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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 2017

The board of directors (the “**Board**”) of China Resources Pharmaceutical Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2017 (the “**Reporting Period**”), together with the comparative figures for the previous year as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Six months ended 30 June	
		2017 HK\$'000 (unaudited)	2016 HK\$000 (audited)
Revenue	3	82,737,598	75,615,523
Cost of sales		(70,209,626)	(63,862,413)
Gross profit		12,527,972	11,753,110
Other income		468,353	451,866
Other gains and losses	4	(27,271)	186,040
Selling and distribution expenses		(5,511,144)	(4,968,248)
Administrative expenses		(1,778,100)	(1,743,811)
Other expenses		(341,038)	(552,919)
Share of results of associates		35,995	31,832
Listing expenses		–	(40,000)
Finance costs	5	(954,800)	(889,096)
Profit before tax		4,419,967	4,228,774
Income tax expense	6	(966,836)	(1,048,264)
Profit for the period	7	3,453,131	3,180,510

		<b>Six months ended 30 June</b>	
		2017	2016
	<i>NOTES</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$000</i></b>
		<b>(unaudited)</b>	<b>(audited)</b>
<b>Other comprehensive income (expense)</b>			
<i>Item that may be reclassified to profit or loss:</i>			
Share of changes in translation reserve of associates		<b>59,619</b>	(9,334)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation to presentation currency		<u><b>1,879,313</b></u>	<u>(691,150)</u>
Other comprehensive income (expense) for the period, net of income tax		<u><b>1,938,932</b></u>	<u>(700,484)</u>
Total comprehensive income for the period		<u><b>5,392,063</b></u>	<u>2,480,026</u>
Profit for the period attributable to:			
Owners of the Company		<b>1,810,447</b>	1,636,069
Non-controlling interests		<u><b>1,642,684</b></u>	<u>1,544,441</u>
		<u><b>3,453,131</b></u>	<u>3,180,510</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		<b>2,868,783</b>	1,276,699
Non-controlling interests		<u><b>2,523,280</b></u>	<u>1,203,327</u>
		<u><b>5,392,063</b></u>	<u>2,480,026</u>
Basic earnings per share ( <i>HK\$</i> )	9	<u><b>0.29</b></u>	<u>0.35</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017	31 December 2016
	<i>NOTES</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>10</i>	<b>13,843,774</b>	12,500,077
Prepaid lease payments		<b>2,374,230</b>	2,223,555
Investment properties		<b>1,432,842</b>	1,390,245
Goodwill	<i>11</i>	<b>19,353,346</b>	17,404,821
Intangible assets		<b>4,384,639</b>	3,806,670
Interests in associates		<b>2,045,229</b>	1,948,742
Available-for-sale investments		<b>120,826</b>	123,506
Deferred tax assets		<b>443,096</b>	448,305
Other non-current assets		<b>312,938</b>	337,180
		<b>44,310,920</b>	40,183,101
<b>CURRENT ASSETS</b>			
Inventories	<i>12</i>	<b>20,781,798</b>	18,859,121
Trade and other receivables	<i>13</i>	<b>64,412,437</b>	54,337,396
Prepaid lease payments		<b>63,363</b>	62,653
Available-for-sale investments		<b>3,005,947</b>	3,648,846
Amounts due from related parties		<b>453,418</b>	244,861
Taxation recoverable		<b>16,036</b>	14,600
Pledged bank deposits	<i>14</i>	<b>2,107,388</b>	2,674,739
Bank balances and cash	<i>14</i>	<b>16,497,850</b>	13,960,197
		<b>107,338,237</b>	93,802,413
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>15</i>	<b>51,319,225</b>	50,960,961
Amounts due to related parties		<b>2,461,765</b>	171,673
Taxation payable		<b>336,311</b>	525,333
Bank borrowings – due within one year		<b>27,089,149</b>	13,737,020
Bonds payable – due within one year		<b>5,645,250</b>	5,589,650
		<b>86,851,700</b>	70,984,637
Net current assets		<b>20,486,537</b>	22,817,776
Total assets less current liabilities		<b>64,797,457</b>	63,000,877

