketing efficiency for centralized procurement products. CR Boya Bio-pharmaceutical organized experts in the industry to develop various academic brands for molecular drug products, and carried out the "Yellow Handkerchief" marketing project for hemophilia. The Group also prioritized the integration of sales channels. Dong-E-E-Jiao streamlined the channels for Taohuaji product systematically, targeting quality distributors to optimize customer structure. It also developed joint brands with key customers and customers with strong potentials. Sales revenue of Taohuaji product grew by nearly 100% (in RMB terms) on a year-on-year basis during the Reporting Period.

2. Product Research and Development

The Group regards R&D and product innovation as important drivers for long-term growth, and consistently increases its investment in R&D activities. The total R&D expenditure for the Reporting Period amounted to approximately HK$1,173.9 million, representing an increase of 16.9% (26.0% in RMB terms) year-on-year. Guided by national policies, development trends of industry technology and market demands, the Group enhanced its core competitiveness through the emphasis on innovation-oriented products as well as a combination of generic and innovative products, with a special focus on the R&D of medicines for the cardiovascular system, respiratory system, tumor treatment, alimentary tract and metabolism, central nervous system, immune system, anti-infection, hematology, and genitourinary system. As at the end of the Reporting Period, the Group had over 300 ongoing new product R&D projects, including more than 100 new drug projects, mainly involving oncology and immunity, metabolism and endocrine, respiratory system, hematology, angiocarpy, TCM classic prescriptions and other fields.

As at the end of the Reporting Period, the Group operated five State-certified engineering technology research centers, three State-certified enterprise technology centers and approximately 70 research centers certified by provincial and municipal authorities, as well as post-doctoral research workstations with an R&D team comprising over 2,400 researchers. The Group conducted continuous refinement of its R&D mechanism, established a market-oriented talent introduction mechanism and the mechanism for training talents at different levels, and strengthened the introduction of leading talents. In addition, the Group has been continually improving its mechanism for introduction of external experts, and actively introducing experts and leading talents in the industry to strengthen the team of external experts, and continuously promoted the innovative transformation and sustainable development of the Group.

The Group accelerated innovation and transformation with a focus on high-growth and high-potential sectors and pushed forwarded the development of a differentiated innovative R&D platform. The Group's Shenzhen R&D Center continued to strengthen the two major R&D platforms of bio-innovative drugs and chemical innovative drugs. The bio-innovative drugs platform is mainly dedicated to new drugs design and molecular construction of monoclonal antibodies, double antibodies, nanobodies and polypeptide drugs empowered by AI technology, and development of CMC varieties of yeast expression system, for exploring the competitive advantage of product differentiation. Currently, ten R&D projects of new biological products have maintained good progress. The chemical innovative drugs R&D platform focuses on novel targets for tumor, autoimmunity and other major diseases, and integrates target discovery, AIDD/CADD (AI-Driven Drug Design/Computer-Aided Drug Design), compound synthesis, drug screening and optimization. The four projects in the field of anti-tumor research are progressing smoothly. CR Double-Crane has actively built two innovative technology platforms for anti-tumor and anti-virus with independent intellectual property rights to meet the clinical needs. Two core new chemical drug projects have completed Phase I clinical main trials.

The Group continuously increased R&D investment in leading businesses, developed technology platform and business incubation platform, accelerated the commercialization of R&D achievements, and improved the efficiency of industrialization, thereby further consolidating and enhancing our core competitive advantages. In the first half of 2023, drug registration approvals were obtained from NMPA for 10 chemical drug products, including Omeprazole and Sodium Bicarbonate Capsule, Olmesartan Medoxomil and Amlodipine Besylate Tablet, Levetiracetam Concentrated Solution for Injection, which further enriched the product mix of the Group's pharmaceutical manufacturing business. In particular, Omeprazole and Sodium Bicarbonate Capsule was registered as a Class 3 chemical drug. Seven products, including the Citicoline Sodium Injection, Piracetam Tablet and Epalrestat Tablet, passed the consistency evaluation of the quality and efficacy of generic drugs. In terms of the inheritance and innovation of TCM, the Group put more resources in the R&D of TCM classic formula, standards for TCM formula granules and medicinal material resources. At present, the Group has over 40 classic formulas in pipeline, mainly focusing on the fields of gynecology, gastroenterology and pediatrics.

