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 2022

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 2022 (the "**Reporting Period**"), together with the comparative figures for the previous year/period as follows:

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2022*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2022** | 2021 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| **REVENUE** | *4* | **125,716,477** | 114,487,606 |
| Cost of sales | | **(105,884,796)** | (97,022,535) |
| **GROSS PROFIT** | | **19,831,681** | 17,465,071 |
| Other income | *5* | **698,660** | 713,267 |
| Other gains and losses | *6* | **(358,169)** | (298,070) |
| Selling and distribution expenses | | **(9,077,183)** | (8,282,999) |
| Administrative expenses | | **(2,932,752)** | (2,701,117) |
| Other expenses, net | | **(834,573)** | (671,025) |
| Finance income | | **430,736** | 270,200 |
| Finance costs | | **(1,363,197)** | (1,472,035) |
| Finance costs, net | *7* | **(932,461)** | (1,201,835) |

| | Notes | Six months ended 30 June<br>**2022**<br>**(Unaudited)**<br>***HK$'000*** | <br>2021<br>(Unaudited)<br>*HK$'000* |
|---|---|---|---|
| Share of profits of associates and joint ventures | | **185,914** | 142,726 |
| **PROFIT BEFORE TAX** | *8* | **6,581,117** | 5,166,018 |
| Income tax expense | *9* | **(1,412,765)** | (1,071,519) |
| **PROFIT FOR THE PERIOD** | | **5,168,352** | 4,094,499 |
| Attributable to: | | | |
| Owners of the Company | | **3,025,046** | 2,438,106 |
| Non-controlling interests | | **2,143,306** | 1,656,393 |
| | | **5,168,352** | 4,094,499 |
| **Earnings per share attributable to ordinary equity holders of the Company:** | | | |
| Basic and diluted *(HK$)* | *10* | **0.48** | 0.39 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2022*

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **PROFIT FOR THE PERIOD** | **5,168,352** | 4,094,499 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME** | | |
| *Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences arising on translation of foreign operations | **(4,741,831)** | 920,328 |
| *Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:* | | |
| Gain on revaluation of property, plant and equipment upon transfer to investment properties, net of tax | **38,299** | – |
| **OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX** | **(4,703,532)** | 920,328 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **464,820** | 5,014,827 |
| Attributable to: | | |
| Owners of the Company | **483,667** | 2,946,088 |
| Non-controlling interests | **(18,847)** | 2,068,739 |
| | **464,820** | 5,014,827 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2022*

| | Notes | **30 June 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *12* | **18,808,820** | 19,676,743 |
| Right-of-use assets | | **5,027,669** | 5,361,392 |
| Investment properties | | **1,815,806** | 1,887,034 |
| Goodwill | | **23,792,711** | 24,901,550 |
| Intangible assets | | **8,572,502** | 9,000,511 |
| Interests in joint ventures | | **11,669** | 12,741 |
| Interests in associates | | **6,798,789** | 6,860,657 |
| Other non-current financial assets | *13* | **914,250** | 967,784 |
| Deferred tax assets | | **1,244,143** | 1,309,559 |
| Other non-current assets | | **2,276,212** | 1,974,730 |
| Total non-current assets | | **69,262,571** | 71,952,701 |
| **CURRENT ASSETS** | | | |
| Inventories | | **29,082,022** | 29,687,992 |
| Trade and other receivables | *14* | **86,104,556** | 77,612,680 |
| Other current financial assets | *13* | **41,839,603** | 40,251,630 |
| Amounts due from related parties | | **3,941,296** | 3,576,481 |
| Tax recoverable | | **70,878** | 153,061 |
| Pledged deposits | | **7,563,025** | 7,814,631 |
| Cash and cash equivalents | | **18,394,907** | 17,513,134 |
| Total current assets | | **186,996,287** | 176,609,609 |

| | Notes | 30 June 2022 (Unaudited) HK$'000 | 31 December 2021 (Audited) HK$'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *15* | **75,610,038** | 75,551,340 |
| Contract liabilities | | **3,336,506** | 3,556,951 |
| Lease liabilities | | **550,007** | 583,805 |
| Amounts due to related parties | | **8,981,384** | 12,813,888 |
| Bank borrowings | | **57,457,832** | 46,544,446 |
| Bonds payable | | **37,341** | 1,306,364 |
| Tax payable | | **817,053** | 894,385 |
| Defined benefit obligations | | **33,258** | 71,397 |
| Total current liabilities | | **146,823,419** | 141,322,576 |
| **NET CURRENT ASSETS** | | **40,172,868** | 35,287,033 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **109,435,439** | 107,239,734 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank borrowings | | **6,308,654** | 4,123,504 |
| Bonds payable | | **5,261,985** | 3,057,725 |
| Lease liabilities | | **943,852** | 931,862 |
| Deferred tax liabilities | | **1,858,711** | 1,965,334 |
| Defined benefit obligations | | **1,045,995** | 1,088,433 |
| Other non-current liabilities | | **1,020,889** | 1,088,610 |
| Total non-current liabilities | | **16,440,086** | 12,255,468 |
| **NET ASSETS** | | **92,995,353** | 94,984,266 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **27,241,289** | 27,241,289 |
| Reserves | | **23,304,017** | 23,740,198 |
| | | **50,545,306** | 50,981,487 |
| Non-controlling interests | | **42,450,047** | 44,002,779 |
| **TOTAL EQUITY** | | **92,995,353** | 94,984,266 |

# NOTES

## 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 2022 has been prepared in accordance with HKAS34 *Interim Financial Reporting*.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2021.

The financial information related to the year ended 31 December 2021 that is included in the interim condensed consolidated statements of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information related to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on the financial statements for the year ended 31 December 2021. The auditor's report was unqualified; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

## 2.2. Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applies in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework* |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use* |
| Amendments to HKAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract* |
| *Annual Improvements to HKFRSs 2018-2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 |

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

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 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 2022 and 2021:

| **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 | | | | | **(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 tax | | | | | **6,581,117** |

| Six months ended 30 June 2021 | Manufacturing segment (Unaudited) *HK$'000* | Distribution segment (Unaudited) *HK$'000* | Retail segment (Unaudited) *HK$'000* | Others (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| External sales | 17,085,350 | 93,740,862 | 3,593,651 | 67,743 | 114,487,606 |
| Inter-segment sales | 1,710,799 | 2,563,572 | – | – | 4,274,371 |
| | 18,796,149 | 96,304,434 | 3,593,651 | 67,743 | 118,761,977 |
| **Elimination:** | | | | | |
| Elimination of inter-segment sales | | | | | (4,274,371) |
| Segment revenue | | | | | 114,487,606 |
| **Segment results** | 5,251,229 | 3,863,762 | (37,709) | 60,320 | 9,137,602 |
| Other income *(Note 5)* | | | | | 713,267 |
| Other gains and losses *(Note 6)* | | | | | (298,070) |
| Administrative expenses | | | | | (2,701,117) |
| Other expenses | | | | | (671,025) |
| Finance income *(Note 7)* | | | | | 270,200 |
| Finance costs (other than interest on lease liabilities) | | | | | (1,427,565) |
| Share of profits of associates and joint ventures | | | | | 142,726 |
| Profit before tax | | | | | 5,166,018 |

## 4. REVENUE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Revenue from contracts with customers** | | |
| Sale of pharmaceutical products | **125,645,572** | 114,400,125 |
| **Revenue from other sources** | | |
| Gross rental income from investment property operating leases: | | |
| Lease payments, including fixed payments | **70,905** | 87,481 |
| | **125,716,477** | 114,487,606 |
| **Geographical markets** | | |
| Mainland China | **125,398,192** | 114,183,913 |
| Hong Kong | **318,285** | 303,693 |
| **Total revenue** | **125,716,477** | 114,487,606 |
| ***Disaggregated revenue information of revenue from contracts with customers:*** | | |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **125,645,572** | 114,400,125 |

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Service fee income | **335,508** | 346,514 |
| Government grants | **204,425** | 245,482 |
| Others | **158,727** | 121,271 |
| | **698,660** | 713,267 |

## 6. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Gain on disposal of items of property, plant and equipment, net | **6,742** | 2,283 |
| Impairment loss recognised on trade receivables, net | **(375,438)** | (313,910) |
| Impairment loss recognised on other receivables, net | **(43,105)** | (14,468) |
| Fair value changes on financial assets at fair value through profit or loss | **32,702** | 61,768 |
| Expenses relating to derecognition of trade and bills receivables measured at fair value through other comprehensive income | **(180,023)** | – |
| Gain on disposal of subsidiaries | **399,226** | 7,614 |
| Fair value changes on investment properties | **(61,795)** | – |
| Others | **(136,478)** | (41,357) |
| | **(358,169)** | (298,070) |

## 7. FINANCE INCOME AND COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Finance costs: | | |
| Interest on bank borrowings | **1,207,344** | 1,280,241 |
| Interest on bonds payable | **82,526** | 121,934 |
| Interest on borrowings from an intermediate holding company | **17,862** | 13,269 |
| Interest on lease liabilities | **40,641** | 44,470 |
| Interest on defined benefit obligations | **14,824** | 12,227 |
| Less: Interest capitalised in property, plant and equipment *(Note)* | **–** | (106) |
| Total finance costs | **1,363,197** | 1,472,035 |
| Finance income — Interest income | **(430,736)** | (270,200) |
| Net finance costs | **932,461** | 1,201,835 |

*Note:* There were no interest capitalised on qualifying assets for the six months ended 30 June 2022 (six months ended 30 June 2021 capitalisation rate: 4.75%) .

## 8. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Depreciation of property, plant and equipment | **991,498** | 851,900 |
| Depreciation of right-of-use assets | **360,123** | 352,412 |
| Amortisation of intangible assets | **251,194** | 160,709 |
| Allowance for slow-moving and obsolete inventories | **37,752** | 89,361 |
| Cost of inventories recognised as cost of sales | **105,302,156** | 96,466,240 |
| Research and development expenditure (included in other expenses) | **789,319** | 692,418 |
| Lease payments not included in the measurement of lease liabilities | **77,871** | 134,657 |
| Impairment recognised on items of property, plant and equipment | **1,352** | 41,357 |
| Foreign exchange loss/(gain), net | **11,903** | (50,172) |
| Government grants | **(204,425)** | (245,482) |
| Interest income | **(430,736)** | (270,200) |

## 9. INCOME TAX EXPENSE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Current** | | |
| PRC Enterprise Income Tax ("PRC EIT"): | **1,408,700** | 1,089,388 |
| Underprovision in prior periods: | | |
| PRC EIT | **62,025** | 57,395 |
| | **1,470,725** | 1,146,783 |
| **Deferred** | **(57,960)** | (75,264) |
| **Total tax charge for the period** | **1,412,765** | 1,071,519 |

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

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

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | 2021 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic earnings per share calculation | **3,025,046** | 2,438,106 |
| **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 of the dilutive impact of the 2021 Restricted Stock Incentive Plan of Jiangzhong Pharmaceutical, and 2021 Restricted Stock Incentive Plan of CR Double Crane, the diluted EPS is generally equal to the basic EPS.

## 11. DIVIDENDS

The directors of the Company resolved not to declare any interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

| | **2022** | 2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend for ordinary shareholders of the Company recognised as distribution during the period: | | |
| Final 2021 — HK$0.15 per ordinary share (2021: Final 2020 — HK$0.12 per ordinary share) | **942,377** | 753,902 |

A final dividend of approximately HK$942,377,000 (HK$0.15 per share) in respect of the year ended 31 December 2021 was approved at the annual general meeting of the Company on 27 May 2022 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 2022, the Group acquired property, plant and equipment approximately amounting to HK$293,219,000 (six months ended 30 June 2021: HK$396,205,000), excluding the property, plant and equipment acquired through business combinations and property under construction.