	<b>30 June</b>	31 December
	<b>2017</b>	2016
<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(audited)
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>1,078,504</b>	938,447
Bank borrowings – due after one year	<b>1,107,483</b>	2,025,493
Bonds payable – due after one year	<b>2,304,360</b>	4,359,269
Other non-current liabilities	<b>1,441,944</b>	1,375,814
	<u><b>5,932,291</b></u>	<u>8,699,023</u>
<b>NET ASSETS</b>	<u><b>58,865,166</b></u>	<u>54,301,854</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>27,241,289</b>	27,241,289
Reserves	<b>12,665,623</b>	10,379,056
	<u><b>39,906,912</b></u>	<u>37,620,345</u>
Equity attributable to owners of the Company	<b>39,906,912</b>	37,620,345
Non-controlling interests	<b>18,958,254</b>	16,681,509
	<u><b>58,865,166</b></u>	<u>54,301,854</u>
<b>TOTAL EQUITY</b>	<u><b>58,865,166</b></u>	<u>54,301,854</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The financial information relating to the year ended 31 December 2016 that is included in the condensed consolidated financial statement 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 relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the “Companies Ordinance”) is as follows:

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016. In addition, the Group applied the amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA and accounting policies as described below in the preparation of the condensed consolidated financial statements.

For the Reporting Period, the Group has adopted, for the first time, all the amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### **3. REVENUE AND 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) – 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 six months ended 30 June 2017 (unaudited)

	Manufacturing segment <i>HK\$'000</i>	Distribution segment <i>HK\$'000</i>	Retail segment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
External sales	11,479,975	69,069,668	2,117,495	70,460	-	82,737,598
Inter-segment sales	<u>1,212,470</u>	<u>1,343,166</u>	<u>-</u>	<u>-</u>	<u>(2,555,636)</u>	<u>-</u>
Segment revenue	<u>12,692,445</u>	<u>70,412,834</u>	<u>2,117,495</u>	<u>70,460</u>	<u>(2,555,636)</u>	<u>82,737,598</u>
Segment results	<u>3,793,859</u>	<u>3,103,014</u>	<u>69,945</u>	<u>50,010</u>		7,016,828
Other income						468,353
Other gains and losses						(27,271)
Administrative expenses						(1,778,100)
Other expenses						(341,038)
Share of results of associates						35,995
Finance costs						<u>(954,800)</u>
Profit before tax						<u>4,419,967</u>

**For the six months ended 30 June 2016 (audited)**

	Manufacturing segment <i>HK\$'000</i>	Distribution segment <i>HK\$'000</i>	Retail segment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
External sales	10,960,191	62,682,724	1,921,546	51,062	–	75,615,523
Inter-segment sales	<u>1,264,201</u>	<u>984,820</u>	<u>–</u>	<u>–</u>	<u>(2,249,021)</u>	<u>–</u>
Segment revenue	<u>12,224,392</u>	<u>63,667,544</u>	<u>1,921,546</u>	<u>51,062</u>	<u>(2,249,021)</u>	<u>75,615,523</u>
Segment results	<u><u>3,566,038</u></u>	<u><u>3,111,509</u></u>	<u><u>73,708</u></u>	<u><u>33,607</u></u>		6,784,862
Other income						451,866
Other gains and losses						186,040
Administrative expenses						(1,743,811)
Other expenses						(552,919)
Share of results of associates						31,832
Listing expenses						(40,000)
Finance costs						<u>(889,096)</u>
Profit before tax						<u><u>4,228,774</u></u>

The accounting policies of the operating segments are the same as the Group's accounting policies. 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, 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.



#### 4. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Gain on disposal of available-for-sale investments	45	1,574
Gain on disposal of subsidiaries	–	28,732
Gain on disposal of subsidiaries classified as held for sale	–	49,288
(Loss) gain on disposal of property, plant and equipment	(1,214)	9,817
Impairment loss recognised on trade receivables, net	(89,905)	(59,131)
Impairment loss recognised on other receivables, net	(12,436)	(16,576)
Investment income on available-for-sale investments	71,285	68,982
Gain arising on change in fair value of investment properties	–	109,140
Others	4,954	(5,786)
	<u>4,954</u>	<u>(5,786)</u>
	<u>(27,271)</u>	<u>186,040</u>

#### 5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Interest on bank borrowings	790,035	689,169
Interest on bonds payable	186,583	223,490
Interest on borrowings from an intermediate holding company	6,336	–
Less: Interest capitalised in property, plant and equipment (Note)	(28,154)	(23,563)
	<u>954,800</u>	<u>889,096</u>

*Note:* Borrowing costs capitalised during the current Reporting Period 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 5.3% (six months period 30 June 2016: 4.9%) per annum to expenditure on qualifying assets.

## 6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Current tax:		
PRC Enterprise Income Tax ("PRC EIT")	833,708	957,560
Hong Kong Profits Tax	1,237	2,258
	<u>834,945</u>	<u>959,818</u>
Under provisions in previous period:		
PRC EIT	27,403	57,284
Deferred tax:		
Current interim period	104,488	31,162
	<u>966,836</u>	<u>1,048,264</u>

Current tax provision represents provision for PRC EIT and Hong Kong Profits Tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period.

Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries is 25% from 1 January 2008 onwards, except for those subsidiaries described below.

Certain subsidiaries operating in the PRC were accredited as "High and New Technology Enterprise" by the Science and Technology Bureau of relevant provinces and other authorities for a term of three years, and were registered with the local tax authorities to be eligible to the reduced 15% enterprise income tax rate in period from 2015-2018.

Apart from that, according to the Guo Shui 2012 No. 12 and Cai Shui 2011 No. 58, certain PRC subsidiaries of the Group are engaged in the encouraged business activities under the Development of Western Region Program, and a preferential tax rate of 15% is granted for an extended period from 2011 to 2020. As a result, the tax rate of 15% is used to calculate the amount of current taxation.

## 7. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Profit for the period has been arrived at after charging:		
Auditors' remuneration	<b>2,268</b>	6,348
Depreciation of property, plant and equipment	<b>688,196</b>	564,676
Amortisation of intangible assets	<b>100,483</b>	110,635
Amortisation of prepaid lease payments	<b>31,682</b>	32,339
Allowance for slow-moving and obsolete inventories	<b>2,251</b>	6,454
Cost of inventories recognised as an expense	<b>69,876,763</b>	63,571,446
Research and development expenditure (included in other expenses)	<b>303,924</b>	361,297
Operating lease payments in respect of rented premises	<b>284,915</b>	262,152
Exchange loss, net	<b>12,157</b>	156,151
Donations	<b>4,212</b>	4,729
and after crediting:		
Dividend income	<b>10,557</b>	668
Government grants	<b>103,957</b>	85,090
Interest income	<b>111,453</b>	130,061
Gross rental income from investment properties	<b>70,460</b>	51,062
<i>Less:</i>		
– direct operating expenses incurred for investment properties that generated rental income during the period	<b>(20,450)</b>	(17,455)
	<b>50,010</b>	33,607

## 8. DIVIDENDS

The directors of the Company resolved not to declare any interim dividends for both periods.

A final dividend of HK\$565,606,000 (HK9 cents per share) in respect of the year ended 31 December 2016 was approved at the annual general meeting of the Company in 2017. The aggregate amount of the final dividend paid to the shareholders of the Company in the current interim period amounted to HK\$565,597,000.

## 9. BASIC EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
<b>Earnings</b>		
Profit for the period attributable to the owners of the Company	<u>1,810,447</u>	<u>1,636,069</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	<u>6,284,506,461</u>	<u>4,629,424,461</u>

No diluted earnings per share is presented as the Group had no potential ordinary shares in issue during both periods.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group acquired property, plant and equipment amounting to HK\$1,696,814,000 (six months ended 30 June 2016: HK\$1,002,999,000) for the purpose of the Group's operation.

## 11. GOODWILL

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
<b>COST</b>		
At the beginning of the period/year	<b>17,518,849</b>	16,516,258
Acquisition of subsidiaries/businesses	<b>1,372,931</b>	2,155,042
Exchange realignment	<b>579,087</b>	(1,152,451)
	<hr/>	<hr/>
At the end of the period/year	<b>19,470,867</b>	17,518,849
	<hr/>	<hr/>
<b>ACCUMULATED IMPAIRMENT</b>		
At the beginning of the period/year	<b>114,028</b>	121,749
Exchange realignment	<b>3,493</b>	(7,721)
	<hr/>	<hr/>
At the end of the period/year	<b>117,521</b>	114,028
	<hr/>	<hr/>
<b>CARRYING VALUE</b>		
At the end of the period/year	<b>19,353,346</b>	17,404,821
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## 12. INVENTORIES

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(audited)
Raw materials	<b>3,772,337</b>	2,569,699
Packaging materials	<b>21,297</b>	42,296
Work in progress	<b>1,076,066</b>	608,390
Finished goods	<b>15,912,098</b>	15,638,736
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	<b>20,781,798</b>	18,859,121
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### 13. TRADE AND OTHER RECEIVABLES

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Trade receivables	<b>49,993,646</b>	42,394,252
<i>Less: Allowance for doubtful debts</i>	<b>(490,900)</b>	(387,838)
	<b>49,502,746</b>	42,006,414
Bills receivable	<b>6,605,176</b>	6,105,764
Prepayments	<b>2,911,684</b>	1,823,037
Other receivables	<b>5,574,006</b>	4,565,769
<i>Less: Allowance for other receivables</i>	<b>(181,175)</b>	(163,588)
	<b>64,412,437</b>	54,337,396

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 30 June 2017 (31 December 2016: 30 to 180 days).

