Proceedings of CONF-BPS 2026 Symposium: Sustainability Transitions and Regional Economic Restructuring in New Contexts
DOI: 10.54254/2754-1169/2026.NJ30874

The Impact of Acquiring Kunyao Group on the Financial Performance of China Resources Sanjiu

Jiana Zeng

School of Finance and Accounting, Fuzhou University of International Studies and Trade, Fuzhou, China

2055243283@qq.com

Abstract. This study focuses on the typical case of China Resources Group's acquisition of Kunming Pharmaceutical Group in 2022, and deeply utilizes financial data from 2021 to 2023 to systematically and comprehensively analyze the multidimensional impact of this acquisition on financial performance. In the early stages of the merger, China Resources Group faced many challenges, including a decline in net profit, impairment risk of goodwill, and fierce competition within the group, which brought considerable pressure to the financial situation. However, the company quickly formulated and implemented a triple integration strategy of industry integration, channel coordination, and product portfolio optimization. By integrating industrial resources and optimizing internal structure; Coordinate distribution channels to improve operational efficiency. Optimize product portfolio and enhance market competitiveness. Finally, profitability was successfully restored, with significant improvements in operating efficiency and cash flow, and the market share continued to expand. Further research has shown that the "dual engine" growth model driven by distribution channels and product innovation is feasible in mergers and acquisitions in the traditional Chinese medicine industry, and strategic fit and phased integration methods are key factors determining the success of mergers and acquisitions.

Keywords: Mergers and acquisitions, financial performance, synergy effect, traditional Chinese medicine industry, China resources Sanjiu.

1. Introduction

In recent years, mergers and acquisitions have become a key strategy for resource integration and strategic adjustment in the pharmaceutical industry. Driven by the profound changes in policies in China's pharmaceutical industry (such as the institutionalization of centralized drug procurement, increased cost control of universal medical insurance, etc.) and the continuous promotion of industrial upgrading, leading enterprises are increasingly acquiring high-quality assets, expanding product pipelines, and improving overall competitiveness through mergers and acquisitions [1]. This trend is especially obvious among industry leaders. China Resources Sanjiu Pharmaceutical Co., Ltd. (hereinafter referred to as "China Resources Sanjiu") launched a strategic acquisition of Kunming Pharmaceutical Group Co., Ltd. (hereinafter referred to as "Kunyao") in 2022. According to the official disclosure

DOI: 10.54254/2754-1169/2026.NJ30874

China Resources Sanjiu has a strong national distribution network, covering more than 280,000 consumer health care products (CHC) retail terminals and has strong brand assets; however, it used to lack in the field of plant medicine. In contrast, Kunming Pharmaceutical took advantage of the reputation of "the hometown of Sanqi" in Yunnan Province to establish a vertically integrated Sanqi value chain from seed planting, extraction to final preparation. Its flagship blood plug product line occupies a dominant position in the cardiovascular and cerebrovascular traditional Chinese medicine market. The strategic complementarity between the two companies has laid a solid foundation for the synergy after the merger [2,3].

The theoretical basis of enterprise mergers and acquisitions mainly includes the theory of synergy, the theory of market forces and the basic concept of resources. According to the collaborative theory, mergers and acquisitions can produce the effect of "1+1>2" through effective resource integration across the dimensions of operation, finance and management [4]. In the context of China, Feng and Wu found that mergers and acquisitions usually cause positive short-term market responses based on the empirical evidence of listed companies [3]; however, the key to continuous long-term performance improvement depends on strategic fit and integration efficiency. Zhang further observed that about 60% of China's mergers and acquisitions failed to achieve the expected value creation, mainly due to the failure of governance and cultural conflicts in the post-m&A integration stage [1].

The essential characteristics of pharmaceutical mergers and acquisitions are strict supervision, high Research & Development (R&D) intensity and long investment cycle. Chen and Wang proved that successful pharmaceutical mergers and acquisitions often depend on the realization of R&D collaboration and channel integration, and failed transactions often stem from an underestimation of the complexity involved in operational integration [5]. However, the existing literature does not pay enough attention to the strategic mergers and acquisitions of the traditional Chinese medicine industry led by state-owned enterprises, especially the lack of dynamic and evidence-based analysis of the post-transaction financial performance transmission mechanism. This study makes up for this gap by focusing on the case of China Resources Sanjiu Kunming Pharmaceutical.