Assets with a net book value of approximately HK$31,516,000 were disposed of by the Group during the six months ended 30 June 2022 (six months ended 30 June 2021: HK$49,863,000), resulting in a net gain on disposal of approximately HK$6,742,000 (six months ended 30 June 2021: a net gain on disposal of approximately HK$2,283,000).

## 13. OTHER CURRENT/NON-CURRENT FINANCIAL ASSETS

| | **30 June 2022 (Unaudited)** | 31 December 2021 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade and bills receivables, at fair value *(Note a)* | **29,359,176** | 28,263,718 |
| Unlisted equity investments, at fair value *(Note b)* | **914,250** | 967,784 |
| Financial products, at fair value *(Note c)* | **12,480,427** | 11,987,912 |
| Total | **42,753,853** | 41,219,414 |
| Analysed into: | | |
| Current assets | **41,839,603** | 40,251,630 |
| Non-current assets | **914,250** | 967,784 |
| | **42,753,853** | 41,219,414 |

*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 unlisted equity investments represented investments in unlisted private entities established in the PRC. These unlisted entities are principally engaged in research and development, distribution and related operations of pharmaceutical products. The above equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

*Note c:* 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) are designated as financial assets measured at fair value through profit or loss.

## 14. TRADE AND OTHER RECEIVABLES

| | **30 June 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|
| Bills receivable | **1,146,767** | 1,135,832 |
| Contract assets | **33,639** | 30,029 |
| Trade receivables | **75,820,881** | 68,144,016 |
| Impairment allowance | **(2,382,094)** | (2,137,238) |
| | **73,438,787** | 66,006,778 |
| Prepayments | **5,543,217** | 4,300,688 |
| Other receivables | **6,305,986** | 6,494,840 |
| Impairment allowance | **(363,840)** | (355,487) |
| | **5,942,146** | 6,139,353 |
| | **86,104,556** | 77,612,680 |

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

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

| | **30 June 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|
| 0 to 30 days | **17,301,393** | 16,073,144 |
| 31 to 60 days | **10,439,155** | 10,701,002 |
| 61 to 90 days | **8,581,615** | 7,548,790 |
| 91 to 180 days | **17,441,358** | 16,142,140 |
| 181 to 365 days | **15,344,497** | 12,463,039 |
| Over 1 year | **4,330,769** | 3,078,663 |
| | **73,438,787** | 66,006,778 |

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 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|
| 0 to 30 days | **152,926** | 121,807 |
| 31 to 60 days | **275,106** | 127,233 |
| 61 to 90 days | **139,273** | 102,396 |
| 91 to180 days | **435,822** | 784,396 |
| 181 to 365 days | **143,640** | – |
| | **1,146,767** | 1,135,832 |

## 15. TRADE AND OTHER PAYABLES

| | **30 June 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|
| Trade payables | **40,949,869** | 37,641,202 |
| Bills payable | **13,033,598** | 14,631,645 |
| Accrued salaries | **2,292,386** | 2,881,432 |
| Interest payable | **11,729** | 113,939 |
| Other tax payables | **1,255,774** | 822,688 |
| Other payables | **17,509,874** | 18,825,417 |
| Refund liabilities | **26,729** | 48,100 |
| Payable for acquisitions of subsidiaries | **530,079** | 586,917 |
| | **75,610,038** | 75,551,340 |

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 2022, the Group's bills payable of HK$9,638,671,000 (31 December 2021: HK$10,746,527,000) were secured by the Group's bills receivable, at a fair value of HK$40,200,000 (31 December 2021: HK$52,988,000), the Group's bills receivable with an aggregate carrying amount of HK$761,722,000 (31 December 2021: HK$492,740,000) and pledged bank deposits of HK$3,849,915,000 (31 December 2021: HK$4,356,098,000).

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

| | **30 June 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|
| 0 to 30 days | **20,299,211** | 19,763,219 |
| 31 to 60 days | **6,721,048** | 7,275,129 |
| 61 to 90 days | **4,148,101** | 2,855,637 |
| Over 90 days | **9,781,509** | 7,747,217 |
| | **40,949,869** | 37,641,202 |

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

| | **30 June 2022 (Unaudited) *HK$'000*** | 31 December 2021 (Audited) *HK$'000* |
|---|---|---|
| 0 to 30 days | **630,608** | 1,156,647 |
| 31 to 60 days | **2,430,462** | 3,031,932 |
| 61 to 90 days | **2,443,674** | 2,559,597 |
| Over 90 days | **7,528,854** | 7,883,469 |
| | **13,033,598** | 14,631,645 |

## 16. BUSINESS COMBINATIONS

During the period, the Group acquired two companies which were engaged in the manufacture and sale of pharmaceutical products at an aggregate cash consideration of RMB10,287,000 (equivalent to HK$12,121,000), and recognised goodwill of RMB924,000 (equivalent to HK$1,089,000), These subsidiaries were acquired as part of the Group's strategy to expand its market share in the pharmaceutical industry.

Additional assessment is required to determine fair value of the identifiable assets and liabilities on the acquisition date. Thus, the identifiable assets and liabilities may be subsequently adjusted, with a corresponding adjustment to goodwill within 12 months after the acquisition date.

## 17. DISPOSAL OF SUBSIDIARIES

During the period, the Group disposed of four subsidiaries at an aggregate cash consideration of RMB502,094,000 (equivalent to HK$591,092,000), and derecognised goodwill of RMB13,157,000 (equivalent to HK$15,479,000). The Gain on disposal of subsidiaries was RMB339,364,000 (equivalent to HK$399,226,000).

## INDUSTRY OVERVIEW

Given the various outbreaks of the pandemic in China in the first half of 2022, the industry chain and the supply chain of the pharmaceutical industry were impacted to some extent. However, with pandemic prevention and control improved continuously and the implementation of a package of policies and measures to stabilise the economy, China's economy was set to gain momentum for its continuous recovery. The domestic production demand gradually recovered and employment and consumer pricing were generally stable, while showing marginal improvement in key indicators. According to the National Bureau of Statistics of China, GDP for the first half of the year recorded a year-on-year growth of 2.5%, demonstrating the resilience of China's economy while proving once again that the fundamentals of China's economic stability and long-term improvement remain unchanged.

According to the National Bureau of Statistics of China, as the sporadic outbreaks of the pandemic in the regions such as Shanghai, Beijing and other regions in the first half of 2022 and a relatively high base in 2021, China's pharmaceutical manufacturing industry witnessed a slight decrease of 0.6% year-on-year in revenue. The medium- and long-term trend of China's pharmaceutical market is positive and according to the Pharmaceutical Industry Plan, the average annual growth rate of revenue and total profit of China's pharmaceutical industry will remain at 8% during the "14th Five-Year Plan" period.

In the first half of the year, a series of industry plans such as the Development Plan for the Pharmaceutical Industry, the Development Plan for Traditional Chinese Medicines (TCM), the Development Plan for the Bio-economy and the National Health Plan under the "14th Five-Year Plan" were released successively, providing guidance on the development direction and policy guarantee for China's pharmaceutical and health industry. The pharmaceutical and health industry, having the dual attributes of people's livelihood industry and strategic emerging industry, has boosted its status. The "14th Five-Year Plan" period is an important opportunity for the rapid evolution of biotechnology, rapid growth of demand for life and health, and rapid development of bio-industry in China, with innovation and high-quality development becoming the main theme of the industry. Policies from the central to local governments have been introduced to encourage the development of TCM and the strengthening of its quality management, the support for innovation R&D on drugs, such as time-honored classical formula preparations and pediatric TCM drugs. Such policies have also encouraged the development of TCM preparations at medical institutions, providing favourable policies for the development of TCM enterprises.

Centralised procurements at national, provincial and syndicate levels have been comprehensively rolled out, with the scope of procurement expanded to cover medical devices, biological drugs and TCM. National drug products procurement based on volume has become normalised and institutionalised, and its core rules are fundamentally in place. With top-level design and resolute implementation of centralised procurement at the national level, centralised procurements at provincial and syndicate levels have also been accelerated. The wide range of centralised procurement policies have posed an enormous challenge for businesses, contributing to the industry's adjustment, transformation and upgrading.

With the support of policies relating to digitalised healthcare services, digitalised tools have been used in the major application scenarios during the entire diagnosis and treatment process. Digitalisation has become a new normal of the industry development in the post-pandemic era, and a major driver for the transformation of pharmaceutical enterprises. An increasing number of pharmaceutical enterprises are developing patient-centric innovative solutions through the dynamic integration of online and offline marketing.

In the future, in the context of the continual impacts of COVID-19 pandemic, the increasing aging population and the rising living standards, and driven by policies, capital, talents and technology, the opportunities and challenges will coexist in pharmaceutical industry. The continuous growth of public demand for medicine and health has brought a broad market prospects for pharmaceutical enterprises. Meanwhile, multiple factors such as the all-around centralised procurement, clinical demand-oriented drug review policies and intense competition in sub-segments will set extremely high requirements for pharmaceutical enterprises, with differentiated development and high-quality innovation as the key factors to stand out among the competition. A large number of enterprises lacking competitiveness will exit the market, which will further promote the integration and concentration of the entire industry.

## GROUP RESULTS

In the first half of 2022, the Group actively implemented the strategy of "Healthy China". Seizing the opportunities brought by the development and reform of China's pharmaceutical and healthcare industry, the Group accelerated innovation and transformation, while continuously enhanced the innovative research and development capabilities, so as to promote the industrial upgrading. Besides, the Group continuously optimised the business structure, field layout and regional layout by empowering the business development with digitalization and driving the efficiency improvement and model innovation, with an aim to continuously improving the core competitiveness and achieving green and sustainable development. During the Reporting Period, the Group recorded a total revenue of HK$125,716.5 million, representing an increase of 9.8% compared to that of HK$114,487.6 million for the first half of 2021, which reflected steady growth in business results under the normalisation of the epidemic. In the first half of 2022, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses, accounted for 16.0%, 80.8% and 3.2% of the total revenue, respectively.

During the Reporting Period, the Group recorded gross profit of HK$19,831.7 million, representing a 13.6% increase from that of HK$17,465.1 million for the first half of 2021. The overall gross profit margin was 15.8%, representing an increase of 0.5 percentage points compared to 15.3% in the first half of 2021. This was primarily due to an increase in the proportion of revenue from pharmaceutical manufacturing business with higher gross profit margin during the Reporting Period.

In the first half of 2022, the Group recorded net profit of HK$5,168.4 million, representing an increase of 26.2% from HK$4,094.5 million for the first half of 2021. The Group recorded a profit attributable to owners of the Company of HK$3,025.0 million, representing an increase of 24.1% when compared with that of HK$2,438.1 million for the first half of 2021. Basic earnings per share were HK$0.48 during the Reporting Period (HK$0.39 in the first half of 2021).

## 1. Pharmaceutical Manufacturing Business

In terms of pharmaceutical manufacturing business, the Group continued to strengthen its R&D innovation and external cooperation, while accelerating the launch of new products. In addition, the Group continuously enriched the product lines, strengthened the development of the whole industrial chain of TCM business, as well as strengthened and supplemented the industrial chain in the field of innovative drugs and biological drugs. Meanwhile, by actively carrying out mergers and acquisitions (M&A), integration and resource coordination, the Group has promoted the digital and intelligent transformation of the whole value chain, thereby further enhancing the brand influence and market competitiveness.

