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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The board of directors (the "**Board**") of China Resources Pharmaceutical Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Revenue	*4*	**156,705,203**	146,568,105
Cost of sales		**(132,596,104)**	(123,369,243)
Gross profit		**24,109,099**	23,198,862
Other income		**1,287,789**	1,002,378
Other gains and losses	*6*	**250,706**	1,160,888
Selling and distribution expenses		**(10,947,479)**	(10,111,546)
Administrative expenses		**(3,882,186)**	(3,844,892)
Other expenses		**(956,502)**	(1,363,157)
Share of results of associates		**48,164**	58,224
Listing expenses		**(70,864)**	–
Finance costs	*7*	**(1,796,062)**	(2,050,462)
Profit before tax		**8,042,665**	8,050,295
Income tax expense	*8*	**(2,074,576)**	(1,968,061)
Profit for the year	*9*	**5,968,089**	6,082,234

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Other comprehensive income			
Item that may be reclassified to profit or loss:			
Share of changes in translation reserve of associates		**(121,984)**	(21,468)
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(2,772,622)**	(2,267,401)
Gain on revaluation of property, plant and equipment upon transfer to investment properties, net of income tax		**172,239**	2,046
Other comprehensive expense for the year, net of income tax		**(2,722,367)**	(2,286,823)
Total comprehensive income for the year		**3,245,722**	3,795,411
Profit for the year attributable to:			
Owners of the Company		**2,821,410**	2,850,076
Non-controlling interests		**3,146,679**	3,232,158
		5,968,089	6,082,234
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,532,010**	1,674,146
Non-controlling interests		**1,713,712**	2,121,265
		3,245,722	3,795,411
Basic earnings per share *(HK$)*	*11*	**0.57**	0.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**12,500,077**	12,578,257
Prepaid lease payments		**2,223,555**	2,320,735
Investment properties		**1,390,245**	1,020,149
Goodwill		**17,404,821**	16,394,509
Intangible assets		**3,806,670**	3,893,795
Interests in associates		**1,948,742**	441,225
Available-for-sale investments		**123,506**	148,300
Deferred tax assets		**448,305**	422,518
Other non-current assets		**337,180**	1,072,234
		40,183,101	38,291,722
CURRENT ASSETS			
Inventories		**18,859,121**	15,251,983
Trade and other receivables	*12*	**54,337,396**	47,514,249
Prepaid lease payments		**62,653**	57,232
Available-for-sale investments		**3,648,846**	6,310,350
Amounts due from related parties		**244,861**	105,464
Taxation recoverable		**14,600**	20,651
Pledged bank deposits		**2,674,739**	2,241,283
Bank balances and cash		**13,960,197**	12,378,606
		93,802,413	83,879,818
Assets classified as held for sale		**–**	4,977,059
		93,802,413	88,856,877
CURRENT LIABILITIES			
Trade and other payables	*13*	**50,960,961**	41,953,090
Amounts due to related parties		**171,673**	878,886
Taxation payable		**525,333**	656,033
Bank borrowings – due within one year		**13,737,020**	24,335,485
Bonds payable – due within one year		**5,589,650**	–
		70,984,637	67,823,494
Liabilities directly associated with assets classified as held for sale		**–**	4,400,302
		70,984,637	72,223,796
Net current assets		**22,817,776**	16,633,081
Total assets less current liabilities		**63,000,877**	54,924,803

	Notes	**2016**	2015
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**938,447**	862,353
Bank borrowings – due after one year		**2,025,493**	4,648,000
Bonds payable – due after one year		**4,359,269**	8,234,853
Other non-current liabilities		**1,375,814**	1,334,032
		8,699,023	15,079,238
NET ASSETS		**54,301,854**	39,845,565
CAPITAL AND RESERVES			
Share capital	*14*	**27,241,289**	12,473,920
Reserves		**10,379,056**	10,028,315
Equity attributable to owners of the Company		**37,620,345**	22,502,235
Non-controlling interests		**16,681,509**	17,343,330
TOTAL EQUITY		**54,301,854**	39,845,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

The Company is a limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 28 October 2016 (the "**Listing Date**"). Its immediate holding company is CRH (Pharmaceutical) Limited, a company incorporated in the British Virgin Islands, and its ultimate holding company is China Resources National Corporation, a state-owned enterprise established in the People's Republic of China (the "**PRC**").

The Company acts as an investment holding company.

The functional currency of the Company is Renminbi ("**RMB**"). The consolidated financial statements are presented in Hong Kong dollars ("**HK$**" or "**HKD**"), as most of the users of the consolidated financial statements are located in Hong Kong. Therefore, the directors of the Company consider that HK$ is preferable in presenting the operating results and financial position of the Group, which is more beneficial to the users of the consolidated financial statements.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

On 31 December 2015, the Company entered into a sale and purchase agreement with China Resources Retail (Group) Company Limited, a fellow subsidiary of the Company, to acquire 100% equity interest in China Resources Medic Investments Limited ("**CR Care**"), which is mainly engaged in the pharmacy business, as well as the operation of 華潤堂 healthcare stores, for the consideration of US$1 (equivalent to HK$7.75) and the shareholders' loan amounting to RMB395,000,000 (equivalent to HK$482,125,000). The transaction was completed on 4 January 2016.

