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 2017

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 2017 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2016 as follows:

FINANCIAL HIGHLIGHTS

	2017	2016	**Increase**
Revenue *(HK$ million)*	**172,532.2**	156,705.2	10.1%
Profit for the year attributable to owners of the Company *(HK$ million)*	**3,483.0**	2,821.4	23.4%
Basic earnings per share	**HK$0.55**	HK$0.57	
Proposed final dividend per share	**HK$0.11**	HK$0.09	
	As at 31 December 2017	As at 31 December 2016	**Increase**
Equity attributable to owners of the Company *(HK$ million)*	**41,869.8**	37,620.3	11.3%
Net debt *(HK$ million) (note 1)*	**22,713.3**	11,751.2	93.3%
Total equity *(HK$ million)*	**63,137.2**	54,301.9	16.3%
Gearing ratio *(note 2)*	**36.0%**	21.6%	
Net assets per share – book *(note 3)*	**HK$6.66**	HK$5.99	11.2%

notes:

1. Net debt equal to total bank borrowings and total bonds payable less bank balances and cash.
2. Gearing ratio is calculated by dividing net debt by total equity.
3. Net assets per share – book is calculated by dividing equity attributable to owners of the Company by the number of issued shares at the end of the year.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	3	**172,532,204**	156,705,203
Cost of sales		**(144,256,056)**	(132,596,104)
Gross profit		**28,276,148**	24,109,099
Other income		**1,417,493**	1,287,789
Other gains and losses	5	**(32,486)**	250,706
Selling and distribution expenses		**(13,868,785)**	(10,947,479)
Administrative expenses		**(4,247,079)**	(3,882,186)
Other expenses		**(872,789)**	(956,502)
Share of results of associates		**140,795**	48,164
Listing expenses		**–**	(70,864)
Finance costs	6	**(2,230,949)**	(1,796,062)
Profit before tax		**8,582,348**	8,042,665
Income tax expense	7	**(1,715,482)**	(2,074,576)
Profit for the year	8	**6,866,866**	5,968,089
Other comprehensive income (expense)			
Item that may be reclassified to profit or loss:			
Share of changes in translation reserve of associates		**40,297**	(121,984)
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**4,236,619**	(2,772,622)
Gain on revaluation of property, plant and equipment upon transfer to investment properties, net of income tax		**21,036**	172,239

	Notes	2017 HK$'000	2016 HK$'000
Other comprehensive income (expense) for the year, net of income tax		**4,297,952**	(2,722,367)
Total comprehensive income for the year		**11,164,818**	3,245,722
Profit for the year attributable to:			
Owners of the Company		**3,483,036**	2,821,410
Non-controlling interests		**3,383,830**	3,146,679
		6,866,866	5,968,089
Total comprehensive income for the year attributable to:			
Owners of the Company		**6,101,600**	1,532,010
Non-controlling interests		**5,063,218**	1,713,712
		11,164,818	3,245,722
Basic earnings per share *(HK$)*	*10*	**0.55**	0.57

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**14,737,651**	12,500,077
Prepaid lease payments		**2,673,260**	2,223,555
Investment properties		**1,413,085**	1,390,245
Goodwill		**20,544,612**	17,404,821
Intangible assets		**4,740,460**	3,806,670
Interests in associates		**2,200,770**	1,948,742
Available-for-sale investments		**334,472**	123,506
Deferred tax assets		**573,516**	448,305
Other non-current assets		**337,799**	337,180
		47,555,625	40,183,101
CURRENT ASSETS			
Inventories		**21,406,298**	18,859,121
Trade and other receivables	*11*	**67,127,969**	54,337,396
Prepaid lease payments		**76,300**	62,653
Available-for-sale investments		**6,556,642**	3,648,846
Amounts due from related parties		**115,364**	244,861
Taxation recoverable		**40,572**	14,600
Pledged bank deposits		**2,566,981**	2,674,739
Bank balances and cash		**14,161,833**	13,960,197
		112,051,959	93,802,413
Assets classified as held for sale		**1,146,564**	–
		113,198,523	93,802,413
CURRENT LIABILITIES			
Trade and other payables	*12*	**56,495,692**	50,960,961
Amounts due to related parties		**1,247,636**	171,673
Taxation payable		**559,549**	525,333
Bank borrowings – due within one year		**31,158,736**	13,737,020
Bonds payable – due within one year		**2,272,782**	5,589,650
		91,734,395	70,984,637
Net current assets		**21,464,128**	22,817,776
Total assets less current liabilities		**69,019,753**	63,000,877