During the Reporting Period, the Group made significant progress in the research and development of a number of Class 1 innovative chemical drugs. NIP003, a novel FXIa inhibitor with global intellectual property rights for the prevention of arteriovenous thrombosis, is undergoing Phase I clinical trial. At present, there is no drug with the same target points have been approved for listing domestically or abroad. NIP292, which treats idiopathic pulmonary fibrosis, is the second oral ROCK inhibitor to enter clinical research in the world. The drug, for which the Group has global intellectual property rights, has been certified as an orphan drug by FDA of the United States. This project has been selected as "National Major Scientific and Technological Project" and "Beijing Key Innovation and Research and Development Project in Medicine and Health", and has completed Phase I clinical trial during the Reporting Period, indicating good results. NIP046 is designed for a variety of autoimmune diseases, ranking at the first echelon in research and development progress of similar targets in China. During the Reporting Period, the drug has completed Phase I clinical trial, indicating good safety and tolerability. NIP142, which is used to treat mutant non-small cell lung cancer, was under Phase I clinical trial during the Reporting Period.

The Group kept improving its deployment in original biological drugs, improved new drugs and biosimilar drugs. As at the end of the Reporting Period, the Group had 34 biological drug projects under development, 19 of which were new biological drugs focusing on anti-tumor, immunity, endocrine and other therapeutic fields. The Phase III clinical trial of Ruitongli for treating the new indication of acute stroke is progressing rapidly, with all cases enrolled. Its treatment for the new indication of acute pulmonary embolism has entered Phase II clinical trial and progressed well. One new biologic drug for the treatment of anemia has entered Phase II clinical trial, and 80% of the enrolled participants have completed the follow-up medication. CR Boya Bio-pharmaceutical further increased its R&D investment in blood products to optimize the pipeline layout. The intravenous immunoglobulin (10%) has completed all enrollment under the Phase III clinical trial. Moreover, C1 Esterase Inhibitors received a notice of approval for clinical trial of drugs issued by NMPA, and the clinical trial for the treatment of acute attacks of acute abdominal and/or facial hereditary angioedema in adults and adolescents has commenced. CR Boya Bio-pharmaceutical is the first enterprise in Mainland China to obtain the approval for the clinical trial of this drug. At present, there is no company in Mainland China producing and selling this product.

The Group proactively expanded external innovation and cooperation and established a business development synergy mechanism. We devoted in promoting the strategic cooperation with national innovative institutions such as National Medical Center in terms of innovative medical projects and technologies, accessing top external experts while acquiring projects and technologies to diversify and optimize innovative R&D pipelines. The Group has co-established five joint innovation centres with national innovation platforms including the National Center for Cardiovascular Diseases, the National Clinical Research Center for Infectious Diseases and the National Engineering Research Center for Cell Growth Factor Drugs and Protein Agents. During the Reporting Period, the Group proactively advanced the strategic cooperation with the National Center for Cardiovascular Diseases on critical core technical issues relating to the generality, progressiveness and applicability of clinical needs in the field of cardiovascular disease, and reached the intention of cooperation regarding four projects involving innovative medical devices for cardiovascular disease interventional surgery and the treatment of heart failure and based on clinical experts' long-term clinical practice to address existing problems in the diagnosis and treatment of cardiovascular disease. The Group has also developed cooperation with the National Clinical Research Center for Infectious Diseases in the research and development of new drugs, diagnostic reagents and innovative vaccine products in the field of infectious diseases, and entered into a cooperation agreement for a new vaccine project in February 2023. In May 2023, the Group signed a strategic cooperation agreement with Westlake University to promote cooperation in the innovation of biomedicine and R&D platform for emerging technologies. Furthermore, capitalizing on the advantages of Hong Kong's policies, technological innovation and talent pool as well as its strategic position as an international hub with easy access to the mainland China, the Group actively established collaborations with well-known universities and biopharmaceutical companies in Hong Kong to gain access to their high-quality resources and expertise, explore the establishment of R&D platform, engage in joint R&D projects, and develop innovative cooperation models. The primary focus lied on original technologies and groundbreaking projects, with particular attention to reserving multiple R&D initiatives in fields such as neuroscience, innovative biopharmaceuticals, TCM and in-vitro diagnostics (IVD).

During the Reporting Period, a number of projects under development licensed-in by the Group progressed smoothly. QBH-196, a new Class I small-molecule targeted anti-tumor drug introduced by CR Sanjiu from Shenyang Pharmaceutical University in 2019, is in Phase I clinical trial. ONC201, an innovative drug for brain glioma that entered into licensing cooperation with Oncoceutics, Inc. in 2020, received a notice of approval for clinical trial of drugs issued by NMPA in July 2023. The Class 2 innovative drug in the field of reproductive health introduced by CR Zizhu in December 2022 is in Phase I clinical trial.