During the Reporting Period, the Group's pharmaceutical manufacturing business generated segment revenue of HK$22,177.4 million, representing a year-on-year increase of 18.0% compared with the first half of 2021. The consumer healthcare (CHC) segment (mainly including OTC drugs and healthcare products), the prescription drug segment and the biopharmaceutical segment generally achieved a year-on-year increase in revenue. The gross profit margin of the pharmaceutical manufacturing business was 58.2%, representing a decrease of 1.1 percentage points as compared to the same period last year, which was mainly due to the combined effect of centralised procurement and changes in product mix.

The Group owns the most comprehensive portfolio of pharmaceutical products with the widest coverage of therapeutic areas, including chemical drugs, biopharmaceutical drugs, TCM and nutritional and healthcare products. These fully cover all major therapeutic areas that hold out sound potential for business growth, such as cardiovascular and cerebrovascular, alimentary tract, endocrinology, respiratory, orthopedics, medical nutrition, gastroenterology, pediatrics, genitourinary system, dermatology, plasma products, therapeutic fluid infusion, antineoplastic, cough and cold, anti-infection, etc. During the Reporting Period, the Group manufactured a total of 600 products, of which 327 were included in the National Reimbursement Drug List and 146 were included in the National Essential Drug List. All of the Group's pharmaceutical manufacturing subsidiaries have formed professional sales and marketing teams, which have established a close and long-term business partnership with over 100,000 medical institutions.

| Sales revenue from pharmaceutical manufacturing business by product categories (HK$ million) | In the first half of 2021 | In the first half of 2022 | Year-on-year growth |
|---|---|---|---|
| **TCM** | **9,482.3** | **10,375.1** | **9.4%** |
| *Of which: OTC drugs* | 7,429.7 | 8,168.1 | 9.9% |
| *Prescription drugs* | 2,052.6 | 2,207.0 | 7.5% |
| **Chemical drugs** | **7,957.4** | **9,186.7** | **15.4%** |
| *Of which: OTC drugs* | 1,319.0 | 1,510.2 | 14.5% |
| *Prescription drugs* | 5,852.2 | 6,851.3 | 17.1% |
| *APIs* | 786.2 | 825.2 | 5.0% |
| **Biopharmaceutical drugs** | **72.7** | **1,195.9** | **1,545.0%** |
| **Nutritional and healthcare products, and others** | **1,283.7** | **1,419.7** | **10.6%** |
| **Total** | **18,796.1** | **22,177.4** | **18.0%** |

In terms of product categories, the revenue from the TCM business of pharmaceutical manufacturing business segment was HK$10,375.1 million during the Reporting Period, representing a year-on-year increase of 9.4% as compared to the same period last year, of which revenue from the TCM OTC drugs increased by 9.9% year-on-year, mainly due to the solid year-on-year growth in revenue from the E-Jiao product line, gastroenterology, pediatrics and orthopedics businesses, while the revenue from the TCM prescription drugs business increased by 7.5% year-on-year, mainly due to the growth in revenue from the TCM decoction pieces and TCM materials business. The chemical drugs business recorded revenue of HK$9,186.7 million, representing a year-on-year growth of 15.4%, of which revenue from the chemical OTC drugs business increased by 14.5% year-on-year, mainly due to the revenue growth in the gastroenterology, dermatology, pediatrics and reproductive health businesses, while the revenue from the chemical prescription drugs business increased by 17.1% year-on-year, mainly due to the significant revenue growth in the cardiovascular and cerebrovascular, large volume parenteral (LVP), anti-infection, glucose-lowering and other businesses. The revenue from API business increased by 5.0% year-on-year. The biopharmaceutical drugs business achieved revenue of HK$1,195.9 million, a rapid growth of 1,545.0% as compared to the same period last year, mainly due to the completion of the merger and acquisition of CR Boya Bio-pharmaceutical and Jincheng Haisi Pharmaceutical Co., Ltd. (晉城海斯製藥有限公司) ("**Haisi Pharmaceutical**") by the Group in the previous year.

***To strengthen the development of the whole industry chain of TCM business, and consolidate and enhance the competitive advantage of consumer healthcare business***

The inheritance, innovation and development of TCM have risen to a national strategic level, and the development of TCM industry has ushered in a period of opportunity. The development of science and technology and digital transformation will promote the transformation of TCM industry. The Group comprehensively carried out the whole industry value chain management of TCM, adopted modern technology to deeply explore the value of TCM, in a effort to develop and produce high-quality TCM varieties with scientific and clinical value. The Group continuously upgraded the industrial chain, strengthened quality management, and promoted the inheritance and innovation of TCM.

In June 2022, at the TCM High Quality Development Conference, CR Sanjiu, CR Jiangzhong and Dong-E-E-Jiao under the Group became the first batch of "TCM High Quality Development Promotion Community Member Units" (中醫藥高質量發展促進共同體成員單位), which demonstrated the Group's commitment and determination to promote the continuous upgrading of the TCM industry and achieve high-quality development with its practical actions.

CR Sanjiu strengthened the whole industry value chain management of TCM, rationally planned and distributed the industrial chain resources from the upstream, midstream and downstream, so as to realize high-quality process management and improve the industrial competitiveness. CR Sanjiu attached great importance to upstream raw material resources. As one of the earliest companies in China to carry out research and planting of seeds and seedlings of TCM materials, CR Sanjiu has set up some production bases of medicinal materials, and put the emphasis on the construction of traceability system to ensure the consistency of the quality of medicinal materials. In term of the midstream, CR Sanjiu carried out unified management and intelligent operation of production resources, accurately matched market demand, and paid high attention to intelligent manufacturing. At the same time, CR Sanjiu integrated consumer data and clinical evidence-based medical research in the downstream to optimize the industrial chain, and explored to build a TCM wisdom pharmacy and a TCM health management platform. CR Sanjiu has established a traceability system covering the whole process of medicinal material planting, TCM decoction pieces and TCM formula granules, constantly improved the production efficiency and quality control standard of TCM formula granules, accelerated the expansion of the construction of standardised medicinal material planting bases, and established the advantage of medicinal material resources at the source. CR Sanjiu has completed the digital transformation of multi-location production plants, realized a large-scale, batch-oriented and high quality cross-regional digital workshop. In terms of marketing and promotion, CR Sanjiu accelerated the expansion of primary medical market and decoction pieces market,

to explore the development of a series of TCM health products. In May 2022, the Group, CR Sanjiu and Holley Pharmaceutical Group Co., Ltd. (華立醫藥集團有限公司) ("**Holley Pharmaceutical**") entered into a strategic cooperation agreement and a share purchase agreement respectively, pursuant to which the parties would start a comprehensive strategic cooperation in TCM, health industry and other related businesses. CR Sanjiu proposed to purchase 28% interest of the shares of KPC Pharmaceuticals, Inc (昆藥集團股份有限公司) ("**KPC Group**"), a subsidiary of Holley Pharmaceutical, to further realized the organic combination of CR Sanjiu and KPC Group in the upstream supply chain, marketing platform, channel terminal, brand creation, R&D, innovation and other advantages, enhanced the brand awareness and brand value of "Kun TCM" (昆中藥), accelerated the development of the whole industry chain of TCM represented by pseudo-ginseng, and enhanced the competitiveness of all parties.

CR Jiangzhong has been building its core competitiveness in the gastrointestinal category in the health sector of TCM. CR Jiangzhong continues to improve the quality of medicinal materials. It carried out monitoring on the key areas such as breeding, planting, collection, processing and storage of the upstream key medicinal materials, and launched space breeding program for Radix Pseudostellariae, a vital medicinal herb of the core product Stomachic tablet. CR Jiangzhong also continuously improved its research and innovation capabilities, adhered to the clinical evidence-based medicine research, with an aim to preserve the TCM theory as well as achieve various innovative breakthroughs through exploration, thereby to enable innovative development of intestinal micro ecological industry. In terms of manufacturing, upholding the philosophy of green development, Jiangzhong TCM Valley has been recognized as "China's most beautiful factor" and many other title of honors, proactively promoting the construction of the TCM science and technology innovation city project. CR Jiangzhong centered its attention to the health sector of TCM. For example, "Shenlingcao", a high-end tonic brand under CR Jiangzhong, has contributed to the nutritional program for the Taikonaut in "Shenzhou" flight mission for five times. In the downstream, CR Jiangzhong built a bulk product of "Lihuo" Lacidophilin Tablets. Besides, with a combination of "BIFIDO" triple viable treatment drug, CR Jiangzhong continued to extend into the "micro-ecological" health new sectors, and enable innovative development of intestinal by means of TCM. Furthermore, the extension and layout of health sector was accelerating based on consumer research and the establishment of the consumer data insight system.

Dong-E-E-Jiao led in framing E-Jiao industry standards and established its absolute competitive advantages in the selective market through the implementation of the development mode that integrates the whole industrial chain of E-Jiao, extension of industrial chain, improvement of the value chain and connection the supply chain.

In terms of upstream, Dong-E-E-Jiao promoted the implementation of quality management standards for donkey skin production of TCM materials in a comprehensive manner, in order to monitor the quality of raw materials at source. Dong-E-E-Jiao led the charge in establishing the Standardised Technical Procedures for Donkey Skin Production (《驢皮規範化生產技術規程》), to build the global unique frozen sperm production center for black donkey, and initiated the first donkey gene sequencing research project in the world. In terms of midstream, Dong-E-E-Jiao focused on the core business of E-Jiao, cultivated a variety of products, numerous brands, and proactively conducted several researches, including the assessment of the clinical value of Dong-E-E-Jiao in the treatment of premature ovarian insufficiency, and assessment of sedative and hypnotic activity of compound E-Jiao based on neurotransmitter regulation, with the adoption of high-tech, high standards to implement the whole process of quality control, continuously upgrade technical standards. In terms of downstream, Dong-E-E-Jiao developed its great health service industry, combined technology with marketing, with an view to build a tourism characteristic industry chain and obtain new growth momentum.

As an industry leader in China's CHC market, the Group has covered areas including cold, gastrointestinal, dermatology, pediatrics, and orthopedics, etc., which is highly competitive, and has stayed in the forefront of the brand influence, core category market share, pipeline coverage and other aspects. During the Reporting Period, the Group has accelerated the launch of new products in the field of CHC to enrich its product lines, carried out external cooperation for extensive expansion of brand and category, and continuously enhanced the efficiency and influence of its brand communication. The revenue in the field of CHC amounted to HK$10.27 billion, representing a year-on-year increase of 9.1%, which further consolidated its leading position and competitive advantage in the industry.