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**964,443**	938,447
Bank borrowings – due after one year		**1,051,052**	2,025,493
Bonds payable – due after one year		**2,392,600**	4,359,269
Other non-current liabilities		**1,474,488**	1,375,814
		5,882,583	8,699,023
NET ASSETS		**63,137,170**	54,301,854
CAPITAL AND RESERVES			
Share capital	*13*	**27,241,289**	27,241,289
Reserves		**14,628,510**	10,379,056
Equity attributable to owners of the Company		**41,869,799**	37,620,345
Non-controlling interests		**21,267,371**	16,681,509
TOTAL EQUITY		**63,137,170**	54,301,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

The Company is a public 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 Company Limited (formerly known as 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised 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]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKFRS	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

[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 2021.*

3. REVENUE

Revenue represents revenue arising on sale of pharmaceutical products and others for the year. An analysis of the Group’s revenue for the year is as follows:

	2017	2016
	HK$’000	*HK$’000*
Sales of pharmaceutical products	**172,432,515**	156,602,553
Rental income	**99,689**	102,650
	172,532,204	156,705,203

4. 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 and operating segments under HKFRS 8 are as follows:

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

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

(c) Pharmaceutical retail business (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 year ended 31 December 2017

	Manufacturing segment *HK$'000*	**Distribution segment** *HK$'000*	**Retail segment** *HK$'000*	**Others** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*
External sales	**26,362,495**	**141,826,457**	**4,243,563**	**99,689**	**–**	**172,532,204**
Inter-segment sales	**2,974,037**	**2,769,030**	**–**	**–**	**(5,743,067)**	**–**
Segment revenue	**29,336,532**	**144,595,487**	**4,243,563**	**99,689**	**(5,743,067)**	**172,532,204**
Segment results	**7,666,497**	**6,564,397**	**116,496**	**59,973**		**14,407,363**
Other income						**1,417,493**
Other gains and losses						**(32,486)**
Administrative expenses						**(4,247,079)**
Other expenses						**(872,789)**
Share of results of associates						**140,795**
Finance costs						**(2,230,949)**
Profit before tax						**8,582,348**

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

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.

Segment assets and liabilities

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

As at 31 December 2017

	Manufacturing segment	**Distribution segment**	**Retail segment**	**Others**	**Elimination**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment assets	**50,087,540**	**100,140,907**	**3,630,903**	**61,912,049**	**(55,631,339)**	**160,140,060**
Deferred tax assets						**573,516**
Taxation recoverable						**40,572**
Total assets						**160,754,148**
Segment liabilities	**11,513,218**	**57,458,446**	**1,651,173**	**22,593,897**	**(35,473,406)**	**57,743,328**
Unallocated liabilities						**39,873,650**
Total liabilities						**97,616,978**

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

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 certain other payables, 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:

	2017	2016
	HK$'000	*HK$'000*
PRC	**171,577,064**	155,789,350
Hong Kong	**955,140**	915,853
	172,532,204	156,705,203

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.

5. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
Gain on disposal of associates	**3**	31,737
Gain on disposal of available-for-sale investments	**7,701**	5,841
Gain on disposal of subsidiaries	**–**	74,174
Gain on disposal of subsidiaries classified as held for sale	**–**	49,288
Loss on disposal of property, plant and equipment	**(7,540)**	(18,206)
Gain on disposal of prepaid lease payments	**1,321**	–
Gain on disposal of intangible assets	**10,746**	527
Impairment loss recognised on property, plant and equipment	**(14,094)**	(11,019)
Impairment loss recognised on trade receivables, net	**(66,507)**	(80,177)
Impairment loss recognised on intangible assets	**–**	(3,231)
Impairment loss recognised on other receivables, net	**(12,486)**	(34,895)
Impairment loss recognised on goodwill	**(59,244)**	–
Impairment loss recognised on available-for-sale investments	**(10,919)**	(4,310)
Investment income on available-for-sale investments	**154,070**	38,075
Gain on change in fair value of investment properties	**57,772**	218,260
Others	**(93,309)**	(15,358)
	(32,486)	250,706