Using the actual financial data from 2021 to 2023, this study systematically evaluated the financial impact of the acquisition on China Resources Sanjiu (consolidated statements) and Kunming Pharmaceutical (as an independent entity). Theoretically, it provides empirical verification of the applicability of the synergy theory in the context of mergers and acquisitions of state-owned enterprises in China's pharmaceutical industry. In fact, it provides a reference framework for industry practitioners in merger and acquisition decision-making, post-merger and acquisition integrated management, risk early warning system, etc., especially to alleviate the pressure of centralized procurement through the two-wheel drive transformation model of distribution channels and product portfolios.

2. Motivations for the acquisition and integration approach

2.1. Acquisition context and process

The acquisition was officially launched in May 2022. China Resources Sanjiu announced that it intends to acquire a total of 28% of the equity of Kunming Pharmaceutical Group Co., Ltd. from Vitality Pharmaceutical and Vitality Group Co., Ltd. for RMB 2. 902 billion in cash. After the transaction was completed, China Resources Sanjiu became the controlling shareholder of Kunming Pharmaceutical and included it in its financial statements [2]. This transaction adopts a combination of "agreement-based equity transfer" and "consistent action agreement", which effectively promotes

DOI: 10.54254/2754-1169/2026.NJ30874

the transfer of control and avoids the triggering of compulsory offer acquisition obligations. This design reflects a mature capital market strategy.

The acquisition did not take place in isolation, but was embedded in a multi-level strategic background:

At the policy level, the "14th Five-Year Plan" for the development of traditional Chinese medicine in China clearly encourages leading traditional Chinese medicine enterprises to enhance their ability to integrate industrial chains through mergers and acquisitions [6].

From the industry level, the concentration of the traditional Chinese medicine industry is low (the market share of the top 10 enterprises is less than 20%), and the homogeneous competition is fierce. There is an urgent need to integrate resources and establish differentiated competitive advantages [7].

At the enterprise level, China Resources Sanjiu is facing a slowdown in the growth of consumer health care products (CHC) business. The revenue growth rate in 2021 is only 6. 2%, so it seeks to expand into the field of prescription drugs and plant medicine. At the same time, although Kunming Pharmaceutical has exclusive products such as Xuesetong, it is limited by distribution channels.

2.2. Key post-acquisition challenges

Despite the clear strategic intention, the initial integration stage exposed three outstanding challenges:

Short-Term Deterioration of Financial Metrics. After the acquisition was completed, the financial performance of Kunming Pharmaceutical was under great pressure. Net profit decreased from RMB 5. 08 billion in 2021 to RMB 4. 21 billion in 2022, a decrease of 17. 1%. Revenue also decreased from 82. 54 billion yuan to 79. 12 billion yuan. This downturn is mainly due to three factors: (i) the price reduction of Xuesetong soft capsules by about 12% due to the centralized procurement of provincial drugs; (ii) one-time management expenses and channel restructuring expenses incurred during the integration process; (iii) the market hesitates due to the change of company's control, which temporarily disrupts the sales momentum.

Exposure to Goodwill Impairment Risk. According to the annual report of China Resources March 9, 2022, the acquisition confirmed goodwill of 22. 6 billion yuan, equivalent to 7. 1% of its net assets at that time. The goodwill largely depends on the future profitability of Kunyao, especially the continuous contribution of the blood plug product line. However, the core patent of Hezeton soft capsules is expected to expire in 2026, after which generic drugs may pour into the market, which may trigger a decline in price and market share. If the actual performance does not meet expectations, it may cause a huge goodwill impairment, directly damaging the consolidated net profit of China Resources Sanjiu.

Emergence of Intra-Group Competition. Before the acquisition, another enterprise under China Resources Group, "China Resources Shenghuo", had begun to produce blood plug soft capsules, with a sales revenue of 3. 2 billion yuan in 2021, forming direct competition with Kunming Pharmaceutical. This situation violates the provisions of the Guidelines for the Governance of Listed Companies that require controlling shareholders to avoid competition within the group. The conflict has sparked a review by regulators and raised investors' concerns. If this problem cannot be solved in time, it will not only adversely affect the company's corporate governance rating, but also hinder future capital market measures.