In response to consumers' health management needs, CR Sanjiu further enriched the product mix, continuously launched new products in its consumer healthcare business, such as 999 Taobaibai Protein Powder with Rich Iron and High Calcium (999桃白白富鐵高鈣蛋白粉), 999 Qingyidian Probiotic Powder (Sugar Free) (999

輕益點益生菌粉(無糖型)), 999 Compound Banlangen (999複方板藍根), 999 Banlangen Granule (Sugar Free) (999板藍根顆粒(無糖版)), etc., aiming to improve product experience with diversified ways to market products quickly, which achieved excellent market reception. In July 2022, CR Sanjiu entered into a strategic cooperation with Winner Medical Co., Ltd. (穩健醫療用品股份有限公司), under which, both parties will make good use of the synergy potential of dual brands and jointly expand business in the big health industry. Going forward, both parties will work together to develop more differentiated products focusing on the four major areas of respiratory protection, daily nursing, wound care and chronic disease management. CR Jiangzhong has rolled out a number of healthcare products, such as Kidney Bean Probiotic Tablet Candy (白芸豆益生菌壓片糖果) for weight management, Haw Lollipop (山楂棒棒) series products of Jiangzhong Yitong (江中益童) promoting children's appetite and digestion, and several "Chueun (初元)" series differentiated protein powder products with zero sugar and zero fat for immune strengthening, vitamin supplementation and intestinal protection. In order to further diversify the Chinese nourishing products, Dong-E-E-Jiao explored health-preserving pill and other innovative traditional nourishing products, and launched E-jiao Red Dates & Black Sesame Balls with upgraded formula and Chrysanthemum Dandelion Tea featuring selected natural herbs focusing on market trends and consumer demands. In May 2002, CR Zizhu entered into a Strategic Cooperation Agreement with Zhejiang Hisun Pharmaceutical and became the general agency of Orlistat tablet in the PRC, responsible for the nationwide marketing and sales in online and offline channels. Orlistat tablet, a potent, concentrated and prolonged intestinal lipase inhibitor for weight loss, is the only NMPA-approved slimming drug, which has huge market potential.

***Acceleration of innovation and transformation, optimization of business layout, and sustained expansion of international markets***

During the Reporting Period, the Group accelerated innovation and transformation and boosted the development of innovation platforms. Leveraging the advantages of capital, brand and channels, the Group has proactively cooperated with external parties to speed up to new products roll out and product upgrades, and progresses technology upgrades of products to optimize business structure and product lines with a focus on high-growth and high-potential sectors by strengthening and consolidating industry chains in biopharmaceutical and innovative chemical medicines.

CR Double-Crane, a subsidiary of the Group, established the Innovation Division in 2021 to build a commercialization platform for new drug R&D under the "science-oriented, open and inclusive" vision, focusing on the unmet clinical needs for major diseases and the development and introduction of high-potential targets and peptides in tumor, pediatrics and rare diseases. In the short and medium term, the new drug pipeline of CR Double-Crane is primarily dedicated to the introduction of new drug assets that have completed pre-clinical R&D or initial clinical trials, so as to efficiently industrialize and commercialize innovative drugs; in the long term, it will strengthen the cooperation and collaborative innovation with research institutions and colleges and universities to build up independent R&D capabilities on disease areas of priority concerns.

During the Reporting Period, CR Double-Crane focused on developing innovative technology platforms for anti-tumor and anti-virus with independent intellectual property rights. In respect of the anti-tumor platform, DC05F01, introduced by CR Double-Crane from U.S. company Novita, is expected to be the first new FIC drug specializing in the treatment of tumor metastasis. The stage II clinical trial of DC05F01 is in progress in the United States and it had also been approved by NMPA for starting clinical trials in China in March 2022. CR Double-Crane had obtained the exclusive authorization to develop, manufacture and commercialize the product in Greater China. CR Double-Crane were also actively building anti-virus platform by taking the R&D of oral anti-coronavirus drugs as the starting point. In May 2022, CR Double-Crane executed an agreement with Ligand Pharmaceuticals from the United States to obtain the exclusive rights to develop, manufacture and commercialise the oral anti-coronavirus RdRp inhibitor drug candidate LGN-20 in major Asian regions (except for Israel, Russia, Turkey), which is expected to be a best-in-class Class 1 new drug by its advantages in anti-coronovirus efficiency and the absorption, activating and safety that showed during the clinical trials. CR Double-Crane is accelerating the R&D of oral anti-coronavirus drugs right now and is expecting to launch phase I clinical trial this year. In addition, leveraging on cooperation with Ligand Pharmaceuticals, CR Double-Crane shall access the prodrug technology BEPro, and develop new anti-virus and anti-tumor products based on such core technology.

During the Reporting Period, CR Double-Crane was granted the Drug Registration Certificates by NMPA for several products in chemical pharmaceutical field, including Acarbose tablets (for the treatment of Type 2 diabetes), Zoledronic Acid Concentrated Solution for injection (for the treatment of bone damage, hypercalcemia caused by malignant tumors), Ticagrelor tablets (to reduce the cardiovascular death rate and the incidence rate of myocardial infarction and stroke), Levofloxacin Sodium Chloride Injection (for the treatment of infections caused by susceptible bacterial strains), Nifedipine Sustained-release tablets (for the treatment of hypertension, coronary heart disease, angina pectoris, etc.), Valsartan tablets (for the treatment of hypertension), Tenofovir Alafenemide Fumarate (TAF) tablets (for the treatment of hepatitis B), and Olopatadine Hydrochloride tablets (anti-allergy drugs). Besides, the listing of Mitoxantrone Hydrochloride Injection for tracking purposes of a Class 2 new drug for new indications was approved, which can be used for the tracking of sentinel lymph nodes in breast cancer. The chemical pharmaceutical products line of the Group will thus be further enriched and make contribution to improve the market competitiveness.

The Group kept improving its deployment in original biological drugs, modified innovative drugs and biosimilar drugs to balance the medium and long term R&D risks and values of the ongoing research projects. At the end of the Reporting Period, the biopharmaceutical business manufactured nine products, i.e. Baijieyi, Ruitongli, Jialinhao, BIFIDO, human serum albumin, intravenous immunoglobulin, etc.

In March 2022, CR Biopharm, a subsidiary of the Group, and Ab Studio Inc., an US company, reached an exclusive cooperation regarding the neutralizing antibody project ABS-VIR-001 against Covid-19, and CR Biopharm obtained the authorization for the development and commercialization of the project on a worldwide basis. In the same month, CR Biopharm and Nuance Biomedical Technology (Shenzhen) Co., Ltd. (優銳生物醫藥科技(深圳)有限公司) reached an exclusive cooperation on the cooperative product development of the world's first precision targeting and holistic immunity start-up project PTIA1, and CR Biopharm would be the Marketing Authorization Holder (MAH) of the product once listed.

By accelerating its integration into the new development pattern of dual circulation and synergistically integrating the international market and channel resources of various business segments, the Group actively expands the international market to speed up its international business layout. During the Reporting Period, the export value of the pharmaceutical segment exceeded RMB470 million. CR Boya Bio-pharmaceutical achieved zero breakthrough in the export of iVIG products in 2019, and it exported iVIGs to Brazil in the first half of 2022. It has also achieved phased results in product registration in some countries. And it plans to obtain registration certificates for products in various countries to further increase the scale of export business in the future. Dongying Tiandong Pharmaceutical Co., Ltd. (東營天東製藥有限公司) ("**Tiandong Pharmaceutical**"), which was acquired by CR Double-Crane in 2020, exported APIs to 31 countries, and CR Double-Crane will make full use of the existing international market of Tiandong Pharmaceutical to accelerate its international layout, and increase the export of APIs, and take the opportunity to start the export of preparations. CR Zizhu takes advantage of the integration of steroid hormone APIs and preparations to promote the upstream and downstream extension of the API industry chain and enter the international market of healthcare products.

***Strengthen post-M&A integration and resource synergy to gain new momentum for performance growth***

The Group has strong M&A integration capabilities and rich experience for effectively integrating resources of the acquired companies. Moreover, relying on its own advanced management concepts, operational capabilities and effective business models, the Group is able to assist the acquired companies in formulating new strategies, improving corporate management, and improving business operation standards, thereby gaining broad space for business development and new momentum for performance growth.

In November 2021, the Group became the controlling shareholder of CR Boya Bio-pharmaceutical and positioned it as the plasma products business platform of the Group. After the acquisition of CR Boya Bio-pharmaceutical, the Group actively promoted the all-round and in-depth management integration of CR Boya Bio-pharmaceutical in terms of strategic planning, corporate governance, fundamental management and corporate culture. The Group also promoted CR Boya Bio-pharmaceutical to establish its "14th Five-Year" strategic development plan and improve its corporate governance structure by fully introducing China Resources' 6S strategy management and 5C financial management systems. Moreover, the Group improved its EHSQ and compliance management standards to ensure a smooth progress in the overall post-investment management, with a smooth transition achieved. With its strong resource integration capabilities, the Group promoted business integration and resource integration with CR Boya Bio-

pharmaceutical in terms of upstream resources, production capacity expansion and downstream channels to further promote its business development. The Group actively assisted CR Boya Bio-pharmaceutical to conduct cooperation and communication with various provinces such as Jilin, Shandong and Liaoning, and appointed investment professionals for CR Boya Bio-pharmaceutical to be responsible for the expansion of plasma collection stations as well as investment and M&A. In December 2021, CR Boya Bio-pharmaceutical set up a new plasma collection station in Yangcheng County, Shanxi Province. In May 2022, CR Boya Bio-pharmaceutical entered into the strategic cooperation framework agreement with Shenzhen Gaotejia Investment Group Co., Ltd. (深圳市高特佳投資集團有限公司) in relation to the investment and construction and business management improvement of plasma collection stations, construction of quality control system, optimization and improvement of production process, cooperation in intelligence and informationization as well as cooperation in investment and M&A in plasma products industry. In order to meet the production capacity needs of CR Boya Bio-pharmaceutical due to the rapid growth of plasma collection in the future, the Group and CR Boya Bio-pharmaceutical established a joint project group of intelligent factory to build a new plasma products production base in Fuzhou, Jiangxi through the application and improvement of existing technologies, with a designed capacity of 1,800 tons/year of plasma for the first phase. In June 2022, CR Boya Bio-pharmaceutical entered into the park admission contract with the Management Committee of Fuzhou High-tech Industrial Development Zone for the construction project of the plasma products intelligent factory (Phase I). CR Boya Bio-pharmaceutical intends to transfer its 75% equity interests in Guangdong Fuda Pharmaceutical Co., Ltd. (廣東複大醫藥有限公司) to CR Pharmaceutical Commercial, and conduct in-depth business integration. At present, the relevant synergistic integration is progressing smoothly as planned. In April 2022, CR Boya Bio-pharmaceutical entered into the framework cooperation agreement with China Resources Pharmaceutical Commercial Group International Trade Company Limited (華潤醫藥商業集團國際貿易有限公司) for a long-term strategic partnership to jointly promote the development of the products manufactured by Boya Bio-pharmaceutical in international markets other than Mainland China. In addition, in August 2022, CR Boya Bio-pharmaceutical received the Drug Registration Certificate issued by NMPA for "Human Coagulation Factor VIII", which further enriched the product line, improved the comprehensive utilization rate of raw material plasma, and increased the output value of plasma per ton. During the Reporting Period, CR Boya Bio-pharmaceutical recorded an excellent results, with a year-on-year increase of 17% in its revenue from plasma products segment and an increase of 41% in its overall net profit attributable to the parent company.

In September 2021,CR Jiangzhong acquired 51% equity interest of Haisi Pharmaceutical, whose core product Bifid Triple Viable Capsules Dissolving at Intestines ("**BIFIDO**") mainly treats symptoms such as acute and chronic diarrhea and constipation caused by enteric dysbacteriosis. This acquisition complemented CR Jiangzhong's shortcomings in the field of gastrointestinal medicines, and further consolidated its core competitiveness in gastrointestinal category. Upon completion of the acquisition, CR Jiangzhong actively promoted integration and synergy with Haisi Pharmaceutical while strengthening the original business of Haisi Pharmaceutical. CR Jiangzhong advocated the channel synergy between products including BIFIDO, Rabeprazole Sodium Enteric-coated Tablets and CR Jiangzhong, and strengthened the conceptual relationship between BIFIDO and "Bu Jun" and "Yang Jun" of "Lihuo" Lacidophilin Tablets, making use of consumer's recognition of "Lihuo" Lacidophilin Tablets. The first batch of BIFIDO was sold through the existing OTC retail channels of CR Jiangzhong in 13 provinces including Beijing, Tianjin, Heilongjiang and Henan, which further enriched gastrointestinal product mix in retail pharmacy terminals, and enabled Haisi Pharmaceutical to explore OTC channel resources and strengthen the competitiveness of the gastrointestinal category. Meanwhile, CR Jiangzhong achieved cost reduction through lean management and reducing energy consumption. During the Reporting Period, core financial indicators of Haisi Pharmaceutical such as revenue and net profit all realized a rapid growth.