The aging analysis of the Group's trade receivables, net of allowance, based on invoice date at the end of reporting period:

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
0 – 30 days	<b>20,476,341</b>	18,282,964
31 – 60 days	<b>7,862,390</b>	7,166,347
61 – 90 days	<b>5,250,692</b>	4,172,059
91 – 180 days	<b>9,440,517</b>	7,928,247
181 – 365 days	<b>5,911,060</b>	4,009,438
Over 1 year	<b>561,746</b>	447,359
	<b>49,502,746</b>	42,006,414

The aging analysis of the Group's bills receivable based on issue date at the end of Reporting Period:

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
0 – 30 days	2,458,117	2,595,739
31 – 60 days	1,014,274	932,319
61 – 90 days	1,084,863	985,526
91 – 180 days	<u>2,047,922</u>	<u>1,592,180</u>
	<b><u>6,605,176</u></b>	<b><u>6,105,764</u></b>

#### 14. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Pledged bank deposits for bills payable	2,078,065	2,662,684
Guarantee deposits and other restricted deposits with maturity less than three months	<u>29,323</u>	<u>12,055</u>
Total pledged bank deposits	<b><u>2,107,388</u></b>	<b><u>2,674,739</u></b>

Included in the Group's bank balances and cash are time deposits with maturity more than three months but less than one year of HK\$2,225,932,000 (31 December 2016: nil), which are carrying interest at market rates ranging from 1.39% to 1.93% per annum.

Bank balances of the Group carry interest at market rates ranging from nil to 10.00% (31 December 2016: nil to 11.30%) per annum as at 30 June 2017.

Pledged bank deposits of the Group represent deposits pledged to banks to secure banking facilities including bills payable and carry interest at market rates ranging from 0.35% to 1.55% (31 December 2016: 0.35% to 0.42%) per annum as at 30 June 2017.

## 15. TRADE AND OTHER PAYABLES

	<b>30 June 2017 HK\$'000 (unaudited)</b>	31 December 2016 HK\$'000 (audited)
Trade payables	<b>30,259,547</b>	25,710,228
Bills payable	<b>9,864,160</b>	14,117,035
Receipts in advance	<b>804,644</b>	954,780
Accrued salaries	<b>913,049</b>	1,166,943
Interest payables	<b>313,474</b>	273,559
Other taxes payable	<b>494,266</b>	614,150
Other accrued expenses	<b>2,270</b>	2,981
Other payables	<b>6,636,271</b>	6,184,467
Dividend payables to non-controlling shareholders	<b>588,411</b>	89,434
Payables for acquisition of subsidiaries	<b>1,128,632</b>	626,776
Payables for acquisition of associates	<b>314,501</b>	1,220,608
	<b><u>51,319,225</u></b>	<b><u>50,960,961</u></b>

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 30 June 2017, the Group's bills payable of HK\$1,712,175,000 (31 December 2016: HK\$2,164,944,000) were secured by the Group's bills receivables (Note 13) with carrying amount of HK\$227,977,000 (31 December 2016: HK\$420,910,000) and pledged bank deposits (Note 14) of HK\$2,078,065,000 (31 December 2016: HK\$2,662,684,000).



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

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(audited)
0 – 30 days	<b>17,360,335</b>	18,055,343
31 – 60 days	<b>4,438,668</b>	3,015,210
61 – 90 days	<b>2,521,454</b>	1,587,367
91 – 180 days	<b>4,023,692</b>	2,067,596
Over 180 days	<b>1,915,398</b>	984,712
	<b><u>30,259,547</u></b>	<u>25,710,228</u>

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

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(audited)
0 – 30 days	<b>8,049,300</b>	12,111,257
31 – 60 days	<b>238,756</b>	462,193
61 – 90 days	<b>586,012</b>	439,468
91 – 180 days	<b>990,092</b>	1,104,117
	<b><u>9,864,160</u></b>	<u>14,117,035</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

Since 2017, the economy of China has been maintaining within a reasonable range with stabilized and positive paces as evidenced by the year-on-year GDP growth of 6.9% in the first half of the year. In addition, the accelerated growth of new economic dynamics, particularly manifested in the upgrade of resident consumption, a continuously active momentum of emerging industries, an international presence and access opened up by the “One Belt, One Road” Initiative are all shaping up.