The acquisition was accounted for under the principles of merger accounting in accordance with Accounting Guideline *5 Merger Accounting for Common Control Combinations* issued by the HKICPA. The assets and liabilities, income and expenses of CR Care and its subsidiaries have been combined under merger accounting and then consolidated since 1 January 2015.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2015 include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence as at 1 January 2015, or since their respective dates of establishment and taking into account the respective dates of acquisition/disposal, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence as at those dates, taking into account the respective dates of establishment/acquisition/disposal, where applicable.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has already adopted all amendments to HKFRSs which are effective for annual accounting periods beginning on 1 January 2016 in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] *Effective for annual periods beginning on or after 1 January 2018.*

[2] *Effective for annual periods beginning on or after 1 January 2019.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for annual periods beginning on or after 1 January 2017.*

4. REVENUE

Revenue represents revenue arising on sale of pharmaceutical products, medical equipment and others for the year. An analysis of the Group's revenue for the year from continuing operations is as follows:

	2016	2015
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**156,602,553**	146,448,740
Others*	**102,650**	119,365
	156,705,203	146,568,105

* included rental income and sales of medical equipment and others

5. SEGMENT INFORMATION

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

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

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

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

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

(d) Other business operations (Others) – manufacturing and sales of medical equipment and 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.

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

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 December 2016

	Manufacturing segment *HK$'000*	Distribution segment *HK$'000*	Retail segment *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
External sales	**22,375,141**	**130,312,955**	**3,914,457**	**102,650**	**–**	**156,705,203**
Inter-segment sales	**2,941,146**	**1,982,621**	**–**	**–**	**(4,923,767)**	**–**
Segment revenue	**25,316,287**	**132,295,576**	**3,914,457**	**102,650**	**(4,923,767)**	**156,705,203**
Segment results	**7,445,921**	**5,529,452**	**118,362**	**67,885**		**13,161,620**
Other income						**1,287,789**
Other gains and losses						**250,706**
Administrative expenses						**(3,882,186)**
Other expenses						**(956,502)**
Share of results of associates						**48,164**
Listing expenses						**(70,864)**
Finance costs						**(1,796,062)**
Profit before tax						**8,042,665**

For the year ended 31 December 2015

	Manufacturing segment *HK$'000*	Distribution segment *HK$'000*	Retail segment *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
External sales	21,606,656	121,190,915	3,651,169	119,365	–	146,568,105
Inter-segment sales	2,646,973	1,965,510	–	–	(4,612,483)	–
Segment revenue	24,253,629	123,156,425	3,651,169	119,365	(4,612,483)	146,568,105
Segment results	7,250,850	5,677,168	100,907	58,391		13,087,316
Other income						1,002,378
Other gains and losses						1,160,888
Administrative expenses						(3,844,892)
Other expenses						(1,363,157)
Share of results of associates						58,224
Finance costs						(2,050,462)
Profit before tax						8,050,295

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, other gains and losses, administrative expenses, other expenses, share of results of associates, listing expenses and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

The Group did not allocate certain depreciation of property, plant and equipment, amortisation of intangible assets, amortisation of prepaid lease payments and interest income to reportable segments.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

As at 31 December 2016

	Manufacturing segment	**Distribution segment**	**Retail segment**	**Others**	**Elimination**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment assets	**40,068,527**	**82,505,432**	**1,546,925**	**51,339,694**	**(41,937,969)**	**133,522,609**
Deferred tax assets						**448,305**
Taxation recoverable						**14,600**
Total assets						**133,985,514**
Segment liabilities	**8,410,328**	**56,875,213**	**1,329,362**	**8,634,318**	**(23,570,848)**	**51,678,373**
Unallocated liabilities						**28,005,287**
Total liabilities						**79,683,660**

As at 31 December 2015

	Manufacturing segment	Distribution segment	Retail segment	Others	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	38,565,153	80,089,578	1,598,451	49,252,809	(42,800,561)	126,705,430
Deferred tax assets						422,518
Taxation recoverable						20,651
Total assets						127,148,599
Segment liabilities	8,011,165	52,150,499	1,273,142	2,956,154	(17,158,682)	47,232,278
Unallocated liabilities						40,070,756
Total liabilities						87,303,034

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets (including investments in subsidiaries and the amounts due from group entities within the Group) are allocated to reportable segment assets other than deferred tax assets and taxation recoverable; and

- all liabilities (including the amounts due to group entities within the Group) are allocated to reportable segment liabilities other than taxation payable, deferred tax liabilities, bank borrowings, bonds payable and other non-current liabilities.

Revenue by products

The information about the Group's revenue by products is not available and the cost to develop it would be excessive.

Geographical information

Revenue by geographical location

The Group's customers are mainly located in the PRC and Hong Kong.

An analysis of the Group's revenue by geographical market based on where the goods are delivered to is as below:

	2016	2015
	HK$'000	*HK$'000*
PRC	**155,789,350**	145,635,048
Hong Kong	**915,853**	933,057
	156,705,203	146,568,105

Non-current assets by geographical location

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

Information about major customers

No revenue from customers in each reporting period, individually contributes to over 10% of the total revenue of the Group.

6. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Gain on disposal of associates	**31,737**	41,711
Gain (loss) on disposal of available-for-sale investments	**5,841**	(15,806)
Gain on disposal of subsidiaries	**74,174**	32,033
Gain on disposal of subsidiaries classified as held for sale	**49,288**	840,647
Loss on disposal of property, plant and equipment	**(18,206)**	(7,622)
Gain on disposal of prepaid lease payments	**–**	148,542
Gain on disposal of intangible assets	**527**	–
Impairment loss recognised on property, plant and equipment	**(11,019)**	(21,514)
Impairment loss recognised on trade receivables, net	**(80,177)**	(54,842)
Impairment loss recognised on intangible assets	**(3,231)**	–
(Impairment loss of) reversal of impairment recognised on other receivables, net	**(34,895)**	4,083
Impairment loss recognised on goodwill	**–**	(60,109)
Investment income on available-for-sale investments	**38,075**	189,669
Gain arising on change in fair value of investment properties	**218,260**	69,334
Others	**(19,668)**	(5,238)
	250,706	1,160,888

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on bank borrowings	**1,360,202**	1,746,652
Interest on bonds payable	**470,782**	341,182
Interest on borrowings from intermediate holding company	**–**	4,030
Less: Interest capitalised in property, plant and equipment *(Note)*	**(34,922)**	(41,402)
	1,796,062	2,050,462