3. Pharmaceutical Distribution Business

In terms of the pharmaceutical distribution business, the Group implemented the regional development strategy, refined the distribution network and business layout and accelerated the professional development of the entire industry chain for the medical device business. It has been constantly enhancing the management and service capabilities of the entire industry chain by developing innovative value-added service system, and empowering business development and transformation with digitalization.

During the Reporting Period, the Group's pharmaceutical distribution business recorded a segment revenue of HK$114,136.4 million, representing a year-on-year increase of 9.3% (16.7% in RMB terms). The gross profit margin of the distribution business was 6.1%, representing a slight decrease of 0.2 percentage points as compared with the same period in the previous year.

The Group implemented its regional development strategy with focus on key strategic regions, further optimized the business structure and strengthened its channel and terminal capabilities. During the Reporting Period, adhering to the policy of hierarchical diagnosis, the Group actively expanded the primary medical market. Sales revenue from primary medical institutions grew by 30% (in RMB terms) year-on-year. In addition, the Group continued to expand the coverage and business network of the out-of-hospital market, and sales revenue from out-of-hospital distribution business increased by approximately 19% (in RMB terms) year-on-year. As at the end of the Reporting Period, the Group's pharmaceutical distribution network has covered 28 provinces across the country with over 140,000 clients, including around 10,000 secondary and tertiary hospitals and approximately 70,000 primary medical institutions.

During the Reporting Period, the Group accelerated the development of distribution business by expanding its network coverage, strengthening terminal presence, broadening its business footprint, and increasing market share. In May 2023, CR Pharmaceutical Commercial acquired 51% equity interests in Anhui Lifang Pharmaceutical Co., Ltd. (安徽立方藥業有限公司) through capital injection and became its controlling shareholder. Such acquisition has enabled the Group to rapidly establish an out-of-hospital market network in Anhui Province, enhancing our competitive advantage in the out-of-hospital market. In June 2023, CR Pharmaceutical Commercial entered into an investment cooperation agreement with Sichuan Kelun Industry Group Co., Ltd. (四川科倫實業集團有限公司) ("**Kelun Group**"). CR Pharmaceutical Commercial intends to become the controlling shareholder of Sichuan Kelun Medicine & Trade Group Co, Ltd. (四川科倫醫貿集團有限公司) ("**Kelun Medicine & Trade**"). CR Pharmaceutical Commercial and Kelun Group will conduct collaboration in terms of overall market strategy, academic promotion and business channel integration. Kelun Medicine & Trade ranks among the top 20 in China's pharmaceutical distribution industry. This proposed cooperation provides strong support for the market expansion and network layout of Group's distribution business in the Southwest region, especially in Sichuan Province, helping CR Pharmaceutical Commercial achieve a breakthroughs to reach a scale of over RMB10 billion in the Southwest region. Furthermore, CR Pharmaceutical Commercial planned to acquire 75% equity interests in Guangdong Fuda Medical Co., Ltd (廣東復大醫藥有限公司), enabling it to strengthen the distribution business and enrich the upstream resources of blood products.

The Group continued to optimize the integrated control and specialized management of the medical device distribution business. We have established 40 independent medical device companies and established business relationships with approximately 20,000 downstream hospitals. During the Reporting Period, the medical device business recorded revenue of approximately RMB16.2 billion, representing a year-on-year growth of 13%, with revenue from interventional supplies business exhibiting rapid growth of over 30%. During the Reporting Period, we actively pursued product introductions and business collaborations in the medical device sector, partnering with renowned brands such as MicroPort, Mindray and Hygea to jointly develop flagship product lines and to provide specialized services such as surgery accompaniment. We also collaborated with manufactures such as DIRUI Industrial Co., Ltd. (迪瑞醫療科技股份有限公司) to advance the "Thousand Counties" project. The Group continuously strengthened its specialized capability of orthopedics, interventional, IVD diagnostic reagents and comprehensive consumables, set up marketing companies for each of the specialist area and accelerated the business expansion through mergers and acquisitions. As for the orthopedics business, the Group established a nationwide supply chain and service integrated platform, with 80 orthopedics sub-warehouses established across provinces. In addition, the Group has established eight professional inspection companies in the IVD field. To extend our medical device business in the upstream and fostered technological research and development capabilities, the Group has also set up the medical device research institute to engage in extensive cooperation in technological innovation projects through the establishment of joint laboratories or joint innovation centers and actively promote the commercialization of research outcomes. Additionally, the Group has further enhanced its innovative service capabilities in the medical device business and promoted hospital supply chain service projects.