Along with the successive promulgation of policies and industrial plans including the Outline of “Healthy China 2030” Plan (《「健康中國2030」規劃綱要》), the TCM Development Summary 2030 (《中醫藥發展綱要2030》), the 13th Five-Year Deepening Pharmaceuticals and Health System Reform Planning (《「十三五」深化醫藥衛生體制改革規劃》), the Guide to the Planning of Pharmaceutical Development (《醫藥工業發展規劃指南》) and the National Development Plan for Drug Circulation Industry (2016-2020) (《全國藥品流通行業發展規劃(2016-2020)》), the top-down approach of Chinese pharmaceutical and healthcare industry, the policy framework of fundamental medical and hygiene system, and the development direction of the industry were further clarified. The Chinese pharmaceutical industry has a generally prosperous development momentum. Given the continuous rigid demand and the enhancement in consumption power, the industrial growth continues to be greater than the macro-economy.

2017 is a critical year for the comprehensive implementation of the 13th Five-Year pharmaceutical reform plan. Consistency evaluation regarded as important to the supply-side reform of pharmaceutical industry help eliminate low-quality products and enhance the quality of Chinese pharmaceuticals. The gradual implementation of “two-invoice system”(「兩票制」) will have a practical and significant impact on the pharmaceutical distribution industry in the next two years while the licensed large-scale distributors will be benefited from the opportunities arising from the new round of industrial consolidation. The execution of specific policies, such as the medicine evaluation reform, hierarchical diagnosis, comprehensive cancellation of mark-up selling price of pharmaceutical products in public hospitals, will more directly and deeply affect the product structure, sales model, business channel and terminal distribution layout of pharmaceutical corporations. Innovation, quality, efficiency and legal compliance have become the primary focuses of the development of pharmaceutical industry. As the concentration of the industry has increased rapidly, the importance of superiority in scale and capital is further highlighted.

There is an enormous potential for growth and consolidation in the PRC pharmaceutical industry. Although the PRC pharmaceutical industry is facing the pressure of industry transformation and advancement 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. We believe that, as a leading integrated pharmaceutical enterprise in the PRC, the Group, by leveraging on the advantages of its diversified business network and 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**

In the first half of 2017, in accordance with the development and changes in the industrial environment and its business needs, the Group steadily promoted the implementation of the “13th Five-Year” strategic planning, explored the 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.

During the Reporting Period, the Group recorded total revenue of HK\$82,737.6 million, representing an increase of 9.4% when compared with that of HK\$75,615.5 million in the first half of 2016. In terms of RMB, total revenue of the Group during the Reporting Period recorded a year-on-year increase of 15.0%. During the Reporting Period, the revenue of the three main business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses accounted for 13.9%, 83.5% and 2.6% of total revenue, respectively.

During the Reporting Period, the Group achieved a gross profit of HK\$12,528.0 million, representing an increase of 6.6% (an increase of 12.1% in terms of RMB) when compared with that of HK\$11,753.1 million in the corresponding period last year. The gross profit margin was 15.1%, which remained stable when compared with that of 15.5% in the corresponding period last year, 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.

Profit attributable to owners of the Company was HK\$1,810.4 million in the first half of 2017, representing an increase of 10.7% (an increase of 16.3% in terms of RMB) when compared with that of HK\$1,636.1 million in the first half of 2016. One-off gain was recorded in the corresponding period last year. Should the non-recurring profit and loss be excluded, the growth in profit attributable to owners of the Company would be even more considerable during the Reporting Period. Basic earnings per share was HK\$0.29 in the first half of 2017.

## **Results Review**

### **1. *Pharmaceutical Manufacturing Business***

In the first half of 2017, the pharmaceutical manufacturing business of the Group enriched product mix, expanded business areas and propelled the upgrade and transformation of existing businesses; improved its operation efficiency and reduced manufacturing costs through the measures such as optimization of production capacity, technology upgrade and lean management. The synergy of marketing under multi-brands by commencing coordination and planning of all marketing procedures facilitated an access, channel and terminal to complementary resources. During the Reporting Period, the segment revenue in pharmaceutical manufacturing business of the Group recorded HK\$12,692.4 million, representing an increase of 3.8% (an increase of 9.2% in terms of RMB) when compared with the corresponding period last year.

By product categories, during the Reporting Period, the revenue from sale of chemical drugs was HK\$5,325.9 million, representing an increase of 3.7% (an increase of 9.0% in terms of RMB) when compared with the first half of 2016, which was mainly due to the revenue increase in specialty drugs such as nephrology and pediatrics and anti-infective drugs. The revenue from sale of Chinese medicines was HK\$6,251.2 million, representing a year-on-year increase of 3.5% (an increase of 8.8% in terms of RMB), which was mainly due to the revenue increase in Chinese prescription drugs for therapeutic areas of cardiovascular and oncology, and the E-Jiao product series. The revenue from sale of biopharmaceutical drugs was HK\$63.6 million, representing a year-on-year decrease of 48.3% (a decrease of 45.6% in terms of RMB) due to adjustments of sales model. The revenue from sale of nutritional and health products was HK\$158.5 million, representing a year-on-year decrease of 2.7% (an increase of 2.3% in terms of RMB).