In January 2020, CR Sanjiu completed the acquisition of 100% equity interest in Aonuo (China) Pharmaceutical Co., Ltd. (澳諾(中國)製藥有限公司) ("**Aonuo Pharmaceutical**"), whose core product, namely the calcium and zinc gluconates oral solution under the brands "Aonuo" and "Jinxinjingaite" , was a major calcium supplement for children in China. The acquisition supplemented brand and products in the field of pediatrics for CR Sanjiu. Upon completion of the acquisition, leveraging its brand building strength, CR Sanjiu conducted upgrading of product and brand for the products of Aonuo Pharmaceutical, comprehensively updated the product packaging, and actively transformed "Aonuo" from a channel brand to a consumer brand. Given its channel advantage, CR Sanjiu helped Aonuo Pharmaceutical expand national market and strengthened coverage of terminal channels in large-scale chain pharmacy, so as to gain more market share. At the same time, CR Sanjiu helped Aonuo Pharmaceutical actively carry out online business through platform empowerment, advocate digital and precise advertisement and conduct integrated marketing to the calcium and zinc gluconates oral solution of Aonuo, whose product sales ranked first in related categories during the period of "Double Eleven" in 2021. Incorporated into CR Sanjiu, the performance of core financial indicators of Aonuo Pharmaceutical grew rapidly. With the further upgrading of "Aonuo" to a consumer brand, there will be a good growth in the future.

***Business development driven by digitalisation to continuously enhance intelligent manufacturing and online marketing***

The Group accelerated digitalisation based on business development needs, riding on the development trend of the pharmaceutical industry and information technology. Leveraging new technologies such as big data, artificial intelligence, and industrial Internet, the Group promoted business innovation through out the R&D, manufacturing, supply chain, sales and service value chain, and continuously enhanced intelligence and digitalisation in all aspects of enterprise operation and management, so as to strengthen business transformation and innovation and create more value.

The pharmaceutical segment of the Group continued to advocate upgrading of intelligent manufacturing, with an aim to continuously improve production efficiency and product quality, reduce operating costs and optimize energy consumption management. CR Sanjiu promoted the extension of its drug quality management system, production energy management system, and TCM traceability platform to the upstream of the industrial chain in an orderly manner, thereby continuously improving the drug quality control capability. The Modern TCM Manufacturing Intelligent Factory project of CR Jinchan, a subsidiary of CR Sanjiu, was selected as one of the "Intelligent Factories and Digital Workshops in Anhui Province 2022". CR Sanjiu's TCM Intelligent Factory in Chenzhou is planned to be built as the extraction center of CR Sanjiu in South China, so as to promote the upgrading and transformation of TCM manufacturing, and to establish a competitive advantage in the industry. The project is expected to be completed within this year. CR Double-Crane actively advanced the construction of a digital benchmark factory in the industrial park division. It strived to improve the quality management standardization system by strengthening the refined and intelligent management of the production process with the Manufacturing Execution System (MES) as the core, and building a quality management platform based on the Laboratory Information Management System (LIMS) and the Quality Management System (QMS). CR Jiangzhong used technologies such as the Internet of Things, big data, and graph analysis to monitor the operation status of equipment in real time, thereby improving equipment utilization and ensuring production stability. Its TCM Science and Technology Innovation City project in Ganjiang New Area is committed to building a modern factory in the TCM park with a strong cultural background. The design of the project focuses on low-carbon emissions, high-intelligent manufacturing, and building an intelligent production line for continuous production. The first phase of the project has commenced in 2020 and is expected to be officially put into operation in 2023. Through AI technology, Dong-E-E-Jiao continued to improve the digitalisation of Taohuaji production line, E-jiao production line and other production lines. It has realized online visual inspection, and achieved a 40% increase in labor efficiency while protecting the health of production personnel. The Plasma Products Intelligent Factory of CR Boya Bio-pharmaceutical has commenced the construction work. Adhering to the philosophy of "overall planning, urgent

needs first, step-by-step implementation, green and low-carbon", the project aims to build a "lighthouse factory" by reference to the advanced Industry 4.0 Technology, in order to realize the intelligentization of production, logistics and warehousing, production equipment, product and service systems to meet the company's future business development needs.

The Group continuously improved the digital construction of marketing and sales to innovate the brand promotion methods, and expanded new retail business by establishing omni-channel digital channels and improving channel data management. In addition, the Group improved the service standards and efficiency for consumers through precise product marketing and digital services, and attained quick market insight, customer profiling and marketing decisions through efficient and accurate data acquisition and analysis. During the Reporting Period, online sales of the pharmaceutical segment achieved remarkable results, with online sales revenue increasing by 60% year-on-year. Upon the establishment of the intelligent and digital center, CR Sanjiu constantly refined the logic for online product selection and completed the database supplement of key marketing target categories. CR Sanjiu's brand dominance was maintained on the categories of cold and cough and pediatrics on various leading e-commerce platforms such as JD.com and Alibaba. In the "618" event, Essentiale N consecutively ranked first in the OTC liver and gallbladder medicine brand category in terms of brand traffic and transaction volume. CR Double-Crane promoted the digital marketing business of the "Cloud" project through establishing a direct supply and marketing system with e-commerce platforms such as JD.com and launching the CR Double-Crane brand flagship store. As for the marketing business of chronic diseases, CR Double-Crane promoted the project of "Digitizing Thousands of Counties", through which online virtual academic representatives conducted education to doctors, while offline academic representatives carried out professional visits. To deeply exploit the channel value, CR Jiangzhong constantly strengthened the layout of the new retail business and developed new products as per the channel characteristics by virtue of the traffic on platforms and big data analysis. Furthermore, a complete brand membership management system was built with the number of e-commerce members reaching 450,000, an increase of 103% as compared to the end of last year. Dong-E-E-Jiao comprehensively upgraded its brand marketing through promotion of refined user management, precise application of data and lean delivery of resources. In the "618" event, the online sales of Dong-E-E-Jiao and the sales of its e-commerce operated pharmacies increased by 18% and 93% year-on-year respectively, ranking first in the nourishing vitality and blood brand category in Tmall and the OTC nourishing vitality and blood brand category in JD.com, respectively. CR Zizhu established in-depth cooperation with Meituan, Ele.me and other O2O platforms to deepen the strategic partnership with key chain drug retailers. It also expanded the personal care category of Yuting's online flagship pharmacies, accelerating the product portfolios listed on the shelf.

## 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$1,004.5 million, representing a significant increase of 34.5% on year-on-year basis. 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 operated five State-certified engineering technology research centers, three State-certified enterprise technology centers and approximately 50 research centers certified by provincial and municipal authorities, as well as post-doctoral research workstations with a R&D team comprising approximately 2,000 members.

The Group conducted continuous refinement of its R&D mechanism, established a market-oriented talent introduction mechanism and the mechanism for training of talents at different levels, and strengthened the introduction of leading talents. In addition, the Group continually improved its mechanism for introduction of external experts, and actively introduced experts and leading talents in the industry. In the future, the Group will consistently introduce leading talents in the industry, strengthen the team of external experts, and continuously promote the innovative transformation and sustainable development of the Group.

As of 30 June 2022, the Group had approximately 300 ongoing new product R&D projects, including approximately 100 new drug projects, mainly involving oncology and immunity, metabolism and endocrine, respiratory system, hematology, angiocarpy, TCM classic prescription and other fields. During the Reporting Period, the Group has been granted more than 100 patents; clinical trials were approved for four products, including NIP003 (a Class 1 chemical innovation drug for thrombus), NIP001 (a Class 1 chemical innovation drug for renal anemia), DC05F01 (a Class 1 chemical innovation drug for solid tumor), and Jiangshi Granule (姜石顆粒) (a Class 1.1 TCM innovative drug for irritable bowel syndrome under spleen-stomach deficiency); application for drug registration were submitted to NMPA for 26 products, including Brivudine Tablets, Olmesartan Medoxomil and Amlodipine Besylate Tablets, Silodosin Capsules, etc.; drug registration approvals were obtained from NMPA for nine products, including Olopatadine Hydrochloride Tablets, Acarbose Tablets, Zoledronic Acid Concentrated Solution for Injection, Ticagrelor Tablets, Levofloxacin and Sodium Chloride Injection, Nifedipine Controlled-release Tablets, Valsartan Tablets, Tenofovir Alafenamide Fumarate (TAF) Tablets, and Mitoxantrone Hydrochlorid Injection (used as lymphatic tracer), among which

Mitoxantrone Hydrochlorid Injection (used as lymphatic tracer) is a Class 2 new drug with new indication for breast cancer, in a further diversification of the product portfolio of the Group's pharmaceutical manufacturing business.

During the Reporting Period, the Group made significant progress in the research and development of a number of Class 1 innovative drugs. NIP003, a novel FXIa inhibitor with global intellectual property rights for the prevention of arteriovenous thrombosis, has started Phase I clinical trial. At present, there is no drug for the same target points available at home and abroad. NIP001, a Class 1 new drug in blood field, has been approved for clinical trials for the treatment of renal anemia. The current clinical treatment protocol for renal anemia in China has a relatively low hemoglobin achievement rate, and NIP001 is expected to improve the existing treatment protocol in terms of drug properties and safety. Jiangshi granule, a Class 1 innovative TCM drug, has been approved for clinical trials for the treatment of irritable bowel syndrome with spleen and stomach weakness, and the Group has several Class 1 innovative TCM R&D projects in pipeline currently. The drug is effective in the treatment of functional diarrhea, with good tolerability and safety, and a better safety profile, and can be used as a long-term drug beneficial to chronic diarrhea with spleen deficiency. 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 SAD (single arising dose) study and MAD (multiple arising dose) 2nd dose group study 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 SAD study and MAD 2nd dose group study, indicating good safety and tolerability. NIP142, which is used to treat mutant non-small cell lung cancer, started Phase I clinical trial and completed the first enrollment during the Reporting Period.

As at the end of the Reporting Period, the Group had 30 biological drug projects under development, 22 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 340 cases enrolled. Its treatment for the new indication of acute pulmonary embolism has entered Phase II clinical trial and progressed well. The Class 1 new biological drug in blood field has completed the first enrollment under the Phase II clinical trial. The intravenous immunoglobulin (10%) has completed the first enrollment under the Phase III clinical trial.

The Group attaches great importance to and collaborates in the promotion of the consistency evaluation of the quality and efficacy of generic drugs. As of the end of the Reporting Period, 64 projects had been earmarked for consistency evaluation, while more than 30 projects had undergone bioequivalence clinical trials. During the Reporting Period, our eight products, including Metronidazole Tablets, Lincomycin Hydrochloride Injection, Ambroxol Hydrochloride Injection, Clindamycin Phosphate Injection, Allopurinol Tablets, Gliquidone Tablets, Metronidazole and Sodium Chloride Injection (100ml) and Cefotaxime Sodium for Injection, passed the consistency evaluation, among which Gliquidone Tablets were the first of its kind to pass the evaluation.