As for the distribution business, the Group has continuously enhanced the ability to strategically procure high-quality upstream resources through product introductions and project collaborations. During the Reporting Period, the Group accelerated product introductions by establishing strategic partnerships with Roche, Johnson & Johnson and other pharmaceutical companies. We successfully introduced all the 28 innovative drug products that received domestic market approval within the year. Capitalizing on our advantageous resources, we conducted integrated negotiations for centralized procurement, achieving an average product acquisition rate of 61% in the seventh round of centralized procurement. In addition, we actively planned our product line for the out-of-hospital market to strengthen the out-of-hospital market supply chain system. In the first half of 2023, we introduced more than 70 exclusive distribution/product specifications, including the exclusive distribution rights for Roche's anti-influenza drug "Xofluza (速福達)" (Baloxavir marboxil) in the out-of-hospital market and online channels. Furthermore, we continuously improved our capabilities in customs import services and registration inspection, optimizing coordination among various ports to enhance the expansion of port-related businesses and bolstering our internal control and compliance systems for international operations. During the Reporting Period, we collaborated with import pharmaceutical manufacturers to optimize our distribution network, achieving approximately RMB6.7 billion in sales revenue from imported products. In active response to the "Hong Kong and Macao Medical Instrument Connect (港澳藥械通)", the Group has signed contracts with 11 healthcare institutions in the second batch and assisted in obtaining 28 clinical urgently-needed drug/medical device certificates during the Reporting Period and completing the procurement, import processing and distribution for the relevant products.

At the same time, the Group actively promoted the value-added services for its distribution business. This involves reshaping the traditional healthcare channel value through initiatives like Centers of Excellence (COE) for specialized diseases and digital healthcare, exploring innovative payment models for commercial insurance, and accelerating digital transformation and "Internet+" business layout. During the Reporting Period, the Group continued to explore innovative digital healthcare business models. We entered into contracts with more than 110 COEs in over 70 medical institutions in China, gaining precise access to medical and patient resources to generate valuable data assets. Furthermore, the Group jointly operated a lung cancer COE with three hospitals in Shandong Province, launched the first "Digital Therapy Project" in collaboration with Xuzhou Children's Hospital (徐州兒童醫院), and collaborated with Beijing Jian Gong Hospital (北京市健宮醫院) to establish the "Beijing Run Xiaoyi Internet Hospital (北京潤小醫互聯網醫院)", which is expected to commence operation within this year. In respect of innovative payment models for commercial insurance, the Group collaborated with Yibao Technology (Shanghai) Co., Ltd. (熠保科技(上海)有限公司) to introduce inclusive outpatient insurance in Hunan Province, offering insured individuals with online hospital consultations and medication services. In the first week of launch, the number of insured individuals exceeded 115,000. This cooperation model has been expanded to various provinces including Beijing, Guangxi and Shandong. The Group has also cooperated with multiple pharmaceutical companies to explore innovative commercial insurance payment models for high-end specialty drugs. The Group's B2B online platform, "CR Pharma e-Store (潤藥商城)", implemented an operation model covering 24 provinces with online transactions in medical insurance payments, commercial insurance, internet hospitals and prescription outflow. During the Reporting Period, we further strengthened the nationwide integrated operation of the platform, recording a transaction amount of approximately RMB14.8 billion with 890,000 orders placed. To adapt to the development trend of channel sinking and prescription outflow, the Group provided prescription platform services to hospitals and coordinated with major internet hospital platforms to handle prescription outflow business. During the Reporting Period, the Group successfully handled around 460,000 prescriptions from internet hospital platforms.

The Group continued to promote the construction of standardized, integrated and platform-based operation systems for logistics. We proactively coordinated the construction of core regional hub warehouses, enhanced the integration of warehousing resources, fostered collaboration across multiple warehouses, and centralized cost standards management, all aimed at improving our logistics capabilities and efficiency. As at the end of the Reporting Period, the Group's distribution business had over 220 logistics centers, equipped with nationwide storage and distribution capabilities for temperature-controlled pharmaceuticals, allowing the Group to provide end-to-end management of the vaccines, blood products and other products requiring specific temperature control. The Group further strengthened the digitalized operation by establishing a centralized IoT platform to facilitate intelligent upgrades and improve management levels for more effective resource coordination.

4. Pharmaceutical Retail Business

In terms of the pharmaceutical retail business, the Group accelerated the introduction of high quality products and optimized business categories. Efforts were made to the integrated, standardized, professional and digital development of pharmacies to enhance our service capabilities and operational quality. These efforts aimed at creating differentiated and specialized competitive advantages in the retail business.