DOI: 10.54254/2754-1169/2026.NJ30874

2.3. Integration strategy and mitigation measures

In response to these challenges, China Resources Sanjiu has implemented a "three-step" integrated roadmap:

First, promote industrial integration, promote Kunyao to acquire 51% of the equity of China Resources for 4. 8 billion yuan in 2023, effectively eliminate the internal competition of the group, and realize the unification of the whole product standards, production technology and marketing system of Xue Saitong.

The second is channel integration, and the products of Kunyao are fully integrated into the "three-level distribution network" of China Resources Sanjiu, and the terminal coverage has been expanded from 120,000 outlets to 180,000. At the same time, the supplier management inventory (VMI) model is introduced to optimize the inventory level and significantly relieve the pressure on channel inventory.

Third, the product strategy is the priority, launching the flagship product of "Kun Traditional Chinese Medicine", and focusing on the development of high-potential product lines such as Shenling Strong Spleen and Stomach Granules and Shu Liver Granules. It is worth noting that the sales of Shenling Jianspleen and Stomach Granules increased by 37% year-on-year in 2023, which greatly offset the adverse financial impact of the centralized procurement pressure of the blood plug product line [8].

3. Analysis of the impact on China resources Sanjiu’s financial performance

3.1. Profitability

The net profit of Kunming Pharmaceutical decreased slightly from RMB 5. 08 billion in 2021 to RMB 4. 45 billion in 2023, mainly due to the increase in integration-related expenses shortly after the merger. However, the gross margin remained stable, rising slightly from 40. 58% to 40. 72%, and the sales expense ratio fell from 31. 52% to 29. 84%, and the channel synergy effect has been initially realized. The return on equity (ROE) decreased slightly from 9. 85% to 9. 21%, which is still higher than the average of 8. 5% in the traditional Chinese medicine industry.

3.2. Solvency and capital structure

The asset-liability ratio rose from 48. 32% in 2021 to 51. 67% in 2023, mainly due to acquisition-related debt financing. However, the liquidity is still good, the current ratio remains above 1. 52, the interest guarantee multiple reaches 8. 3 times, and the short-term debt repayment capacity is relatively strong. According to the 2022 Annual Report of China Resources, the acquisition generated 22. 6 billion yuan of goodwill. By the end of 2023, no impairment has been confirmed; nevertheless, considering the competitive risks brought about by the expiration of the core blood plug patent in 2026, continuous monitoring is still necessary.

3.3. Operational efficiency

Thanks to the implementation of the punctual (JIT) inventory management system, the inventory turnover rate has increased from 2. 45 times to 2. 68 times. The turnover rate of accounts receivable has also increased from 5. 02 times to 5. 31 times, and the collection efficiency has been improved. After a brief decline in 2022, the total asset turnover rate rebounded to 0. 71 in 2023, close to the industry average of 0. 73.

DOI: 10.54254/2754-1169/2026.NJ30874

3.4. Changes in market position

The market share of Kunyao in the field of oral cardiovascular and cerebrovascular traditional Chinese medicine in public medical institutions has increased from 36. 2% in 2021 to 41. 5% in 2023, consolidating its position as a market leader. In the broader traditional Chinese medicine market, its share rose from 2. 85% to 3. 10%, and the industry ranking rose from 15th to 13th [9,10]. It is worth noting that in the sub-market of oral Sanqi preparations, its market share has reached a dominant position of 58. 3%, establishing an absolute leading position.

3.5. Growth capacity

The R&D investment increased from 2. 15 billion yuan to 2. 86 billion yuan, an increase of 33%, and the R&D expenditure rate increased from 2. 60% to 3. 41%. The proportion of R&D personnel in the total number of employees increased from 8% to 10. 5%. The net cash flow generated by operating activities increased from RMB 6. 24 billion to RMB 6. 89 billion, an increase of 10. 4%, highlighting the enhanced cash generation capacity of core business.