Note: Borrowing costs capitalised during the year ended 31 December 2016 arose on funds borrowed specifically for the purpose of obtaining qualifying assets and on the general borrowing pool which are calculated by applying a capitalisation rate of 5.8% (2015: 5.6%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**1,928,324**	1,976,926
Hong Kong Profits Tax	**380**	9,864
	1,928,704	1,986,790
Under (over) provisions in previous years:		
PRC Enterprise Income Tax	**120,443**	(203)
Deferred tax:		
Current year	**25,429**	(18,526)
	2,074,576	1,968,061

9. PROFIT FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Staff costs		
Directors' remuneration		
– Fees	**632**	167
– Salaries and other benefits	**11,790**	7,379
– Retirement benefit schemes contributions	**111**	120
Salaries and other benefits for other staff	**6,204,393**	5,870,856
Retirement benefit schemes contributions for other staff	**638,927**	603,339
Total staff costs	**6,855,853**	6,481,861
Auditors' remuneration	**16,138**	13,330
Depreciation of property, plant and equipment	**1,010,051**	1,090,257
Amortisation of intangible assets	**201,760**	198,358
Amortisation of prepaid lease payments	**62,653**	57,232
Allowance for slow-moving and obsolete inventories	**44,423**	79,968
Cost of inventories recognised as an expense	**131,901,522**	122,202,090
Research and development expenditure (included in other expenses)	**725,691**	708,876
Operating lease payments in respect of rented premises	**488,109**	462,833
Exchange loss, net	**170,064**	569,956
Donations	**14,332**	16,797
and after crediting:		
Dividend income	**3,903**	12,596
Government grants	**293,695**	255,522
Interest income	**264,949**	231,957
Gross rental income from investment properties	**102,650**	88,364
Less:		
– direct operating expenses incurred for investment properties that generated rental income during the year	**(34,765)**	(29,973)
	67,885	58,391

10. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK$0.09 (2015: nil) per ordinary share in an aggregate amount of HK$565.6 million (2015: nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**2,821,410**	2,850,076
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,912,481,540**	4,629,424,461

The computation of diluted earnings per share does not assume the lapse of over-allotment of the ordinary shares since it would result in a decrease in earnings per share. No diluted earnings per share is presented for the year ended 31 December 2016.

No diluted earnings per share is presented for the year ended 31 December 2015 as the Group had no potential ordinary shares in issue during the year.

12. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**42,394,252**	36,229,443
Less: Allowance for doubtful debts	**(387,838)**	(376,487)
	42,006,414	35,852,956
Bills receivable	**6,105,764**	5,464,751
Prepayments	**1,823,037**	2,166,663
Other receivables	**4,565,769**	4,154,963
Receivables for disposal of subsidiaries	**–**	19,020
Less: Allowance for other receivables	**(163,588)**	(144,104)
	54,337,396	47,514,249

The Group generally allows credit periods ranging from 30 to 120 days to its trade customers, which may be extended to 240 days for selected customers depending on their trade volume and settlement terms. The bills receivable have maturity period ranging from 30 to 180 days as at 31 December 2016 (2015: 30 to 180 days).

The aging analysis of the Group's trade receivables, net of allowance, based on invoice date at the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**18,282,964**	17,404,182
31 – 60 days	**7,166,347**	5,560,305
61 – 90 days	**4,172,059**	3,172,467
91 – 180 days	**7,928,247**	6,216,369
181 – 365 days	**4,009,438**	3,332,159
Over 1 year	**447,359**	167,474
	42,006,414	35,852,956

The aging analysis of the Group's bills receivable based on issue date at the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**2,595,739**	2,267,331
31 – 60 days	**932,319**	806,180
61 – 90 days	**985,526**	1,019,972
91 – 180 days	**1,592,180**	1,371,268
	6,105,764	5,464,751

13. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**25,710,228**	22,990,426
Bills payable	**14,117,035**	10,421,985
Receipts in advance	**954,780**	1,171,250
Accrued salaries	**1,166,943**	993,211
Interest payables	**273,559**	257,623
Other taxes payable	**614,150**	469,335
Other accrued expenses	**2,981**	2,214
Other payables	**6,184,467**	4,753,314
Dividend payables to non-controlling shareholders	**89,434**	578,608
Payables for acquisition of subsidiaries	**626,776**	315,124
Payables for acquisition of associates	**1,220,608**	–
	50,960,961	41,953,090

The average credit period on purchases of goods ranging from 30 to 120 days. The bills payable have maturity period ranging from 30 to 180 days. As at 31 December 2016, the Group's bills payable of HK$2,164,944,000 (2015: HK$2,223,683,000) were secured by the Group's bills receivable with carrying amount of HK$420,910,000 (2015: HK$322,195,000) and pledged bank deposits of HK$2,662,684,000 (2015: HK$2,227,907,000).

Aging analysis of the Group's trade payables based on invoice date at the end of each reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**18,055,343**	15,616,403
31 – 60 days	**3,015,210**	2,533,050
61 – 90 days	**1,587,367**	1,281,868
Over 90 days	**3,052,308**	3,559,105
	25,710,228	22,990,426

Aging analysis of the Group's bills payable based on issue date at the end of each reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**12,111,257**	6,481,880
31 – 60 days	**462,193**	720,584
61 – 90 days	**439,468**	702,922
Over 90 days	**1,104,117**	2,516,599
	14,117,035	10,421,985

14. SHARE CAPITAL

THE GROUP AND THE COMPANY	Number of shares		Share capital	
	2016	2015	**2016**	2015
			HK$'000	*HK$'000*
Issued and fully paid:				
At beginning of year	**4,629,424,461**	4,629,424,461	**12,473,920**	12,473,920
Issue of new shares *(Note 1)*	**1,543,141,500**	–	**14,042,588**	–
Transaction costs attributable to issue of new shares	**–**	–	**(293,877)**	–
Issue of new shares upon exercise of over-allotment option *(Note 2)*	**111,940,500**	–	**1,018,658**	–
At end of year	**6,284,506,461**	4,629,424,461	**27,241,289**	12,473,920

Note 1: In connection with the initial public offering of the Company on the Main Board of the Stock Exchange, 1,543,141,500 new ordinary shares (including 77,158,000 new ordinary shares issued for Hong Kong Public Offer and 1,465,983,500 new ordinary shares issued for international placing) were issued at a price of HK$9.10 per new share for a total cash consideration, before expenses, of HK$14,042,588,000. Dealings in the shares of the Company on the Stock Exchange commenced on 28 October 2016.