During the Reporting Period, the Group's pharmaceutical retail business recorded revenue of HK$5,122.4 million, representing a year-on-year increase of 26.1% (34.6% in RMB terms), which was mainly due to the proactive approach in embracing the prescription outflow trend and its continuous efforts to enrich and optimize the product structure. In the first half of 2023, the Group's DTP business achieved revenue of approximately RMB2.76 billion, representing an increase of approximately 14% year-on-year. The gross profit margin of the retail business was 7.9%, representing a slightly decrease of 0.5 percentage points as compared with that for the same period of last year. As of the end of the Reporting Period, the Group operated a total of 809 self-owned retail pharmacies, including 253 DTP professional pharmacies in total (including 145 "Dual-channel" pharmacies).

The Group continued to strengthen the construction of high-quality DTP specialty pharmacies. In the ranking of "2022-2023 Top 100 Standalone Pharmacies (Professional Pharmacies) in China", the Group occupied 54 positions. During the Reporting Period, the Group introduced six new DTP product specifications, and debuted China's first fully localized CAR-T product, relmacabtagene autoleucel injection (伊基奥侖賽注射液), in July 2023. In addition, the Group launched the "Excellent Runyao Pharmacist (卓越潤曜藥師)" retail training program, providing in-depth training to pharmacists in the Group's professional pharmacies in collaboration with upstream manufacturers. Furthermore, the Group is in the process of establishing a DTP pharmaceutical service management platform, with an aim of enhancing the connectivity between upstream and downstream sectors and improving our professional service capabilities.

The Group continuously enhanced the integrated and standardized operation and management of its retail stores, focusing on the development of standardized value-added service system to create professional, regulated, and high-quality pharmacies. During the Reporting Period, the Group established a centralized pharmacy customer relationship management (CRM) system to improve member management, strengthen end-customer acquisition and optimize the centralized management of members across all channels. At present, the number of members has exceeded 2.6 million. Additionally, the Group cooperated with China Resources Vanguard to set up nearly 400 "Runde Vanguard (潤德萬家)" stores in Guangdong, offering a one-stop experience of healthcare services. The Group also provided comprehensive services through the pharma-diagnosis-healthcare complexes, including intelligent inspection and testing, online consultation and chronic disease management.

In 2023, with the policy of outpatient treatment in pharmacies being implemented, there has been an accelerated outflow of prescriptions, resulted in increasing demands on the management and service capabilities of retail pharmacies, driving the consolidation of the pharmaceutical retail market. In response, the Group has actively integrated the systems of its designated pharmacies in various regions, equipping them to apply for the license to provide outpatient treatment services. Furthermore, the Group put efforts on the acquisition of "dual-channel" qualification for our professional pharmacies in order to strengthen their professional service capabilities and pharmaceutical supply systems, positioning them to meet the trend of prescription outflow.

The Group fully grasped the development trend of "Internet +" in the pharmaceutical industry to actively accelerate its digital transformation of retail drugstores by building new O2O (online-to-offline) and B2C (business-to-consumer) retail operation platforms and establishing integrated business models that bridge online and offline channels and public and private domains. During the Reporting Period, the Group developed more than ten integrated pharmacies that provide warehousing and e-commerce services to customers, and developed our online private domain platform "Runyao Youxuan (潤曜優選)". The online sales to customers further increased by 23% (in RMB terms) year-on-year.

Our sustainable development capabilities and market influence have received widespread recognition

In January 2023, the MSCI ESG Rating of China Resources Pharmaceutical upgraded from BBB to A, which demonstrated the unremitting development of its management capability in the environmental, social and corporate governance field, as well as the recognition of the global capital market for the ESG management capability and long-term investment value of the Group. In April 2023, the Group was included in the Hang Seng China Enterprises Index, demonstrating the capital market's recognition of the Group's status as a state-owned enterprise and our market performance, and further enhancing the Group's influence in the Hong Kong market. Moreover, in July 2023, the list of top listed companies of Fortune China 500 in 2023 was officially released, and the Group was shortlisted and ranked 64th.

The Group is committed to improving its corporate governance, and optimize the incentive mechanism to effectively stimulating the empowerment and vitality of the Company, achieving high-quality development and safeguarding the shareholders' rights and interests. The restricted stock incentive plans of CR Sanjiu, CR Double-Crane and Jiangzhong Pharmaceutical were carried out in a stable manner, which enabling them to better attract, retain and motivate outstanding managers and core technicians. China Resources Biopharmaceutical Co., Ltd. ("**CR Biopharm**") completed its B-round financing of RMB600 million, which further deepened the mixed ownership reform and reflected the recognition and support from the investors regarding its development potential. In the annual assessment of "Double-Hundred Enterprises" and enterprises for "Exemplary Scientific Reform Actions" in 2022 for state-owned enterprises, CR Sanjiu was recognized as a benchmark enterprise for "Exemplary Scientific Reform Actions", while CR Jiangzhong and CR Biopharm were both recognized as the outstanding enterprises for "Exemplary Scientific Reform Actions". Furthermore, the Group continued its efforts to strengthen the functions of the Board, revise and improve the Articles of Association, enhance the independence and impartiality of the Board, and consistently reinforce risk management capabilities. These measures are taken to ensure prudent operations and sustainable development.