CR Pharmaceutical Shenzhen R&D Center is in sound operation, with 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, the innovative pichia pastoris expression system technology of East China University of Science and Technology have been verified and transferred and five R&D projects of new biological products have been established, which are progressing well. 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), synthesis of compound, drug screening and optimization. Presently, two pre-research projects targeting at tumor have been established, which are well under way.

During the Reporting Period, the Group, with proactively exploring external innovation and corporation, established business development synergy mechanism to bring its overall advantage into full play, and explored innovative R&D mode through taking full advantage of external resources. With focus on expanding corporation with national innovation hubs and top biotech companies, the Group developed original products to diversify and optimize innovative R&D pipelines through developing cutting-edge technologies under model of license-in and joint development.

The Group devoted in promoting the strategic cooperation with national innovative institutions such as National Medical Center and top biotechnology companies with innovative medical projects and technologies as the carrier, accessing top external expert resources while acquiring projects and technologies. During the Reporting Period, the Group proactively advanced strategic cooperation with Fuwai Hospital Chinese Academy of Medical Sciences on critical core technical issues relating to the overall, advanced and applicable clinical needs in the field of cardiovascular disease, and jointly promoted the construction of National Medical Center, so as to open up new channels for the Group to obtain innovative products. In March 2022, the Group signed a strategic cooperation agreement with National Clinical Research Center for Infectious Diseases of Shenzhen and The Third People's Hospital of Shenzhen to develop a strategic cooperation in the research and development of new drugs, diagnostic reagents and innovative vaccine products in the field of infectious diseases. In June 2022, the Group signed a strategic cooperation agreement with Wenzhou Medical University and Wenzhou Ouhai District Government to jointly promote the strategic cooperation with the National Engineering Research Center for Cell Growth Factor Drugs and Protein Agents and explore the cooperation on new target discovery, upstream design and the development of critical downstream engineering technology; the Group also signed a strategic cooperation agreement with Wenzhou Longwan District Government to cooperate in the fields of eye health and Alzheimer's disease. Meanwhile, CR Zizhu, a subsidiary of the Group, signed strategic cooperation agreements with Ouhai District Government and Longwan District Government on ophthalmic medicine, respectively, pursuant to which they will conduct in-depth cooperation on talents cultivation, research and innovation consortium, transformation of scientific and technological achievements and cooperation of "industry-academia-research" in the field of ophthalmology.

In April 2022, CR Jiangzhong entered into a cooperation agreement with Jinan University and Institute of Materia Medica Chinese Academy of Medical Science to launch a joint study on "anti-Alzheimer's Disease candidate innovative drug IMMJNU-018", to enrich the pipeline of TCM new drugs.

During the Reporting Period, a number of projects under development licensed-in by CR Sanjiu progressed smoothly. QBH-196, a new Class I small-molecule targeted anti-tumor drug introduced from Shenyang Pharmaceutical University in 2019, is in Phase I clinical trial. ONC201, a new drug for H3K27M mutant glioma introduced from Oncoceutics, Inc. at the end of 2020, is currently in the production research stage.

## 3. Pharmaceutical Distribution Business

In terms of the pharmaceutical distribution business, the Group improved its supply chain management capabilities and upstream product resource acquisition capabilities to implement the regionalization development strategy and promote the professional development of the entire industry chain for the device business. Moreover, the Group seeks to accelerate its Internet healthcare business deployment by innovating value-added service systems, actively developing international business, and empowering business development with digitalization.

During the Reporting Period, the Group's pharmaceutical distribution business recorded segment revenue of HK$104,395.8 million, representing an increase of 8.4% compared with that for the first half of 2021. The gross profit margin of the distribution business was 6.3%, representing an increase of 0.1 percentage point as compared to the same period of last year, mainly due to the rapid expansion of the device business with relatively high gross profit margin.

The Group reshaped the product resource introduction and management model of its distribution business since 2022, and improved the integration of national pharmaceutical procurement and sales; thereby upgrading the transformation of product acquisition to commercial expansion. Leveraging on central market access, omni-channel coverage and innovative payments, the Group continues to enhance its ability to coordinate acquisition of upstream product resources. During the Reporting Period, the Group entered into strategic cooperation with COVID-19 drug companies such as Pfizer and Buchang Pharm (步長醫藥), obtained all 16 innovative drug products (excluding rare diseases and HIV drugs) newly approved for marketing and commercialization by NMPA during the year; and gained multi-channels marketing rights for several significant products from well-known companies such as Sanofi and Pfizer. Also, the sixth centralized procurement of insulin has been carried out, where the average regional product acquisition rate of the Group reached 81%. The Group actively planned its product lines for the out-of-hospital market for the purpose of building the "Runyao" brand. In the first half of 2022, the Group coordinated the implementation of eight joint negotiation projects and introduced 160 exclusive distribution/OEM product specifications in total. In parallel, the Group entered into special cooperation with manufacturers to further expand the primary healthcare market, laying the foundation for the primary chronic disease market and acquiring exclusive marketing rights for insulin products of Sanofi and Novo Nordisk across several provinces.

During the Reporting Period, the Group actively developed customs import service and registration tests capabilities, and commenced the operation of the warehouse in the Jiangsu Company trade function area. The Group also actively improved the synergy of informatization among subsidiaries, optimized information analysis, explored the value of data to enhance operational and service efficiency, as well as promoted comprehensive digital transformation. Through the "multiport, one-stop" (多口岸、一站式) service model, the Group improved its imported product acquisition capability and introduced four key products with the Company as the general agent, including Cibinqo (Axitinib Tablets), a key product for atopic dermatitis, which was developed and registered by Pfizer globally in parallel, and achieved import products sales of approximately RMB6.5 billion during the Reporting Period. Meanwhile, the Group further stimulated the channels and vitality for port business expansion by adopting the joint venture model, and assisted domestic manufacturers to expand their overseas business via its professional and one-stop services, and achieved export sales of over RMB700 million during the Reporting Period, of which the export value of dendrobium granules and other major healthcare products exceeded RMB40 million. Pursuant to the "Hong Kong and Macao Medical Instrument Connect (港 澳 藥 械 通)" policy, CR Pharmaceutical Commercial Guangdong Company has assisted five hospitals to obtain a total of 28 clinical urgently needed drug approvals and eight clinical urgently needed device approvals, and the relevant urgently needed products have been procured, imported and distributed by the manufacturers according to the purchase orders of the designated hospitals.

The Group further promoted the integrated and professional management of the medical device distribution business in fields of organizational structure, process optimization and management specialization to optimize the control structure design of regionalized device business. In the first half of 2022, medical device distribution business of the Group expanded rapidly and recorded revenue of approximately RMB14.3 billion, representing a significant increase of approximately 39% as compared to the same period of the previous year, reflected by the rapid growth of IVD in vitro diagnostics and general supplies and orthopedics operating in revenue. The Group has built a specialised medical device headquarter to accelerate the construction of specialised product lines of orthopedics, interventional supplies, IVD diagnostic reagents and general supplies and has set up 28 independent medical device companies in 17 provinces. In particular, the Group had established 34 sub-warehouses in cities of key regions covering 20 provinces and municipalities for its orthopedics business, and a professional IVD diagnostic reagents company by building agency relations with WEGO, LDK, etc., with the antigen detection reagents having been sold in 25 provinces. In terms of interventional supplies business, the Group achieved its goal of filling the gap in the market by introducing products of Lepu Medical and others and established a direct sales team to develop the market. Meanwhile, the Group kept advancing the progress in registration of products like molecular diagnostic kits for tumors, chronic diseases, women and

children, infections, etc.. In terms of medical devices business, the Group accelerated products introduction by acting as general agency of another 23 manufacturers during the Reporting Period, including six for IVD business and three for orthopedics business. Moreover, the Group promoted large-scale investments in medical devices and extension to the upstream of the industry chain, represented by establishing a joint venture with Yadu Medical, and promoted the scaling up of IVD joint ventures, supply processing&distribution (SPD) cooperative projects and joint ventures for information services. In the meantime, the Group further enhanced its innovative service capability for device business, with 23 new SPD projects and a new regional comprehensive inspection center project launched during the Reporting Period. At present, the Group has more than 100 SPD and centralized distribution projects.

The Group comprehensively advanced the construction of 4C innovative service systems for its distribution business, i.e. COE (Center of Excellence), CSO (Contract Sales Organization), CDP (C+ Digital Pharma) and CIP (Commercial Insurance Payment) to accelerate digital transformation and seize market share in "Internet +" fields. The Group actively transform its medical business to built a vertical operating service system targeting the precise treatment of special diseases/ rare diseases. In the first half of 2022, the Group promoted Sci-Tech center in many regions and reached cooperative intention with over ten hospitals. In addition, an internet hospital was completed in Shandong Province and the construction of directed triage system for all community hospitals in Fangshan District, Beijing was bagged by the Group. During the Reporting Period, exclusive CSO cooperations for Sanofi Depakine (Sodium Valproate Injection) project were reached in many provinces, while the Internet Hospital of "Run Xiaoyi (潤小醫)", a centralised digital platform for special diseases/rare diseases, entered the functional testing stage. Commercial insurance projects "Meirun Care (美潤關懷)" and "Purun Care (普潤關懷)" cooperated with different upstream manufacturers made a breakthrough in transforming the profit model into service fee charges and had benefited more than 20,000 patients in over 20 provinces, while a new pilot project "Jirun Care (吉潤關懷)" had been launched. During the Reporting Period, "CR Pharma e-Store", the Group's B2B online platform covering 24 provinces recorded a transaction amount of RMB16.5 billion, representing a year-on-year growth of 20%, with 35,000 active customers accumulated and 0.85 million orders closed. It also organized three S-level and nearly 70 A&B-level promotions with total sales exceeding RMB200 million.

At the same time, the Group implemented a regional development strategy, consistently developed the market outside of the hospital, and strengthened the construction of channels and terminal capabilities to optimise its business structure. During the Reporting Period, sales revenue from ex-hospital channel distribution business increased by 17% year-on-year. As at the end of the Reporting Period, the Group's pharmaceutical distribution network covered 28 provinces across the country with approximately 120,000 clients, including nearly 9,000 2 and 3 class hospitals and approximately 60,000 primary medical institutional clients.

The Group consistently strengthened the construction of a specialised, large-scale and standardised modern logistics system, while promoted the integrated operation of its logistics nationwide. By improving its logistics capabilities and effectiveness through strategic cooperation with various parties, the Group continuously proceeded with the standardised collection of logistics cost and workload data, and also implemented regional logistics resource integration and multi-warehouse synergy. As at the end of the Reporting Period, the Group's distribution business had over 200 logistics centers, with central warehouses based in Beijing and Shanghai. Such centers are capable of the storage and distribution of temperature-controlled drugs across the country, allowing the Group to provide end-to-end management of the vaccines, plasma products and other products requiring specific temperature control. In the meantime, the Group commenced a special digitalisation project for its logistics platform to integrate logistics resources through digitalisation and intelligentisation. Besides, the Group provided digitalised and visualised third-party logistics services to manufacturers and other clients. During the Reporting Period, CR Pharmaceutical Commercial's revenue from the third-party logistics business exceeded RMB150 million.

## 4. Pharmaceutical Retail Business

In terms of pharmaceutical retail business, the Group stepped up with the introduction of premium products to continuously enrich and optimise its business categories. The Group also improved the operating quality of specialty pharmacies. By strengthening the construction of an integrated operating system and digitalisation, the Group further built up its competitiveness in terms of standardisation, differentiation and specialisation of its retail business.