Note 2: On 21 November 2016, the Group partially exercise of over-allotment option in the initial public offering of the Company on the Main Board of the Stock Exchange, resulted in the issuance of 111,940,500 new shares at a price of HK$9.10 per new share for a total cash consideration, before expenses, of HK$1,018,658,000.

15. COMMITMENTS

	2016	2015
	HK$'000	*HK$'000*
Contracted but not provided for in relation to the acquisition of:		
– property, plant and equipment, intangible assets and prepaid lease payments	**950,759**	1,099,084
– equity interests in subsidiaries/associate	**1,225,190**	425,965

16. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group has the following transactions:

a) In January 2017, China Resources Pharmaceutical Investment Company Limited, a wholly-owned subsidiary of the Company acquired approximately 2.2 million listed shares of Dong-E-E-Jiao Company Limited ("Dong-E-E-Jiao"), a company listed on the Shenzhen Stock Exchange, which represented an additional equity interest of 0.34% in Dong-E-E-Jiao (the "Share Acquisition"). Upon the Completion of the Share Acquisition, the Group indirectly held 28.14% equity interest in Dong-E-E-Jiao and the Group's effective equity interest in Dong-E-E-Jiao was increased from 17.76% to 18.10% accordingly.

b) On 23 February 2017, China Resources Pharmaceutical Holdings Company Limited ("CR Pharmaceutical Holdings") received a notice of acceptance of registration (Zhong Shi Xie Zhu 2017 No. SCP40) (the "Notice") issued by the National Association of Financial Market Institutional Investors in relation to the proposed issuance of unsecured non-listed bonds of up to RMB15 billion in the PRC. The Notice shall be effective for a period of two years from the issue date of the Notice, during which CR Pharmaceutical Holdings may issue unsecured non-listed bonds in tranches. If the proposed issuance of unsecured non-listed bonds proceeds, it is expected that the proceeds raised therefrom will mainly be used for the repayment of existing debt of the Group and replenishment of working capital.

c) Pursuant to an equity transfer agreement dated 20 January 2017, China Resources Shandong Pharmaceutical Company Limited, a wholly-owned subsidiary of the Company, acquired 51% equity interest of Shandong Rongda Pharmaceutical Company Limited at a consideration of approximately RMB233,597,000 (equivalent to HK$264,205,000). As at the date of this announcement, the transaction has been completed.

d) Pursuant to an acquisition agreement dated 27 December 2016, China Resources Saike Pharmaceutical Company Limited ("CR Saike"), a non-wholly owned subsidiary of the Company, acquired 100% equity interest of Hainan Zhong Hua Lian He Pharmaceutical Company Limited at a consideration of RMB850,000,000 (equivalent to HK$950,241,000). On 10 January 2017, CR Saike has paid the first installment of RMB425,000,000 (equivalent to HK$480,688,000) in accordance with the acquisition agreement. As at the date of this announcement, the transaction was not completed.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Under the complex and ever-changing global environment, the PRC economy continued to face pressure and experienced challenging structural adjustments in 2016. The overall macro economy continued to grow steadily, albeit slowed, with GDP growth of 6.7%. The gear-changing growth and transitioning of growth driver have become more pronounced in the new economic environment, and the emerging industries have thrived rapidly with improvement in both the quality and efficiency of economic growth; however, the structural challenges and risks in economic development still exist.

2016 is the inauguration year of the "13th Five-year Plan". The PRC government introduced a number of industry policies and guidelines, such as the Guidance on Promoting the Healthy Development of the Pharmaceutical Industry（《關於促進醫藥產業健康發展的指導意見》） and Outline of "Healthy China 2030" plan（《"健康中國2030"規劃綱要》）, which escalate "Healthy China" as a national strategy and help broaden the development prospect of the PRC pharmaceutical healthy industry. Due to the increase in demand and the rise in affordability, the PRC pharmaceutical industry maintained a favorable growth momentum in 2016. According to the data of National Bureau of Statistics, the revenue growth of the pharmaceutical manufacturing industry for 2016 accelerated slightly to 9.7%. The growth outpaced that of the overall macro economy.

As an industry concerning people's livelihood and a strategic emerging industry, the pharmaceutical industry is subject to stringent regulations and support from government. Amidst the deepening reform of the pharmaceutical industry in 2016, the PRC government promulgated various policies successively, accelerating the promotion of the standardized evaluation of generic drugs, prioritizing the review of drug marketing licensor to enhance drug quality, and encouraging innovative development; promoted reasonable drug usage and improved economic benefits through controlling costs by tendering and reform of medical insurance payment; further implemented the "two-invoice system" （兩票制）to further reduce tiers of distribution channels to improve efficiency; and enforced supervision of the pharmaceutical industry and standardized the industry order through verification of clinical trial data, verification of process consistency and improvement of traceability system. The unprecedented frequency, effort and intensity in policy introduction had a profound impact on the development of the pharmaceutical industry.