Table 1. Comparison of Kunming pharmaceutical’s key financial indicators before and after the acquisition (2021–2023)

Indicator	2021	2022	2023	Industry Average (2023)
Revenue (RMB bn)	82. 54	79. 12	80. 36	—
Net Profit (RMB bn)	5. 08	4. 21	4. 45	—
Gross Margin (%)	47. 18	42. 35	40. 72	38. 9
Asset-Liability Ratio (%)	48. 32	50. 14	51. 67	49. 2
Inventory Turnover (times)	2. 45	2. 51	2. 68	2. 55
R&D Expenses (RMB bn)	2. 15	2. 54	2. 86	—

Data Source: Compiled from Kunming Pharmaceutical’s Annual Reports (2021–2023)

4. Conclusion

Although net profit has experienced short-term pressure in the early stage of integration, it has begun to show results in achieving channel coordination, cost optimization and increasing R&D investment. Key financial indicators such as the decline in cost rate, the improvement of operating cash flow, and the expansion of market share have jointly verified the feasibility of the dual-engine strategy of distribution channels and product innovation. Overall, this acquisition shows the strong potential for long-term success.

It is worth noting that China Resources Sanjiu has shown strong post-merger and acquisition integration and governance capabilities, especially in solving the internal competition of the group and actively managing goodwill-related risks. This case can be regarded as a model of "strong union" in the traditional Chinese medicine industry. Compared with industry practices, the phased integration method of "resolving contradictions first, and then deepening coordination" of China Resources Sanjiu has effectively solved the risks of cultural misalignment and incoherent management, and provided valuable references for peer enterprises with similar strategic transactions.

DOI: 10.54254/2754-1169/2026.NJ30874

Looking to the future, the company should accelerate the in-depth development of March 7th, promote the filing of innovative traditional Chinese medicine, use the overseas distribution network established by China Resources to expand the Southeast Asian market, establish a dynamic goodwill impairment early warning system, and actively respond to the competitive threat brought about by the expiration of the patent in 2026.

Under the background of the continuous improvement of industry concentration, this strategic complementary merger and acquisition will definitely become an important way for traditional Chinese medicine enterprises to meet the challenges of centralized drug procurement and achieve high-quality sustainable development. At the same time, regulatory authorities should actively encourage such "strong chain" acquisitions, improve the intellectual property protection framework of traditional Chinese medicine, and create a more favorable institutional environment for leading enterprises to integrate resources and promote industrial upgrading.

References

[1] Zhang, X. (2003) Does M&A Create Value? Theory and Empirical Evidence From China's Securities Market. Economic Research Journal (6), 20-29.
[2] China Resources Sanjiu Pharmaceutical Co. , Ltd. (2022) Announcement on the Acquisition of 28% Equity in Kunming Pharmaceutical Group Co. , Ltd. (Report No. [2022]). Shenzhen Stock Exchange.
[3] Feng, G. & Wu, L. (2001) An Empirical Study on M&A Performance of Listed Companies in China. Economic Research Journal (1), 54-61.
[4] Weston, J. F. , Mitchell, M. L. & Mulherin, J. H. (2004) Takeovers, Restructuring, and Corporate Governance (4th ed.). Pearson Education.
[5] Chen, Y. & Wang, T. (2020) M&A Performance in China's Pharmaceutical Industry: The Role of Innovation Integration. Asia Pacific Journal of Management, 37(3), 789-815.
[6] General Office of the State Council of the People's Republic of China (2022) The 14th Five-Year Plan for the Development of Traditional Chinese Medicine (State Council Document No. [2022] 5).
[7] China Pharmaceutical Industry Information Center (2023) Blue Book on the Development of China's Traditional Chinese Medicine Industry (2023). Beijing: China Medical Science Press.
[8] Kunming Pharmaceutical Group Co. , Ltd. (2024) 2023 Annual Report. Shanghai Stock Exchange.
[9] MIR (Millennium Integrated Network) (2024, March 15) Analysis of the Market Landscape of Chinese Patent Medicines in Public Medical Institutions in China, 2023.
[10] Li, X. & Zhang, R. (2023) Strategic M&A in China's State-Owned Enterprises: Evidence From the Healthcare Sector. Journal of Corporate Finance, 82, 102145.