During the Reporting Period, the Group's pharmaceutical retail business recorded revenue of HK$4,060.9 million, representing an increase of 13.0% compared with that for the first half of 2021, mainly due to faster growth in revenue from the high-worth drug direct-to-patient ("**DTP**") business. The Group's DTP business achieved revenue of approximately RMB2.42 billion, representing an increase of approximately 15% year-on-year. The gross profit margin of the retail business was 8.4%, representing a decrease of 0.6 percentage point as compared with the same period of last year, mainly attributable to the increase in the weighting of revenue from the DTP business which had a lower gross profit margin.

Since the implementation of the the "dual-channel" management mechanism for negotiating drugs for inclusion in National Reimbursement Drug List one year ago, the number of varieties included in the management mechanism has been increasing, further accelerating the implementation and promotion of prescription outflow, and thus placing higher demands on the professionalism and service capability of retail pharmacies. During the Reporting Period, the Group accelerated the deployment of DTP and other specialty pharmacies, and assisted 21 pharmacies in various regions to obtain the "dual-channel" qualification, so as to prepare for the outflow of prescriptions; liaised with upstream manufacturers such as Ascentage Pharma (亞盛醫藥), Gloria Pharmaceuticals (譽衡藥業) and Roche Pharmaceutical (羅氏製藥) to discuss the introduction of varieties, with seven new DTP varieties introduced. Runyao Garden — Runyao Pharmacist Training (潤曜苑 — 潤曜藥師培訓) provided trainings for all specialty pharmacies under the Group to continuously improve the service standard of professional pharmacists. As of 30 June 2022, the Group had a total of 787 self-operated retail pharmacies, of which the total number of DTP specialty pharmacies reached 221 (including 110 "dual-channel" pharmacies).

The Group continued to enhance its operational planning and standardised management and control, with the means of continuously improving the operational quality of its store operation and management to create professional, standardised and high quality pharmacies, and of actively developing innovative value-added services. During the Reporting Period, the Group built the standardised and systematised service of specialty pharmacy under Teck Soon Hong (德信行). Pharma-diagnosis-healthcare complexes actively connected with the resources of Lepu Medical (樂普醫療), Omron (歐姆龍), WeDoctor (微醫) and other resources to provide customers with comprehensive services such as intelligent inspection and testing, online consultation and chronic disease management. In addition, the Group cooperated with CR Vanguard (華潤萬家) to set up five "Runde Vanguard (潤德萬家)" stores to jointly create a one-stop experience of health and consumption services.

The Group fully grasped the development trend of "Internet +" in the pharmaceutical industry to accelerate its digital transformation and new retail business development. During the Reporting Period, the Group established an integrated store covered warehouse and e-commerce, set up a team for integration and digitization operation of C-end warehouse and e-commerce, and actively explored private domain operations, and the C-end online business sales grew over 97% year-on-year. Furthermore, the Group actively advanced "Run Yao Bao (潤藥寶)" program for providing patients an exclusive welfare based on its four patient-centred service systems.

## ACTIVELY FULFILL SOCIAL RESPONSIBILITY, IMPROVE CORPORATE GOVERNANCE AND ENHANCE THE CAPABILITY OF GREEN SUSTAINABLE DEVELOPMENT

During the Reporting Period, given the multiple outbreaks and frequent recurrence of the COVID-19 pandemic in China, the Group fully leveraged its advantages brought by its whole industrial chain and efficient organisation and ensure the timely supply of pharmaceutical devices for pandemic prevention and control, contributing to the combat against the pandemic in multiple ways and fully protecting public health. The total contribution to the combat against the pandemic, including sales of pandemic prevention materials/services and donations, exceeded RMB3.7 billion, demonstrating our corporate responsibility and social responsibility as a state-own enterprise. In respect of industrial segment, the Group has medical masks, medical gloves and other production lines. In particular, CR Sanjiu's three TCM products, namely Shenfu injection (參附注射液), Shenmai injection (參麥注射液) and Shengmai injection (生脈注射液), showed evident curative effect against the COVID-19, therefore were included in the Diagnosis and Treatment Protocol for the COVID-19 (《關於印發新型冠狀病毒肺炎診療方案》). While making every effort to ensure the production and supply of anti-pandemic products, the Group also accelerated its deployment in antiviral therapy field through R&D and external cooperation. In July 2022, Henan Genuine Biotech Co., Ltd.

(河南真實生物科技有限公司) ("**Genuine Biotech**") received emergency conditional approval from NMPA for the Azvudine tablet used for the treatment of adult patients with common coronavirus pneumonitis. Azvudine tablet is a self-developed oral small molecule drug in the PRC. In May 2022, CR Double-Crane and Genuine Biotech entered into the strategic cooperation agreement and framework agreement on the entrusted processing and production of Azvudine, pursuant to which, the processing and production of Azvudine products were entrusted to CR Double-Crane, and both parties will cooperate in various fields, including R&D, manufacturing, distribution and other areas directly related to distribution of pharmaceutical products. In relation to the entrusted processing of Azvudine products, CR Double-Crane has obtained the C-certificate of Pharmaceutical Production License (藥品生產許可證C證). In April 2022, CR Pharmaceutical Commercial and Genuine Biotech signed the Supply Chain Strategic Cooperation Agreement, and both parties would carry out strategic level cooperation, and expand cooperation in product distribution and many aspects and fields directly related to distribution. In respect of commercial segment, the Group established strategic cooperation with a number of pharmaceutical enterprises owning COVID-19 effective medicine such as Pfizer, Buchang Pharma and Genuine Biotech, and has confirmed the intent to cooperate with over 10 manufacturers of antigen test kits. A working group on medical supplies was established in March 2022 to manage the supply of materials for pandemic prevention to Hong Kong. This group recorded total order amount of RMB690 million and total shipment of nearly 1,210 TEUs. In July 2022, CR Pharmaceutical Commercial (Guangdong Branch) delivered the first batch of COVID-19 neutralizing antibody medicines, namely amubarvimab and romlusevimab, via cold chain logistics to Shenzhen Third People's Hospital, indicating that the first prescription of COVID-19 in China came into use.

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 Authorization Management System of the Board of Directors was reviewed and formulated by the Board in March 2022, with six functions and powers of the Board being incorporated into the Company's articles of association. It passed the internal approval of the Group and the review of CR Holdings in April, and was approved by the shareholders' meeting in May. By the end of June, all relevant system construction work was completed. Through the implementation of this corporate governance measure, the Group will be able to further strengthen the exercise of various rights by the Board in accordance with the law, improve the Company's operating mechanism, strengthen responsibility supervision, continuously enhance the standardization, effectiveness and overall function of the Board, and give full play to the role of the Board in "setting strategies, making decisions and preventing risks", thereby strengthening the Company's position as an independent market player, effectively stimulating the endogenous power and vitality of the Company, and achieving high-quality development.

The Group has always adhered to the concept of green and low-carbon development, actively practiced green responsibilities as a corporate citizen, and continued to improve its environmental governance capabilities. With a focus on the construction of energy conservation and environmental protection projects and the application of new technologies, the Group intensified its efforts in source emission reduction and progress control, and improved energy utilization efficiency, so as to protect the ecological environment and reduce carbon emissions in an all-round way. In terms of the construction of energy conservation and environmental protection projects, the Group actively deployed distributed photovoltaic power generation projects to enhance its competitive advantage in sustainable development. In June 2022, the rooftop distributed photovoltaic power generation project with an installed capacity of 1.3 MW of Double-Crane Pharmaceutical (Hainan) Co., Ltd., a subsidiary of CR Double-Crane, achieved grid-connected power generation. Upon completion of the project, it can provide 1.453 million kilowatts of clean electricity per year, reduce carbon emissions by approximately 344 tons per year, and directly bring a benefit of approximately RMB290,000 in annual energy cost savings. The project has the benefits of energy conservation and environmental protection, and will help to increase the proportion of green and low-carbon energy. The Group actively developed green production modes to build itself into a leading green manufacturing enterprise in the industry. CR Sanjiu's Shenzhen Guanlan Industrial Park has been selected as a pilot demonstration project of Shenzhen's 2022 industrial "peak carbon dioxide emissions" work due to its outstanding performance in green manufacturing design of technological process, energy conservation and emission reduction, environmental protection and solid waste treatment. In January 2022, CR Jiangzhong's "Energy Intelligent Analysis, Diagnosis and Energy Conservation Standardization Demonstration Project for TCM Enterprises" passed the assessment and acceptance of the national energy conservation standardization demonstration projects, becoming the first national energy conservation standardization demonstration project in Jiangxi Province to pass the inspection and acceptance, which provides a model for the standardization of energy conservation in the Chinese medicine preparation industry. In June 2022, Jiangzhong Pharmaceutical Co., Ltd. won the 11th "China Environmental Excellence Award", which was established by the China Environmental Protection Foundation and is the highest award in the field of environmental protection in China.

## OUTLOOK AND FUTURE STRATEGIES

During the "14th Five-Year Plan" period, China's economy has entered into a stage of high-quality development and its industrial structure has also undergone further transformation and upgrading. It's clear that the general trend of the pharmaceutical industry in the future will continue to grow, as the aging population, urbanization and increasing health awareness keep driving the demand for medicine, and the scale of the pharmaceutical and health market will continue to expand. The Group will adhere to the national strategy and actively implement the Healthy China strategy, which pays attention to the public's livelihood and health, improves the preventive measures of the serious diseases, establishes the concept of great health and makes greater efforts in innovation and development to enhance innovation and R&D capabilities. In addition, the Group improved industrial deployment by serving the public; promoted the digital transformation of the industry to drive efficiency improvement and model innovation; insisted on green and low-carbon development to build a new social green culture; and strengthened the construction of human resources, laying a solid foundation for achieving the strategic objectives of the 14th Five-Year Plan as well as realizing high-quality development.

### 1. To make greater efforts in innovation and development to enhance capability in innovation and R&D capabilities

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

(1) In respect of R&D investment: The Group will continuously increase the investment in R&D, the overall innovation investment accounted for a significant increase, of which the intensity of investment in biopharmaceutical research and development exceeded 50%. As for the direction of R&D investment, we will enhance the capacity development of innovation platform, further improve the construction of R&D platform for chemical and biological innovation drugs and promote the construction of innovation platform for TCM; furthermore, we will enrich our product pipelines by accelerating deployment in the fields of oncology, immunology, cardio-vascular and so on. The development of antibodies, vaccines, recombinant proteins and other products will also be our focus.

(2) In respect of the construction of innovative platform: Leveraging on the advantage of national regional policies and resources, the Group will build multi-type of innovative R&D platforms in Beijing-Tianjin-Hebei region, Yangtze River Delta, Greater Bay Area and Hainan to enhance the overall R&D capability. We will accelerate both the construction of innovative R&D platforms for chemical and biological drugs in Guangdong-Hong Kong-Macao area and Yangtze River Delta, and for TCM to enhance innovation and R&D capabilities. Meanwhile, the Group will develop high-end drug technologies, products with advance synthesis technology and special packaging, and establish differentiated technological platforms such as oral sustained-release preparations, inhalants and injection emulsion drugs.

(3) In respect of innovation incentive mechanism: We will develop a market-oriented incentive mechanism that will enhance the effect of appraisal and incentive, with a special emphasis on the development of innovation capabilities and the commercialisation of innovative efforts. CR Biopharm will promote its subsequent financing plan in due course and attract strategic investors with high matching, high acceptance and high synergy to improve capital allocation and corporate operational efficiency.