There is an enormous potential for growth and consolidation in the PRC pharmaceutical industry. Although the PRC pharmaceutical industry is facing the pressure of slowing growth and industry transformation from the stringent control of medical insurance expenditure and structural adjustment in the short term, the continuous deepening pharmaceutical reform will accelerate industry consolidation, optimize industry structure, and encourage the standardization and intensification of the industry in the long term. As a leading integrated pharmaceutical enterprise in the PRC, the Group, by leveraging on the advantages of its diversified product portfolio, economies of scale and product quality under an integrated business model and structured operations, will be a beneficiary from the deepening pharmaceutical reform.

Group Results

The year 2016 marked the inauguration year of the "13th Five-year Plan". The Group, in accordance with the development and changes in the industrial environment and its business needs, promoted the implementation of strategies, explored development potential of its businesses and improved the standard of operation control so as to achieve a solid growth in its overall results.

During the Reporting Period, the Group recorded total revenue of HK$156,705.2 million, representing an increase of 6.9% when compared with that of HK$146,568.1 million in 2015. The continuous depreciation in RMB against HKD had exerted certain impact on the results of the Group, which were denominated in HKD. In terms of RMB, total revenue of the Group in 2016 recorded a year-on-year increase of 13.9%, which had exceeded the average growth of the PRC pharmaceutical industry, and the revenue of major business segments including pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail business grew by 11.2%, 14.4% and 14.2%, respectively, when compared with 2015. During the Reporting Period, the revenue of pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses accounted for 14.3%, 83.2% and 2.5% of total revenue, respectively.

During the Reporting Period, the Group achieved a gross profit of HK$24,109.1 million, representing an increase of 3.9% when compared with that of HK$23,198.9 million in 2015. The gross profit margin was 15.4%, which remained stable when compared with that of 15.8% in 2015, representing a slight decrease of 0.4 percentage points. The change was mainly due to the faster revenue growth in pharmaceutical distribution business during the Reporting Period when compared with that of pharmaceutical manufacturing business.

Profits attributable to owners of the Company was HK$2,821.4 million in 2016, representing a decrease of 1.0% when compared with that of HK$2,850.1 million in 2015, which was mainly due to the one-off gain recorded for the disposal of subsidiaries and land in 2015, and the one-off charges of the listing expenses and the deferred tax arising from payment of dividends. Should the non-recurring profit and loss and the impact of RMB exchange rate fluctuation be excluded, profits attributable to owners of the Company grew satisfactorily in 2016. Earnings per share were HK$0.57 in 2016. The Board proposed a final dividend of HK$0.09 per share for the year ended 31 December 2016.

Results Review

1. Pharmaceutical Manufacturing Business

In 2016, the pharmaceutical manufacturing business of the Group improved its operation efficiency and reduced manufacturing costs through the measures such as product mix optimization, process integration, industrial technology reform and lean management. It also enhanced its overall marketing ability through combining multi-brands by comprehensive allocation of marketing resources, the strengthening of academic marketing ability, and carrying out differentiated marketing efforts such as intelligent Chinese medicines pharmacy and cultural experience. During the Reporting Period, the segment revenue in pharmaceutical manufacturing business of the Group recorded HK$25,316.3 million, representing an increase of 4.4% when compared with 2015.

By product categories, during the Reporting Period, the revenue from sale of chemical drugs was HK$9,646.0 million, representing an increase of 2.5% when compared with 2015, which was mainly due to the revenue growth in chronic and anti-infective drugs. The revenue from sale of Chinese medicines was HK$13,211.0 million, representing a year-on-year increase of 7.1%, which was mainly due to revenue increased in the E-Jiao products and Chinese medicine formula granules. The revenue from sale of biopharmaceutical drugs was HK$243.9 million, representing a year-on-year increase of 23.2%. The revenue from sale of nutritional and health products HK$524.4 million, representing a year-on-year increase of 37.1%, which was mainly due to the increasing market demand in nutritional and health products in China and the strengthened promotion to end-users.

During the Reporting Period, the gross profit margin of pharmaceutical manufacturing business of the Group was 59.7%, representing an increase of 1.4 percentage points when compared with that of 2015, which was mainly due to product mix optimization, increase in product value such as E-Jiao products and continuous improvement in the manufacturing process.

As of 31 December 2016, a total of more than 500 pharmaceutical products was produced and sold in our pharmaceutical manufacturing business. During the Reporting Period, the Group had 32 pharmaceutical products with an annual revenue of over HK$100.0 million, among which 6 pharmaceutical products achieved an annual revenue of over HK$1 billion.

The Group regards the research and development innovation as an important driver for its long-term development and continues to increase its investments in research and development. During the Reporting Period, the research and development expenditure were HK$725.7 million. The Group follows the government policies, industrial technology development trends and market demands as directions to implement its integrated research and development layout, continues to focus on those research and development areas such as cardiovascular system, oncology, alimentary tract and metabolism as well as the central nervous system, with a view to improve its core competitiveness. As of the end of the Reporting Period, the Group operated two nationally certified engineering and technological centers, two nationally certified enterprise technical centers and 15 provincially or municipally certified research centers, and had over 600 research and development personnel.

As of 31 December 2016, the Group had 210 projects including researches on innovative drugs, generic drugs and product improvements, and 32 projects were pending registration approval by China Food and Drug Administration ("**CFDA**"). During the Reporting Period, the Group obtained 44 patents and had 26 products approved by CFDA for clinical trials. The Group had 2 products approved by CFDA for production and the supplemental abbreviated new drug application (ANDA) for one product was approved by the United States Food and Drug Administration. The Group collaborates with domestic and overseas research and development institutes through various flexible channels such as technology licensing, service outsourcing and establishment of joint laboratories. During the Reporting Period, the Group conducted strategic cooperation with partners including National Center for Nanoscience and Technology of Chinese Academy of Sciences (中國科學院國家納米科學中心), Union Institute of Materia Medica (協和藥物所) and WuXi AppTech (藥明康德) in the oncology and cardiovascular product sectors through joint laboratories.