The Group has always adhered to the principles of green, low-carbon and sustainable development. We accelerated the construction of energy-saving and environmental friendly projects and adopted new technologies to improve energy efficiency, striving to enhance our ecological environment protection and environmental governance capabilities. In terms of the construction of energy conservation and environmental protection projects, the Group consistently increased the proportion of green and low-carbon energy. During the first half of the year, three rooftop distributed photovoltaic power generation projects achieved grid-connected power generation, resulting in a reduction of carbon emissions by approximately 1,200 tons per year. The Group actively developed green production models. Two subsidiaries under CR Sanjiu underwent upgrade and renovation of the boiler facilities to reduce emissions of pollutants and greenhouse gases, leading to a reduction of carbon emissions by approximately 646 tons per year. CR Pharmaceutical Commercial continued to develop green logistics and green parks and achieved a reduction of carbon emissions by approximately 101 tons per year through the replacement of energy-saving lighting equipment. During the Reporting Period, the Group was honored with various awards related to sustainable development. China Resources Sanjiu (Ya'an) Pharmaceutical Co., Ltd. and Beijing China Resources High-Tech Natural Drugs Co., Ltd. were granted with the qualification of "Green Factory" at national level, and CR Sanjiu was awarded the title of "Green and Low-Carbon Pioneer Enterprise in Shenzhen".

OUTLOOK AND FUTURE STRATEGIES

China Resources Pharmaceutical has always upheld the mission of "Protecting Human Health and Improving Quality of Life". Adhering to the principles of "excellent products, outstanding brands, leading innovation and modern governance", we are committed to developing our business in the fields of "The Pillars of a Great Power" and "People's Livelihood of a Great Power". We will take the initiatives to serve and integrate ourselves into the national strategies and foster new advantages for high-quality development. We will further consolidate, strengthen, supplement and extend the industrial chain through innovation and technology empowerment, and push forward digitalization in order to develop our core competitive advantages. We will accelerate outward expansion and engage in external collaborations to optimize our business layout and resource integration, and capture new momentum for performance growth. We will implement comprehensive management of the entire value chain of TCM to systematically enhance our competitive advantage in the industry chain. We will also continuously improve our corporate governance, promote mixed ownership reform, and innovate incentive mechanisms to stimulate new vitality for high-quality development.

1. To implement national strategies and refine business layout

Guided by public health needs and in adherence to the national development strategy, the Group will position itself as a "Guardian of People's Health" and the "Leader of Industry Innovation". Our business development will emphasize the protection of social well-being and responsiveness to significant crises. We will strengthen our innovation and R&D capabilities, with a focus on addressing critical bottlenecks and challenges. We will vigorously develop the biopharmaceutical business by ramping up our business investments. We also aim to position ourselves at the forefront of the blood products sector through the development and introduction of novel vaccines. In addition, we will actively establish our business presence in the high-end medical equipment market, targeting to enhance the supply chain for high-end biomedicine products and devices in order to provide robust support for disease prevention, treatment, and address the challenges posed by an aging population. As we are committed to the implementation of the "Healthy China" strategy, we will fulfill our responsibilities as a state-owned enterprise to better safeguard the health and well-being of the people. In addition, the Group will constantly promote the public-welfare "China Resources Healthy Village Program (華潤健康鄉村)", expand the expert team, enrich the curriculum system, and improve the quality health for all.

2. **To enhance R&D capability and drive innovation**

Taking scientific and technological innovation as our core driving force and based on the clinical needs, the Group will further increase R&D investments, innovate our mechanisms and systems, optimize resource allocation, and expand our research talent pool to continually enhance our innovation and research capabilities. We will continue to improve the construction of differentiated technological platforms, and enhance the quality of our innovation product pipeline through independent R&D and the establishment of innovative cooperative ecosystems, expediting the research, development, and commercialization of original technologies and products. The key measures include:

(1) **To enhance the quality of our R&D pipeline.** With the focus on addressing unmet clinical needs and market demands, we will further refine the project criteria to improve the quality of our R&D pipeline. We will conduct dynamic assessments of our R&D pipeline and direct resources towards breakthroughs in key areas, with an emphasis on accomplishing key projects.