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank borrowings	**1,901,920**	1,360,202
Interest on bonds payable	**299,682**	470,782
Interest on borrowings from intermediate holding company	**65,398**	–
Less: Interest capitalised in property, plant and equipment *(Note)*	**(36,051)**	(34,922)
	2,230,949	1,796,062

Note: Borrowing costs capitalised during the year ended 31 December 2017 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% (2016: 5.8%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax:		
PRC Enterprise Income Tax	**1,795,459**	1,928,324
Hong Kong Profits Tax	**6,311**	380
Dividend withholding tax	**171,089**	–
	1,972,859	1,928,704
Underprovisions in previous years:		
PRC Enterprise Income Tax	**39,928**	120,443
Deferred tax:		
Current year	**(297,305)**	25,429
	1,715,482	2,074,576

8. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Staff costs		
Directors' remuneration		
– Fees	**1,244**	632
– Salaries and other allowance	**22,260**	11,790
– Retirement benefit schemes contributions	**133**	111
Salaries and other benefits for other staff	**6,969,907**	6,204,393
Retirement benefit schemes contributions for other staff	**689,659**	638,927
Total staff costs	**7,683,203**	6,855,853
Auditors' remuneration	**18,012**	16,138
Depreciation of property, plant and equipment	**1,262,790**	1,010,051
Amortisation of intangible assets (included in cost of sales)	**226,615**	201,760
Amortisation of prepaid lease payments	**76,300**	62,653
Allowance for slow-moving and obsolete inventories	**36,564**	44,423
Cost of inventories recognised as an expense	**143,463,829**	131,901,522
Research and development expenditure (included in other expenses)	**858,024**	725,691
Operating lease payments in respect of rented premises	**532,910**	488,109
Exchange (gain) loss, net	**(44,511)**	170,064
Donations	**14,765**	14,332
and after crediting:		
Dividend income	**6,618**	3,903
Government grants	**364,641**	293,695
Interest income	**253,959**	264,949
Gross rental income from investment properties	**99,689**	102,650
Less:		
– direct operating expenses incurred for investment properties that generated rental income during the year	**(39,716)**	(34,765)
	59,973	67,885

9. DIVIDENDS

Subsequent to the end of the Reporting Period, a final dividend in respect of the year ended 31 December 2017 of HK$0.11 (2016: HK$0.09) per ordinary share, in an aggregate amount of HK$691.3 million (2016: HK$565.6 million) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

10. EARNINGS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**3,483,036**	2,821,410
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**6,284,506,461**	4,912,481,540

No diluted earnings per share is presented for the year ended 31 December 2017 as the Group had no potential ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2016 did not assume the exercise of the over-allotment option granted upon the listing as the exercise price of this option was higher than the average market price per share during the exercisable period of this option.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**50,558,374**	42,394,252
Less: Allowance for doubtful debts	**(477,858)**	(387,838)
	50,080,516	42,006,414
Bills receivable	**8,790,247**	6,105,764
Prepayments	**2,829,939**	1,823,037
Other receivables	**5,586,257**	4,565,769
Less: Allowance for other receivables	**(158,990)**	(163,588)
	67,127,969	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 31 December 2017 (2016: 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 2017 and 2016 are as follows:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**18,332,642**	18,282,964
31 – 60 days	**7,929,138**	7,166,347
61 – 90 days	**5,127,912**	4,172,059
91 – 180 days	**10,728,104**	7,928,247
181 – 365 days	**7,483,440**	4,009,438
Over 1 year	**479,280**	447,359
	50,080,516	42,006,414

The aging analysis of the Group's bills receivable based on issue date at the years ended 31 December 2017 and 2016 is as follows:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**3,463,726**	2,595,739
31 – 60 days	**1,231,698**	932,319
61 – 90 days	**1,249,963**	985,526
91 – 180 days	**2,844,860**	1,592,180
	8,790,247	6,105,764

12. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**30,310,063**	25,710,228
Bills payable	**11,881,483**	14,117,035
Receipts in advance	**1,458,105**	954,780
Accrued salaries	**1,365,439**	1,166,943
Interest payables	**216,742**	273,559
Other taxes payable	**867,029**	614,150
Other accrued expenses	**3,123**	2,981
Other payables	**8,652,708**	6,184,467
Dividend payables to non-controlling shareholders	**582,581**	89,434
Payables for acquisition of subsidiaries	**927,919**	626,776
Payables for acquisition of associates	**230,500**	1,220,608
	56,495,692	50,960,961

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 2017, the Group's bills payable of HK$1,920,463,000 (2016: HK$2,164,944,000) were secured by the Group's bills receivable with carrying amount of HK$294,428,000 (2016: HK$420,910,000) and pledged bank deposits of HK$2,554,080,000 (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:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**18,208,036**	18,055,343
31 – 60 days	**5,108,347**	3,015,210
61 – 90 days	**2,059,560**	1,587,367
Over 90 days	**4,934,120**	3,052,308
	30,310,063	25,710,228

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

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**9,523,518**	12,111,257
31 – 60 days	**723,160**	462,193
61 – 90 days	**622,845**	439,468
Over 90 days	**1,011,960**	1,104,117
	11,881,483	14,117,035

13. SHARE CAPITAL

	Number of shares		Share capital	
	2017	2016	**2017**	2016
			HK$'000	*HK$'000*
Issued and fully paid:				
At beginning of year	**6,284,506,461**	4,629,424,461	**27,241,289**	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**	6,284,506,461	**27,241,289**	27,241,289

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.

14. COMMITMENTS

	2017	2016
	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	**723,339**	950,759
– equity interests in subsidiaries/associate	**1,225,340**	1,225,190

15. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the Reporting Period, the Group has the following transactions:

1. Pursuant to an acquisition agreement dated 13 December 2017, China Resources Pharmaceutical Commercial Group Limited（華潤醫藥商業集團有限公司）(“**CR Pharmaceutical Commercial**”), a wholly owned subsidiary of the Company, acquired the remaining 44.35% equity interest in China Resources Purenhong (Beijing) Pharmaceutical Co., Ltd.（華潤普仁鴻（北京）醫藥有限公司）(“**CR Purenhong**”), a non-wholly owned subsidiary of CR Pharmaceutical Commercial, at a consideration of RMB368,000,000 (equivalent to HK$440,238,000). As at the date of issuance of these consolidated financial statements, the transaction has been completed and the Group owned the entire interest in CR Purenhong.

2. Pursuant to an acquisition agreement dated 15 December 2017, CR Pharmaceutical Commercial, a wholly owned subsidiary of the Company, acquired the remaining 49% equity interest in China Resources Hunan Shuangzhou Pharmaceutical Co., Ltd.（華潤湖南雙舟醫藥有限公司）(“**CR Hunan Shuangzhou**”), a non-wholly owned subsidiary of CR Pharmaceutical Commercial, at a consideration of RMB355,250,000 (equivalent to HK$424,986,000). As at the date of issuance of these consolidated financial statements, the transaction has been completed and the Group owned the entire interest in CR Hunan Shuangzhou.

3. In February 2018, China Resources Pharmaceutical Investment Limited（華潤醫藥投資有限公司）, a wholly owned subsidiary of the Company, acquired approximately 1.4 million listed shares of Dong-E-E-Jiao Company Limited（東阿阿膠股份有限公司）(“**Dong-E-E-Jiao**”), a company listed on the Shenzhen Stock Exchange, for a cash consideration of RMB83,492,262.52 (equivalent to HK$103,085,391.77),which represented an additional equity interest of 0.21% in Dong-E-E-Jiao. As at the date of issuance of these consolidated financial statements, the share acquisition has been completed and the Group’s effective equity interest in Dong-E-E-Jiao was increased from 19.75% to 19.96%.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Along with the recovery of the global economy, China's macroeconomy has maintained the momentum of stable and sound development, with its GDP recording a year-on-year growth of 6.9%. Important progress has been made in the supply-side structural reform in China. With the continuous release of its economic vitality, momentum and potential, as well as the remarkable enhancement in its stability, coordination and sustainability, China's economy has completed the transition from the phase of rapid development to a phase of high-quality development.