2. *Pharmaceutical Distribution Business*

In 2016, the Group accelerated its network expansion in pharmaceutical distribution, enhanced terminal coverage, optimized and adjusted product portfolios and promoted innovative models to improve operation efficiency and quality. During the Reporting Period, the Group's pharmaceutical distribution business recorded a segment revenue of HK$132,295.6 million, representing an increase of 7.4% when compared with 2015.

During the Reporting Period, the Group's pharmaceutical distribution business successfully entered into four central-western provinces, namely Yunnan, Guangxi, Sichuan and Chongqing. Through solidifying the foundation of its provincial platform and penetrating into municipal markets, the competitive edge of the Group's pharmaceutical distribution business in the regional markets has been further strengthened. As at 31 December 2016, the pharmaceutical distribution network of the Group covered 23 provinces, municipalities and autonomous regions nationwide, with customers including 4,280 Class II and Class III hospitals, 35,865 primary medical institutions and 19,306 retail pharmacies.

In 2016, under the regime of controlled medical insurance expenditure, the profitability of pharmaceutical distribution industry in China was inevitably compressed. As a result, the Group's pharmaceutical distribution business recorded a gross profit margin of 6.2% during the Reporting Period, representing a decrease of 0.5 percentage points when compared with that of 2015.

During the Reporting Period, the Group strengthened its supply chain management and promoted the distribution business operation integration through various measures. In light of the implementation of the "two-invoice system" and the formulation and implementation of the "13th Five-Year" logistics strategic plan, the Group accelerated the development of its logistic distribution and established a professional, scalable and integrated modern logistics system. As at 31 December 2016, the Group's distribution businesses had 118 logistics centers, and the Group continued to expand its upstream resources, optimized product structure and provided one-stop import services. Meanwhile, taking into consideration the customers' demand, the Group promoted various innovative distribution businesses models to enhance the value-added services to its downstream customers. As at 31 December 2016, the Group provided hospital logistic intelligent (HLI) services to around 200 hospitals cumulatively, and commenced network hospital logistics intelligence (NHLI) projects.

3. *Pharmaceutical Retail Business*

During the Reporting Period, the pharmaceutical retail business of the Group recorded revenue of HK$3,914.5 million, representing a year-on-year increase of 7.2%, while the gross profit margin of the retail business was 18.3%, representing a decrease of 0.8 percentage points when compared with that of 2015. This was mainly due to the rapid growth of direct delivery of high-value drugs which has a relatively low profit margin.

As at 31 December 2016, the Group had 739 retail pharmacies in total. During the Reporting Period, the Group established an unified pharmaceutical retail management platform, integrated the pharmaceutical retail resources and gradually unified the brand, strategic investment, operational management and information system. At the same time, the Group expanded its innovative businesses actively and as at the end of Reporting Period, the Group had 64 direct-to-pharmacy (DTP) pharmacies for high-value drugs covering 27 cities.

Opportunities Brought by International Co-operation

In November 2016, China Resources (Holdings) Company Limited, the controlling shareholder of the Company, entered into an agreement with FUJIFILM Corporation ("**FUJIFILM**") to establish a business alliance. FUJIFILM is a leading corporation in Japan and is expanding its business into the healthcare segment by leveraging on its strength in the medical system segment. It is also one of the cornerstone investors in the Company's global offering. Under the agreement, China Resources (Holdings) Company Limited and FUJIFILM agreed to jointly pursue the business opportunities in the manufacturing and distribution segments of the PRC healthcare industry.

In December 2016, China Resources Sanjiu Medical & Pharmaceutical Company Limited（華潤三九醫藥股份有限公司）("**CR Sanjiu**"), a non-wholly-owned subsidiary of the Company, entered into a framework agreement with Sanofi, pursuant to which they agreed to form a strategic partnership to jointly explore the opportunities in the PRC consumer healthcare market. A joint venture company will be jointly set up to focus on the pediatric and gynecological OTC products. In addition, CR Sanjiu would engage in distributing one of Sanofi's flagship liver healthcare OTC products – Essentiale – in China exclusively. Also, CR Sanjiu has been granted the right of priority negotiation for distributing and promoting other Sanofi's consumer healthcare products.

Long-Term Growth Driven by Mergers and Acquisitions

Since its establishment, the Group has grown through a series of mergers and acquisitions. With proven track records and merger and acquisition capabilities, the Group excels in improving the business performance of its target companies and transforming them into market leaders. Since its listing on the Stock Exchange in October 2016, the Group has successfully facilitated a number of merger and acquisition projects.

For pharmaceutical manufacturing business, in December 2016, the Company entered into a strategic cooperation agreement with Hefei Tianmai Biotechnology Development Co. Ltd.（合肥天麥生物科技發展有限公司）(“**Tianmai**”). Tianmai is a biopharmaceutical company focusing on the research and development, production and sales of a series of insulin products. It owns a well-established roadmap for insulin product lines and has completed the development of technologies and products regarding the second generation recombinant human insulin and third generation long-acting insulin analogs in China, which marks a major milestone in the Group’s strategic development in the biopharmaceutical sector.

In July 2016, CR Sanjiu announced its merger and acquisition of Kunming Shenghuo Pharmaceutical Limited（昆明聖火藥業（集團）有限公司）, and introduced products including Xuesaitong soft capsules（血塞通軟膠囊）, to enrich its product lines in cardiovascular segment. In January 2017, CR Sanjiu announced the acquisition of the 65% stake in Jilin Jin Fu Kang Pharmaceutical Limited（吉林金複康藥業有限公司）which manufactures anti-tumor drugs. In the same month, China Resources Double-Crane Pharmaceutical Company Limited（華潤雙鶴藥業股份有限公司）, a non-wholly-owned subsidiary of the Company, announced its acquisition of 100% equity interests in Hainan Zhong Hua Lian He Pharmaceutical Company Limited（海南中化聯合製藥工業股份有限公司）, which focuses on the manufacturing of alimentary tract, anti-inflective and anti-tumor drugs.