During the Reporting Period, the gross profit margin of pharmaceutical manufacturing business of the Group was 60.1%, representing an increase of 2.2 percentage points when compared with that of the first half of 2016, which was mainly due to product mix optimization and continuous improvement in the manufacturing process.

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 was HK\$397.5 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 research 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 30 June 2017, the Group had 225 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 19 patents and had one product approved by CFDA for clinical trials. During the Reporting Period, the Group conducted multi-directional 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), Tsinghua University, Union Institute of Materia Medica (協和藥物所), Fujifilm Corporation (“FUJIFILM”) in Japan and Crystec Ltd. in the UK, where therapeutic areas include oncology, auto-immune diseases, anti-infection and respiratory system diseases. A number of major projects were completed and applications for cooperation with National Natural Science Foundation of China (國家自然科學基金) were made. In addition, certain products under research of clinical and market values were introduced.

## **2. *Pharmaceutical Distribution Business***

In the first half of 2017, the Group strengthened the breadth and depth of network coverage in pharmaceutical distribution business, continuously optimized and adjusted product portfolios and promoted innovative models in order to improve operation efficiency and quality, and to promote an integrated operation of distribution business. During the Reporting Period, the Group's pharmaceutical distribution business achieved a segment revenue of HK\$70,412.8 million, representing an increase of 10.6% (an increase of 16.3% in terms of RMB) when compared with that in the corresponding period last year.

During the Reporting Period, the Group's distribution business successfully entered into four provinces, namely Jiangxi, Hainan, Qinghai, and Xinjiang. The Group also accelerated network consolidation in key provinces and penetrated into municipal markets to strengthen the competitive edge of the Group's pharmaceutical distribution business in the regional markets. As at 30 June 2017, the pharmaceutical distribution network of the Group covered 27 provinces, municipalities and autonomous regions nationwide, with customers including 5,085 Class II and Class III hospitals, 32,164 primary medical institutions and 21,789 retail pharmacies.

In the first half of 2017, the Group further optimized the product and business structures of pharmaceutical distribution business. During the Reporting Period, the Group's pharmaceutical distribution business recorded a gross profit margin of 6.4%, representing a decrease of 0.3 percentage points when compared with that in the corresponding period last year.

During the Reporting Period, the Group explored and implemented value-added services of supply chain to establish core competitive advantages through various measures. In light of the policy implementation of, among others, the "two-invoice system (兩票制)", the Group accelerated the establishment of a professional, scalable and integrated modern logistics system. As at 30 June 2017, the Group's distribution businesses had 130 logistics centers, and the Group continued to expand its upstream resources, optimize product structure, increase imported product categories and services for the distribution business, and vigorously developed medical device distribution business. 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 30 June 2017, the Group provided hospital logistic intelligence ("HLI") services to over 200 hospitals cumulatively, and proactively 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\$2,117.5 million, representing a year-on-year increase of 10.2% (an increase of 15.8% in terms of RMB), while the gross profit margin of the retail business was 17.2%, representing a decrease of 2.9 percentage points when compared with that in the first half of 2016. This was mainly due to the rapid growth of direct-to-patient (DTP) business which has a relatively low profit margin.

As of 30 June 2017, the Group had 745 retail pharmacies in total. During the Reporting Period, the Group further integrated the pharmaceutical retail resources in terms of the brand, operational management and information system, in addition to a keen expansion of its innovative businesses. As at the end of the Reporting Period, the Group had 81 DTP pharmacies covering 44 cities.

#### **Development Expansion by External Cooperation**

In March 2017, the Group entered into the strategic cooperation agreement with The National Engineering Laboratory for Anti-Neoplastic Protein Therapeutics at Tsinghua University (清華大學抗腫瘤蛋白質藥物國家工程實驗室) in respect of collaboration on research and development and industrialization of new drugs and relevant products and technologies of anti-neoplastic protein therapeutics. The Group entered into a formal agreement with Protgen Ltd. (北京普羅吉生物科技發展有限公司) for an introduction of a candidate of long-acting anti-neoplastic molecule targeted drug under the National Class I New Drugs (國家一類新藥) – “a polyethylene glycol recombinant human endostatin” (M2ES) by way of equity interest acquisition to swiftly tap into anti-neoplastic drugs market. Building on the foundation of such protein therapeutics research and development platform, the Group will further expand its strategic cooperative relationship with The National Engineering Laboratory for Anti-Neoplastic Protein Therapeutics at Tsinghua University.