(4) In respect of project introduction: Adhering to the model of "self-innovative research + introduction", the Group will consistently diversify our internal innovative product pipeline and enhance external cooperation by strengthening R&D cooperation with national leading R&D institutions, with the aim of helping solve the country's "bottleneck" problems in such areas as drugs, and serving national strategic needs. The Group will strengthen the development of industry-academia-research alliances with top-notch domestic and international R&D institutions, such as medical centers at national level, to forge long-term, comprehensive cooperation with a strong focus on technology R&D, commercialisation, resource sharing and talent training for the advancement of project cooperation and commercialized application. The Group's ability to integrate resources for innovation will be further enhanced.

(5) In respect of the building of R&D teams: The Group will place a stronger emphasis on innovation R&D talent recruitment and training, with a view to rapidly enhancing R&D capability through the recruitment of high-calibre personnel and merger and acquisition of R&D teams. A talent development regime compatible with the Group's business development planning and innovative enterprises will be developed. The talent supply mechanism will be facilitated through "external recruitment + internal training". We will step up with the acquisition of high-calibre R&D technical personnel, with a special focus on chief scientists, professional leaders, etc., and strengthen the introduction of technical experts in drug discovery and clinical plan formulation, etc.

**2. To expedite investment and merger and acquisition in order to enhance our presence in innovation and high growth areas**

External mergers and acquisitions have always been one of the key engines of the Group's rapid development. Seizing the historic opportunity presented by the Chinese pharmaceutical industry with the increasing concentration, the Group will accelerate its external merger and acquisition. In the pharmaceutical manufacturing business, the Group will aim to consolidate premium resources in the industry with a special focus on corporate goals in CHC biopharmaceuticals and innovative drugs, as well as exclusive product categories or competitive categories with higher technological thresholds, such as specialty generic drugs. In the pharmaceutical distribution and retail businesses, we will focus on medical devices, retail and new retail businesses, and leverage digital empowerment to improve management efficiency and explore model innovation, with a special emphasis on merger and acquisition and platform building in relation to leading enterprises with a top status in the relevant sub-segments and key product lines.

(1) Accelerating its external merger and acquisition and enhancing its investment and merger and acquisition in areas such as innovative drugs, biopharmaceuticals, vaccines and medical devices to enhance its presence in new fields: Taking CR Boya Bio-pharmaceutical as a platform, we will expand and strengthen the plasma products platform through self-establishment of plasma stations and merger and acquisition of other targets in the industry. We will also build a platform for vaccine industrialization, further expand the presence in cell therapy industry, and explore such fields as medical devices and medical beauty.

(2) Diversifying investment methods and deploying high-growth and new technology areas: In particular, the Group will hold projects with strategic value and performance contribution value, explore innovation arenas by seizing high-quality resources through strategic equity participation, and focus on new business areas with good potential to incubate new industrial opportunities, which will form synergy with existing business.

(3) Strengthening investment system construction and post-investment management: The Group will build a large investment team and carry out post-investment evaluation through sound post-investment management system to strengthen the operation supervision on, provide support and empowerment to, and incorporate culture into the invested companies, thereby maximizing the project investment value and preventing investment risks.

**3. To ensure sustainable and healthy development by enhancing the quality of development and improving quality and efficiency**

The Group will respond to policy changes and market restructuring trends, actively address the impact of policies such as centralised procurement and medical insurance fee control, continue to optimize its business structure and promote transformation and upgrading. In addition, we will benchmark against first-rate enterprises for optimisation of corporate management system and enhancement of management competence.

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

(2) Ongoing product mix optimization: Based on cornerstone products and with a focus on consumers, the Group will actively develop new products and expand into new businesses to diversify our product lines and continue to optimize our business portfolio. We will improve our ability in specialist areas and enhance our presence in high-potential areas such as anti-tumor and psychiatric/ neurological drugs. The Group will also facilitate expansion into new businesses such as commercial segment and medical devices to foster new business growth points. Active exploration will be made in "+ Internet" applications for the development of new models, with a view to enhancing our overall supply chain service capability and building core competitiveness.

(3) Benchmarking against first-rate enterprises for a major uplift in management competence: By conducting comprehensive analyses on the outstanding practices of first-rate international enterprises, the Group will comprehensively enhance our management competence and business standards, optimize corporate management system, reinforce management foundation and strengthen management innovation, with a view to achieving a notable improvement in overall management competence.

(4) Strengthening the construction of talent team: Through the implementation of top-level design of human resources, we aim to achieve management upgrading and talent empowerment. Organizational vitality will be further stimulated by continuously improving our working mechanism and creating an innovative development environment. Besides, the Group will strengthen the building of an innovation-driven organization around the implementation of the three-year action plan for the reform of state-owned enterprises.

**4. To achieve positive reform results and release business vitality by seizing the opportunity presented by SOE reform**

The Company will deepen the mixed ownership reform in an active and prudent manner. By introducing active strategic investors, the Company will promote the transformation of its business mechanism and improve the efficiency of capital allocation and operation, in a view to propel the mixed ownership reform of CR Pharmaceutical. In respect of business layout optimization and business structure adjustment, the Company will actively leverage opportunities for cooperation in strategic reorganisation and merger and acquisition among central enterprises, the central government and local governments in areas such as blood products, vaccines, bio-diagnostic reagents, innovative drugs and innovative medical devices. The Company also intends to increase management efficiency by optimising its management control hierarchy as well as streamlining and clarifying subsidiaries' authorities and responsibilities and matters and scope under their control. The corporate governance structure will also be optimized to fulfill the Board's authorities, and the amendments on corresponding management systems will be completed. Furthermore, the Company also endeavors to make breakthroughs in its incentive mechanism by implementing mid- and long-term staff incentives, aiming at building a more flexible staff incentive and constraint mechanism, motivating staff's enthusiasm, initiative and creativity and in turn guaranteeing the sustainable and healthy development of the Company.

**5. To improve the level of intellectualization and digitalization and accelerate business transformation and development**

The Company will grasp the trend of digitalization and intellectualization. By taking intellectualization and digitalization as its new momentum and new engine to pursue innovative transition and development, the Group strives to digitalize and intellectualize its business operation, aiming to upgrade its existing momentum and foster new momentum. The Company will implement digital upgrade, transformation and reconstruction on the core parts and key elements of industry chain and continuously explore digitalized and intellectualized solutions in research and development area to improve the overall management level. In production process, quality and efficiency will be improved through digital transformation to promptly achieve intelligent manufacturing. The supply chain process will also be optimized to provide better customer experience. The Company will facilitate the establishment of platform in new retail area and utilize the value of information to enhance its interaction with customers and its insight to their demands. To sum up, the Company will explore the application of internet in medical care and pharmaceuticals, in a view to improve its overall capability in innovation and development, customer service and business management, thereby raise the level of modernization in both industry and supply chains, intellectualize its governance and generate momentums for the Company's high quality development.

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

The Group endeavors to achieve synergy effect by developing a cross-regional, multi-dimensional and multi-model synergy mechanism and accelerating the implementation of synergistic projects.

(1) Promote resource planning and coordination: the Group will exploit its role as management platform to promote the optimal allocation of resources, in a view to concentrate resources on biological medicine, emerging businesses, innovative development and other innovative and high-potential businesses. Meanwhile, the Group will also increase its investment in R&D innovation and business cultivation to build a integrated business development (BD) ecosystem. Through various modes, the Group intends to promote regional synergetic development, coordinate internal and external resources, and maximise overall efficiency.

(2) Regional synergy: in respond to the CR Holdings' regional strategic planning, the Company will acquire superior resources to facilitate cooperation in advantageous businesses and establish regional advantages, and thereby rapidly expand the regional market and enhance overall competitiveness.

(3) Resources sharing: by comprehensively integrating the resource advantages of the Group, CR Holdings and each central regions of profit, the Company will form a business layout that connects up and down streams and enjoys complementary advantages, and forge a synergetic platform for the pharmaceutical segment to deepen the synergistic effect in terms of government affairs, market channels and customer resources.

(4) Synergistic operation through a multi-model approach: the Company will select its best mode of operation based on two major criteria, namely marketability and innovation, which includes joint negotiations, joint equity investment, united media communication, shared logistics and the building of technology platforms, etc.

## 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 2022, the Group had cash and cash equivalents of HK$18,394.9 million, which were denominated primarily in RMB and HKD.

As at 30 June 2022, the RMB-denominated and HKD-denominated bank borrowings accounted for approximately 85.7% and 14.3%, respectively of the Group's total bank borrowings. Among the total bank borrowings as at 30 June 2022, a substantial portion of approximately 90.1% would be due within one year.

As at 30 June 2022, the Group's current ratio (being the ratio of total current assets to total current liabilities) was 1.3:1 (31 December 2021: 1.2:1).

As at 30 June 2022, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 60.9% (31 December 2021: 51.5%).

In the first half of 2022, the Group's net cash used in operating activities amounted to HK$3,243.5 million (in the first half of 2021: net cash used in operating activities of HK$1,347.9 million). In the first half of 2022, the Group's net cash used in investing activities amounted to HK$1,627.8 million (in the first half of 2021: net cash used in investing activities of HK$3,393.9 million). In the first half of 2022, the Group's net cash from financing activities amounted to HK$6,593.1 million (in the first half of 2021: net cash from financing activities of HK$10,248.4 million).

As at 30 June 2022, the Group had not used any financial instruments for hedging purposes.

## PLEDGE OF ASSETS

As at 30 June 2022, the Group's total borrowings amounted to HK$63,766.5 million (31 December 2021: HK$50,668.0 million), of which HK$177.5 million (31 December 2021: HK$110.2 million) were secured and accounted for 0.3% (31 December 2021: 0.2%) of the total borrowings.

None of the Group's trade and bills receivables had been pledged as security (31 December 2021: None).

## CONTINGENT LIABILITIES

As at 30 June 2022, the Group had no material contingent liabilities (31 December 2021: 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 2022, the Group employed around 62,000 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 period ended 30 June 2022.

## 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.2.1 of the CG Code, during the period from 1 January 2022 to 13 January 2022, both the chairman of the Board and the chief executive officer of the Company were held by Mr. Han Yuewei. The Board believed that with the support of the management, vesting the roles of both the chairman and chief executive officer on the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board, the interests of the Shareholders will be adequately and fairly represented. In order to devote more time and attention to approve and monitor the Group's strategies and policies, Mr. Han Yuewei ceased to be the chief executive officer of the Company and has been re-designated from an executive Director to a non-executive Director and continued to serve as the chairman of the Board on 14 January 2022, Mr. Bai Xiaosong has been appointed as the chief executive office of the Company on the same day. Since 14 January 2022, the Company had fully complied with the requirements under the code provision C.2.1.

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 about once every three years on a rotation basis in accordance with the articles of association of the Company, there are sufficient measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code.

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## REVIEW OF INTERIM RESULTS BY ERNST & YOUNG

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have not been audited, but have been reviewed by Ernst & Young, the Company's external auditors, whose review report is contained in the Company's interim report for the six months ended 30 June 2022 to be despatched to each shareholder.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2022.

## PUBLICATION OF THE INTERIM RESULTS AND 2022 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 2022 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*

Zhengzhou, 25 August 2022

*As at the date of this announcement, the Board comprises Mr. Han Yuewei as chairman and non-executive Director, Mr. Bai Xiaosong, Mr. Tao Ran and Mdm. Weng Jingwen as executive Directors, Mr. Lin Guolong, 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.*