For distribution businesses, the Group continued to implement the merger and acquisition strategy of “establishing platforms at provincial level with distribution networks at municipal level” for its pharmaceutical distribution segment and facilitated the establishment of its nationwide layout. Through mergers and acquisitions, the Group has marked its footprints in provinces like Yunnan, Chongqing, Guangxi and Sichuan and established its layout and platform successfully. By the end of 2016, the Group increased its distribution coverage to 23 provinces to further pursue its strategic goal of nationwide network layout.

Moreover, in January 2017, CR Pharmaceutical Investment further acquired approximately 2.2 million shares of Dong-E-E-Jiao, increasing its direct interests in Dong-E-E-Jiao from 4.66% to 5%. Taking into the 23.14% equity interests in Dong-E-E-Jiao held through China Resources Dong-E-E-Jiao Company Limited（華潤東阿阿膠有限公司）, a non-wholly-owned subsidiary of the Company, the Group controls 28.14% equity interests in Dong-E-E-Jiao.

Outlook and Future Strategies

With the gradual advancement of national healthcare and pharmaceutical reform, the pharmaceutical industry in China has entered into its deepening reform stage where industrial competition intensifies, industrial transformation and upgrading expedites and opportunities coexist with challenges. By relying on its own advantages and following the new industry trends, the Group will speed up the development through strategic mergers and acquisitions and international collaboration. It will improve its intrinsic development potential through optimizing product mix and innovative services, enhancing the research and development capabilities and deepening synergy effects, so as to achieve the long-term stable and sustainable development in the pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail segments and continue to reinforce and elevate the Group's leading position in the pharmaceutical industry in China.

1. *Continue to expand its pharmaceutical manufacturing business and enrich product portfolio to generate its sustainable growth*

By leveraging on its existing brand superiority, production and marketing resources, and also through external mergers and acquisitions and its research and innovation measures, the Group will expand the fast-growing business in cardiovascular, anti-tumor and central nervous sectors, improve product mix of chemical drugs which combine the treatment in chronic disease, intravenous therapies and specialty therapies, enhance the clinical and market value of Chinese medicine products, extend its brand and further consolidate the market positioning of E-Jiao products and other healthcare products. At the same time, the Group will enhance its production standard and upgrade its product techniques by improving the production process and quality, optimizing the production layout and implementing other measures in order to achieve the sustainable development of its pharmaceutical manufacturing business.

2. ***Improve its network distribution and innovative service patterns to become the pharmaceutical supply chain intelligent service provider***

By grasping the opportunities of the full implementation of the “two-invoice system”, the Group will expedite the layout of uncovered provinces, deepen the municipal network and continue to increase the coverage of medical institutions. The Group will constantly optimize its product mix to offer more products with high clinical and market value. At the same time, with the help of the advanced information systems and professional logistic networks, the Group will continue to promote the hospital logistics intelligence integration, DTP and other emerging business models, develop chronic disease management and other innovative health services and explore e-commerce businesses such as B2B and O2O, so as to transform the Group into a pharmaceutical supply chain intelligent service provider and fortify the Group’s market leading position as a pharmaceutical distribution solution provider.

3. ***Position strategically in biopharmaceutical sector, optimize research and innovation system and accelerate product development and industrialization***

The Group will further accelerate its investments in the biopharmaceutical sector and acquire biopharmaceutical companies with unique products and technological competitive advantages, and will promote in-depth cooperation with external research institutions to gain technological and operational experience. Moreover, the Group will further invest in research and development to build a comprehensive research and development platform and set up an industry-leading research and development team, so as to continue to enhance its research and development capabilities. The Group will expand new products through external cooperation, strengthen its product offerings in core areas, proactively develop new therapeutic segments and accelerate industrialization of special projects.

4. ***Accelerate development through strategic acquisitions to further consolidate the leading position in pharmaceutical industry***

For pharmaceutical manufacturing business, the Group will improve the establishment of its biopharmaceutical platform through strategic investments, expand health businesses and acquire products selectively with differentiated product portfolios or products that are complementary to its existing product portfolios, especially in the therapeutic segments such as the cardiovascular system, oncology and other high-growth therapeutic segments. For pharmaceutical distribution and pharmaceutical retail businesses, the Group will improve the breadth and depth of its business coverage by investing or acquiring regional leading pharmaceutical distributors and retailers that have strong relationships with hospitals and other medical institutions.

5. ***Enhance international cooperation, facilitate international business operation and enhance comprehensive competitiveness***

The Group will continue to strengthen the expansion and establishment of international cooperation platforms, push forward international cooperation and communication, position the PRC market as the core direction of its businesses, and seek breakthroughs in its overseas business layouts. For pharmaceutical manufacturing business, the Group plans to enhance its product and technology achievement through international cooperation to complement its existing product portfolios. The Group plans to enhance its cooperation with large multinational pharmaceutical corporations in research and development, manufacturing and marketing. For pharmaceutical distribution and pharmaceutical retail businesses, the Group aims to optimize its product portfolios and strengthen its competitive advantages through enhanced cooperation with leading international pharmaceutical suppliers and international medical device manufacturers.

6. Promote business collaboration, optimize resources allocation and improve operation efficiency

The Group will continue to explore the synergies in its integrated business layout, strengthen the overall management in strategy, finance, human resources and other internal resources, promote the synergies among the pharmaceutical manufacturing, distribution and retail businesses as well as the sub-sectors of each business segment in those aspects such as market entry, product resources and marketing channels to optimize resources allocation. The Group will control its operational risks by strengthening fund supervision and control as well as business assessment and intensifing its scalable and intensive operation, so as to further enhance the Group's overall operation efficiency.

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 31 December 2016, the Group had bank balances and cash of HK$13,960.2 million, which were primarily in RMB, US dollars ("**USD**") and HKD.