(2) **To accelerate the construction of differentiated technological platforms.** We will put efforts in the development of "core-differentiated-cutting-edge" and other types of innovative R&D platforms, and strengthen the screening of innovative anti-bodies and small-molecule drugs and construction of core technology platforms for special preparations. Meanwhile, we will develop high-end drug technologies, products with advanced synthesis technology and special packaging, and establish differentiated technological platforms such as oral sustained-release preparations, inhalants and injection emulsion drugs. We will also explore leading-edge technologies such as AI-driven drug development and organ-like models to empower our innovative drug research and development.

(3) **To conduct diversified cooperation models and build an innovative ecosystem.** We will deepen strategic collaborations with national/regional innovation hubs, national leading R&D institutions, and outstanding innovative pharmaceutical companies. We aim to further enrich our innovative product pipeline through technology R&D, commercialization, resource sharing, and talent training. We will also carry out diversified forms of exchanges and collaborations to enhance our industry influence, gather innovative resources and expand our project reserves, thereby creating an innovative ecosystem and contributing to upstream innovation.

(4) **To expand talent pool of scientific technologies.** We will strengthen our R&D team with focus on recruiting chief scientists, professional leaders, and merger and acquisition of R&D teams. In addition, we will establish a talent development system that aligns with our business development plans and adapts to the development trend of the pharmaceutical industry, as well as an incentive mechanism compatible with the market demands and the development dynamics of the pharmaceutical industry.

3. **To actively expand external business and integrate superior resources**

The Group will actively grasp the opportunities of the industrial development, and continue to pursue external mergers and acquisitions as one of the key forms for our development. In the pharmaceutical manufacturing business, the Group will pay special attention to high-quality products in the fields of CHC, biopharmaceuticals, innovative drugs and specialty generic drugs. In the pharmaceutical distribution and retail businesses, we will focus on medical devices and new retail businesses.

(1) **To strengthen existing operations and expand into untapped areas with high potentials.** We will enhance our investment and merger and acquisition in areas such as innovative drugs, biopharmaceuticals and medical devices as well as extensions of the industrial chain of our existing business. Our primary focus will be on identifying opportunities for mergers and integration of leading enterprises with strong positions in specialized sectors and key product lines.

(2) **To enrich investment measures and deploy high-quality business.** We will acquire mature products and teams through share purchase and merger of developed business platforms to establish competitive advantages in specialized segments efficiently. In addition, the Group will also give full play to the guiding role of the Industry Funds to actively explore opportunities for positioning in cutting-edge areas such as gene therapy and nucleic acid drugs.

(3) **To strengthen the post-investment management and mitigate investment risks.** We will improve the post-investment management system and optimize the post-investment integration model. We will strengthen the supervision on the operation of, provide support and empowerment to, and incorporate culture into the investee companies, thereby ensuring the realization of investment value. Moreover, we will strengthen the empowerment post-investment management of strategic investee enterprises, enhance the synergy across different businesses, and realize win-win development.

(4) **To optimize the allocation of resources and dispose of inefficient assets.** We will continuously classify the value and potential of existing assets, dispose of inefficient assets in a timely manner, and raise funds through multiple channels to boost the development of strategic areas.

4. **To benchmark first-tier international enterprises and enhance development quality**

The Group will strengthen benchmarking against first-tier international enterprises for further optimization of our business structure, enhancement of management competence, and promotion of transformation and upgrading. We will also constantly reduce cost, improve quality and efficiency, and enhance our operational quality.

(1) **To continue to optimize product mix and service structure.** We will enhance the competitiveness of our core products in the industry sector, consolidate core competitive strengths, strengthen the incubation of new products, explore the clinical value of products, and enrich product mix. Efforts will be made to strengthen the layout in specialist areas, and enhance our presence in high-potential areas such as cardiovascular, digestive system, endocrine, anti-tumor, immune system, hematology, and psychiatric/neurological drugs. We will improve the brand influence and develop products according to the requirements of consumers. The Group will also facilitate expansion into new businesses such as commercial segments and medical devices to foster new business growth points. We will actively transform the medical treatment business, promote the building of innovative service system, expedite the digital transformation, and establish its presence in "Internet+" business.

(2) **To constantly reduce cost and enhance efficiency in the whole industrial chain and production chain.** Intelligent manufacturing will be upgraded and technology innovation and process innovation will be pursued in order to enhance production efficiency and product quality and reduce the operation cost. Meanwhile, 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 logistics efficiency, and establish a flexible and stable industrial chain and supply chain. We build the green production and operation system through several measures such as green, low carbon and circular development, continuously optimize the capacity layout and close down outdated production facilities.