In April 2017, the Group entered into the strategic cooperation agreement with FUJIFILM in respect of a comprehensive cooperation of various areas, including biosimilars, chemical drugs and medical equipment, Chinese medicine and health supplements. Both parties have reached an intention on collaboration of several projects, including biosimilars and solid-liquid dual chamber bags (固液雙腔袋). Among which, both parties will cooperate and complete the registration and introduction of FUJIFILM biosimilars in China for the treatment of rheumatoid arthritis, deploy sales network and optimize the biopharmaceutical product line of the Group.

In May 2017, the Group entered into the strategic cooperation agreement with Crystec Ltd. in respect of collaboration on development of “Sino-British Research and Innovation Bridge Project – Delivery System for Chronic Obstructive Pulmonary Disease Drugs” (「中英研究與創新橋項目－慢阻肺藥物遞送系統」). Meanwhile, both parties intended to jointly build a cooperative research and development platform of innovative technology by leveraging the advanced supercritical technology of Crystec Ltd. with the product development needs of the Group for in-depth collaboration on areas such as the improvement on existing products, research and development of innovative products, and re-evaluation of safety and effectiveness of solid formulations (being granules of Chinese medicine prescription) in order to achieve product optimization and upgrading of the Group.

### **Long-Term Growth Driven by Extension of Mergers and Acquisitions**

The Group has strong merger and integration capabilities and ample experiences with proven track records. During the Reporting Period, the Group successfully implemented several external acquisition projects, expanded business deployment and facilitated continuous growth of business.

For pharmaceutical manufacturing business, during the Reporting Period, China Resources Sanjiu Medical & Pharmaceutical Company Limited (華潤三九醫藥股份有限公司) completed its acquisition of the 65% equity interests in Jilin Sanjiu Jin Fu Kang Pharmaceutical Limited (formerly known as: Jilin Jin Fu Kang Pharmaceutical Limited) (吉林三九金復康藥業有限公司 (formerly known as: 吉林金復康藥業有限公司)) which manufactures anti-neoplastic drugs; and China Resources Double-Crane Pharmaceutical Company Limited (華潤雙鶴藥業股份有限公司) completed its acquisition of 100% equity interests in Double-Crane Pharmaceutical (Hainan) Company Limited (formerly known as: Hainan Zhong Hua Lian He Pharmaceutical Company Limited) (雙鶴藥業(海南)有限責任公司 (formerly known as: 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-inflammatory and anti-tumor drugs.



For pharmaceutical distribution businesses, the Group continued to implement the external merger and acquisition strategy of “establishing platforms at provincial level with distribution networks at municipal level” and facilitated its nationwide layout. In the first half of 2017, the Group tapped into four provinces, namely Jiangxi, Hainan, Qinghai and Xinjiang by mergers and acquisitions, in addition to strengthening the competitive edge in the regional markets through the completion of mergers and acquisitions of several prefecture-level project. At the end of the Reporting Period, the coverage of the pharmaceutical distribution network of the Group expanded to 27 provinces to further pursue its strategic goal of nationwide network layout.

## **Outlook and Future Strategies**

With the gradual advancement of healthcare and pharmaceutical reform, the pharmaceutical industry in China has entered into a deepened adjustment and reform stage where supervision is tightened, industrial competition intensifies, industrial transformation and upgrading expedites and opportunities coexist with challenges. By relying on its own advantages and following the direction of the policies and the market demand, the Group will speed up the external development through strategic mergers and acquisitions and international collaboration. It will improve its intrinsic development potential through optimizing product mix and business model, enhancing the research and development and innovation system and deepening synergy effects so as to achieve the long-term stable and sustainable development in the pharmaceutical manufacturing, distribution and retail segments and continue to reinforce and elevate the Group’s leading position in the pharmaceutical industry in China.

### ***1. Expanding pharmaceutical manufacturing business and optimizing product portfolio to facilitate transformation and upgrade of pharmaceutical business***

By leveraging the existing cutting-edges of the brand, production and marketing resources, and through measures such as external mergers and acquisitions and the brand extension, the Group will expand the business areas in cardiovascular, anti-tumor, central nervous system and universal health and improve product mix of chemical drugs which combine the treatment in chronic disease, infusion and specialty therapies, with focus on consumption upgrade and health demands in order to facilitate the strategic layout of the whole industrial chain of traditional Chinese medicine and further consolidate the market positioning of E-Jiao products and other healthcare products. At the same time, through measures such as production technique improvement, quality advancement and production capacity optimization, the Group will improve its production standard and carry out the industrial upgrade to achieve rapid development for the pharmaceutical manufacturing business.