As at 31 December 2016, the RMB-denominated, and HKD-denominated bank borrowings accounted for approximately 87.4% and 12.6%, respectively, of the Group's total bank borrowings, and the bank borrowings which carried interests at fixed and variable rates accounted for 29.6% and 70.4%, respectively, of the Group's total bank borrowings. Among the Group's total bank borrowings as at 31 December 2016, a substantial portion of approximately 87.1% would be due within one year.

The Group's current ratio (being the ratio of total current assets to total current liabilities) was 1.3:1 as at 31 December 2016 (2015: 1.2:1).

As at 31 December 2016, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 21.6% (2015: 62.3%).

In 2016, the Group's net cash from operating activities remained solid at HK$4,119.6 million (2015: HK$5,988.8 million). The Group's net cash used in investment activities in 2016 amounted to HK$1,953.1 million (2015: HK$3,919.2 million). The Group's net cash used in financing activities in 2016 amounted to HK$625.5 million (2015: HK$1,554.3 million), including the net proceeds of HK$14,767.4 million raised from its global offering.

As at 31 December 2016, the Group had not used any financial instruments for hedging purposes.

Pledge of Assets

As at 31 December 2016, the Group's total borrowings amounted to HK$15,762.5 million (31 December 2015: HK$28,983.5 million), of which HK$2,164.9 million (31 December 2015: HK$2,061.1 million) were secured and accounted for 13.7% (31 December 2015: 7.1%) of the total borrowings.

Certain of the Group's trade and bills receivables with an aggregate net book value of HK$2,164.9 million (31 December 2015: HK$2,061.1 million) have been pledged as security.

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities (31 December 2015: 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, borrowings from banks and trade payables denominated in foreign currencies, the majority of which are denominated in HKD and USD. During the Reporting Period, the Group did not enter into any derivatives contracts to hedge the foreign exchange exposure.

Capital Expenditure

The Group's capital expenditure comprised mainly additions to property, plant and equipment, intangible assets, investment properties and prepaid lease payments, but excluding additions resulting from acquisitions through business combination. The Group's capital expenditure in 2016 amounted to HK$1,982.3 million (2015: HK$2,217.7 million), which was primarily utilized for expansion and upgrade of manufacturing facilities, development of distribution networks, and upgrading of logistic systems. Such capital expenditure was funded primarily by using cash generated from the Group's operating activities, bank borrowings and proceeds from the Company's initial public offering.

Human Resources

As at 31 December 2016, the Group employed around 54,000 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 and training.

USE OF NET PROCEEDS FROM LISTING

The Company was listed on the main board of the Stock Exchange on 28 October 2016 by way of a Global Offering, under which a total of 1,655,082,000 shares (including shares issued upon partial exercise of the over-allotment option) were issued at an offer price of HK$9.10 per share, raising total net proceeds of HK$14,767.4 million after deducting professional fees, underwriting commissions and other related listing expenses (the "**IPO proceeds**").

As stated in the prospectus of the Company dated 17 October 2016 (the "**Prospectus**"), the Company had plans to use the IPO proceeds. As of 31 December 2016, the Company has used approximately HK$1,476.7 million for repayment of bonds; approximately HK$999.7 million for working capital for its pharmaceutical distribution business; approximately HK$480.7 million for partial payment of strategic acquisitions; approximately HK$36.6 million for establishment of more advanced logistics centers and warehouses; approximately HK$33.6 million for HLI Solutions; and approximately HK$2.2 million for development of its research and development platform.

To optimize the fund allocation of the Group, approximately HK$5,300 million out of the residual amount of the IPO proceeds was used by the Company for early repayment of its outstanding bank facilities in December 2016. Following such early repayment, unsecured banking facilities in an aggregate principal amount equivalent to HK$5,780 million at a lower interest rate have been extended to the Company by 28 February 2017.

The Company does not have any intention to change the purposes of the IPO proceeds as set out in the Prospectus, and will gradually utilize the residual amount of the IPO proceeds in accordance with the intended purposes.

DIVIDEND

The Board recommended the payment of a final dividend of HK$0.09 per share for the year ended 31 December 2016 (2015: nil). The final dividend is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company to be held on 19 May 2017 (the "**AGM**") and the final dividend will be distributed on or about 9 June 2017 to the Shareholders whose names appear on the register of members of the Company on 26 May 2017.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 May 2017 to 19 May 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 May 2017.

The register of members of the Company will also be closed on 26 May 2017, in order to determine the entitlement of the Shareholders to receive the final dividend, during which no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 25 May 2017.

CORPORATE GOVERNANCE

The Group is committed to maintain high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code during the period from the Listing Date to 31 December 2016, save and except the following:

In respect of code provision A.4.1 of the CG Code, all the non-executive Directors are not appointed for a fixed term. In respect of code provision D.1.4 of the CG Code, the Company did not have formal letters of appointment for Directors. Since all Directors are subject to re-election by shareholders of the Company 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 enquiries of all directors of the Company (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 period from the Listing Date to 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRELIMINARY ANNOUNCEMENT OF AUDITED ANNUAL RESULTS

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the Land of Hong Kong) (the "**Companies Ordinance**") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports, and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2016 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

PUBLICATION OF THE ANNUAL RESULTS AND 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.crpharm.com), and the 2016 Annual Report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
China Resources Pharmaceutical Group Limited
WANG Chuncheng
Executive Director

Hong Kong, 17 March 2017

As of the date of this announcement, the Board of Directors of the Company comprises Mr. FU Yuning as chairman and non-executive Director, Mr. WANG Chuncheng, Mr. SONG Qing and Mr. LI Guohui as executive Directors, Mr. CHEN Rong, Mr. YU Zhongliang, Mr. WANG Chenyang and Ms. WANG Jing as non-executive Directors, Mr. TSANG Hing Lun, Mr. KWOK Kin Fun, Mr. FU Tingmei and Mr. ZHANG Kejian as independent non-executive Directors.