(3) **To optimize management system and enhance management quality.** With the focus to enhance the corporate management system and management capability and by benchmarking against the first-rate enterprises and conducting comprehensive analyses on the outstanding practices of first-rate international enterprises, the Group will promote the establishment of a complete, scientific, standardized and efficient corporate management system to improve management and achieve a notable improvement in overall management competence.

5. **To strengthen business synergies and focus on the development of key areas**

The Group will promote the comprehensive advantage of integrated industrial chain and powerful industrial base, coordinate internal and external resources and maximize overall efficiency through various modes. We will also develop a cross-regional, multi-dimensional and multi-model synergy mechanism and accelerate the implementation of synergistic projects. In response to CR Holdings' regional strategic planning, we will refine the investment portfolio in Yangtze Delta, Great Bay Area, Jing-Jin-Ji Area and Chengyu Area, acquire superior resources to facilitate cooperation in advantageous businesses and establish regional advantages, thereby rapidly expanding the regional market and enhancing overall competitiveness to achieve win-win development.

6. **To empower business transformation through improving the level of intellectualization and digitalization**

Taking digitalization and intellectualization as the new driving force for innovation and transformation, the Group will fully promote industrial digitalization, governance intellectualization, data factorization and construction of technological platform. We will continuously explore digitalized and intellectualized solutions in the research and development area to enhance the overall R&D efficiency and level. Efforts will be made to constantly enhance production efficiency, achieve intelligent manufacturing, and strengthen the optimization of supply chain process in order to establish order management system and raise the level of modernization in both industry and supply chains. We will facilitate the establishment of a platform in new retail area, utilize the value of information, and explore the application of "Internet+" in medical care and pharmaceuticals, in a view to strengthening the service and marketing abilities. We will also strengthen the post-investment management by digital means and enhance the digital level in the compliance field to effectively improve the management quality.

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 2023, the Group had cash and cash equivalents of HK$23,931.7 million (31 December 2022: HK$17,042.7 million), which were denominated primarily in RMB and HKD.

As at 30 June 2023, the RMB-denominated and HKD-denominated bank borrowings accounted for approximately 98.0% (31 December 2022: 99.1%) and 2.0% (31 December 2022: 0.9%), respectively of the Group's total bank borrowings. Among the total bank borrowings as at 30 June 2023, a substantial portion of approximately 88.4% (31 December 2022: 88.9%) would be due within one year.

As at 30 June 2023, the Group's current ratio (being the ratio of total current assets to total current liabilities) was 1.3:1 (31 December 2022: 1.3:1).

As at 30 June 2023, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 56.2% (31 December 2022: 49.6%).

In the first half of 2023, the Group's net cash used in operating activities amounted to HK$4,287.3 million (in the first half of 2022: net cash used in operating activities of HK$3,243.5 million). In the first half of 2023, the Group's net cash from investing activities amounted to HK$305.3 million (in the first half of 2022: net cash used in investing activities of HK$1,627.8 million). In the first half of 2023, the Group's net cash from financing activities amounted to HK$11,611.9 million (in the first half of 2022: net cash from financing activities of HK$6,593.1 million).

As at 30 June 2023, the Group had not used any financial instruments for hedging purposes (31 December 2022: nil).

PLEDGE OF ASSETS

As at 30 June 2023, the Group's total borrowings amounted to HK$67,860.1 million (31 December 2022: HK$45,613.4 million), of which HK$1,686.0 million (31 December 2022: HK$1,380.7 million) were secured and accounted for 2.5% (31 December 2022: 3.0%) of the total borrowings.

As at 30 June 2023, the Group had no trade and bills receivables pledged as security (31 December 2022: net book value HK$36.9 million).

CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: 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.

HUMAN RESOURCES

As at 30 June 2023, the Group employed around 71,000 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, for example, medical insurance, training.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023.

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 (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 C.3.3 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 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.

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 KPMG

The interim condensed consolidated financial information for the six months ended 30 June 2023 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to Shareholders.

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 2023.

PUBLICATION OF THE INTERIM RESULTS AND 2023 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 2023 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
Han Yuewei
Chairman

Beijing, 31 August 2023

As at the date of this announcement, the Board comprises Mr. Han Yuewei as chairman and non-executive Director, Mr. Bai Xiaosong and Mr. Tao Ran as executive Directors, Mr. Lin Guolong, Mdm. Guo Wei, Mr. Hou Bo and Mdm. Jiao Ruifang 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.