**2. *Optimizing distribution platform and innovating business models to turn into intelligent pharmaceutical service provider***

The Group will constantly optimize its national distribution platform and strengthen the coverage of medical terminals in order to increase the concentration of distribution segment by capitalizing on the opportunities arising from the implementation of policies, including the “Two-Invoice System” and hierarchical diagnosis and treatment. Meanwhile, by leveraging the advanced information system and professional logistics network, it will establish the “Logistics + Pharmaceutical Services + Internet” platform which connects upstream and downstream resources and promotes the innovative business model including hospital logistic intelligence (HLI), DTP and e-commerce businesses so as to facilitate the development of the business model of unification of distribution and retail and consolidate its market leading position as a pharmaceutical distribution solution provider.

**3. *Optimizing research and innovation system, strengthening research and development capability and facilitating product development and industrialization***

Prioritizing technological innovation, the Group will enhance its investment in research and development and further optimize the construction of the unified research and development platform. It will continue to enhance its research and development capability by building the top research and development team in the industry and expand new product sourcing channels through in-depth co-operation with external research and development institutions. The Group will optimize the industrial chain of research and development with focus on the development of drugs in biopharmaceutical and adopt forward-looking approach to develop new therapeutic areas, enhancing the product capability in unserved therapeutic areas. Through innovation of dosage forms, further optimization and consistency evaluation, it will strengthen its competitive edge of the products in the existing core area.

**4. *Accelerating external development through strategic mergers and acquisitions and industrial funds to consolidate leading position in industry***

Utilizing the opportunities arising from industry consolidation, the Group will realize external growth through strategic mergers and acquisitions to accelerate the obtainment of quality resources and foster new stimulations for business growth through healthcare industrial funds. With regard to pharmaceutical manufacturing business, the Group will selectively acquire diversified product portfolio or products complementing the existing ones through strategic investment in high-growth fields including cardiovascular, anti-tumor and biopharmaceutical sectors. For pharmaceutical distribution and 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. *Enhancing international co-operation and expanding international businesses to raise overall competitiveness***

The Group will continue to enhance the expansion and construction of international co-operation platform and commence multi-aspect co-operation with international large-scale pharmaceutical manufacturers, overseas pharmaceutical distributors and international medical device manufacturers through various means. For instance, product importation, distribution agency, collaborative development and joint establishment of technology co-operation platform to introduce quality products and advanced technologies, and explore the pharmaceutical market in China via a co-operation model with mutual benefits, in order to provide further support to the optimization and upgrade of the existing product portfolio and business model.

**6. *Exploiting the Group's competitive advantages overall superiority, promoting business synergy and enhancing operation efficiency***

The Group will further unearth the synergies in its integrated business deployment and innovate the business co-operation model to press ahead the synergies among pharmaceutical manufacturing, distribution and retail businesses and among each business sub-segment in terms of the market entry, terminal expansion and product introduction through joint exploration of growth margin which forms market collaboration. Meanwhile, it will enhance the organization and management of internal resources, including strategic, financial and human resources and will control risks effectively through sizeable and intensive operation so as to enhance its overall operation efficiency.

## **USE OF NET PROCEEDS FROM LISTING**

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 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 30 June 2017, the Company had used approximately HK\$1,476.7 million for repayment of bonds; approximately HK\$1,931.0 million for partial payment of strategic acquisitions; approximately HK\$114.1 million for establishment of more advanced logistics centers and warehouses; approximately HK\$55.7 million for HLI Solutions; approximately HK\$4.4 million for development of its research and development platform, and approximately HK\$1,476.7 million for working capital for its pharmaceutical distribution business.

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.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017.

## **CORPORATE GOVERNANCE PRACTICES**

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the “**Shareholders**”) and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the “**CG Code**”) contained 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.

During the Reporting Period, the Company has complied with all the code provisions of the CG Code, save and except the following:

In respect of code provision A.4.1 of the CG Code, the non-executive Directors are not appointed for a specific term, and 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 the Shareholders at the annual general meeting of the Company 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. In respect of code provision E.1.2 of the CG Code, the Chairman of the Board was not able to attend the annual general meeting of the Company held on 19 May 2017 due to other business commitment.

The Company will 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 standard as set out in the Model Code during the Reporting Period.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the unaudited condensed interim results of the Group for the six months ended 30 June 2017.

## **PUBLICATION OF THE INTERIM RESULTS AND 2017 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](http://www.hkexnews.hk)) and the Company ([www.crpharm.com](http://www.crpharm.com)), and the 2017 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and will be 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, 24 August 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, Mdm. SHING Mo Han Yvonne, Mr. KWOK Kin Fun, Mr. FU Tingmei and Mr. ZHANG Kejian as independent non-executive Directors.*