Healthcare and pharmaceutical reform in the PRC continued to deepen. The year 2017 marked a crucial year for the full implementation of the medical reform plan for the "13th Five-Year Plan". The supply-side structural reform has been promoted to all major aspects of the medical and pharmaceutical industry in China. The overall development of the pharmaceutical industry in the PRC was in good shape. According to the data released by the National Bureau of Statistics, the pharmaceutical manufacturing industry recorded a revenue growth of 12.5% in 2017. Moreover, according to the statistics of the Ministry of Commerce of the PRC, the scale of pharmaceutical distribution market in 2017 expanded by approximately 8.5%, significantly outperforming the macroeconomy.

In 2017, we have witnessed the comprehensive structural adjustment and restructuring across the pharmaceutical industry in the country, which were driven by the intensive implementation of series of major medical reform policies and the multiple effects of such initiatives. We also saw unprecedented scale of reform in pharmaceutical evaluation and approval systems, as well as the transition of the consistency evaluation into a critical stage. China Food and Drug Administration ("**CFDA**") joined the International Council for Harmonization (ICH) and encouraged innovation in research and development and overall improvement in the quality of pharmaceutical products. With the full implementation of the "Two-Invoice System", the structural reform of pharmaceutical distribution segment has been accelerating while the licensed large-scale distributors will benefit from the opportunities arising from the new round of industrial consolidation. The new version of Medical Insurance Drugs Catalogs, and the implementation of certain policies, such as hierarchical diagnosis and treatment, the cancellation of drug price mark-up in public hospitals, also had direct effect on product mix, sales model and business channels. As the pharmaceutical industry in the PRC entered into a new policy cycle, pharmaceutical corporations are facing higher requirements in terms of innovation capability, quality control and compliance management, and will further accelerate integration across the industry.

With the implementation of the national strategy of "Healthy China", the national reform of healthcare and pharmaceutical system in China will continue to deepen. The focus has been shifted from cost control to quality improvement, and greater emphasis will be placed on value orientation. The pharmaceutical industry in the PRC is facing challenges including the stringent control of medical insurance expenditure, reduction in tender price, and structural adjustment in the short term, and with the tightening supervision and intensifying peer competition, enterprises are facing greater pressure from production upgrade and recovery of funds. In the long run, the continuous deepening pharmaceutical reform will lead the pharmaceutical industry to develop in a more efficient and rational manner, encourage the overall industry optimization and upgrading, as well as improve the standardization and intensification of the industry. There is an enormous potential for growth and consolidation in the pharmaceutical industry in China. 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 2017, the Group steadily promoted effective implementation of its key strategies under the "13th Five-year Plan" in line with the direction of industry policies and market demand, and strengthened its core businesses, accelerated innovation and transformation, optimized its business structure, and established a system of excellent operations. As a result of such efforts, the Group achieved a solid growth in its overall results.

During the Reporting Period, the Group recorded a total revenue of HK$172,532.2 million, representing an increase of 10.1% when compared with that of HK$156,705.2 million in 2016. In terms of RMB, total revenue of the Group during the Reporting Period recorded a year-on-year increase of 11.6%. In 2017, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses accounted for 15.3%, 82.2% and 2.5% of the total revenue, respectively.

During the Reporting Period, the Group recorded a gross profit of HK$28,276.1 million, representing an increase of 17.3% (an increase of 18.8% in terms of RMB) when compared with that of HK$24,109.1 million in 2016. The gross profit margin was 16.4%, representing an increase of 1.0 percentage points as compared with the gross profit margin of 15.4% in 2016, mainly driven by the increase in the gross profit margin of the pharmaceutical manufacturing business and the pharmaceutical distribution business as a result of the optimization of product mix and business structure.

In 2017, the Group recorded profit attributable to owners of the Company of HK$3,483.0 million, representing a significant increase of 23.5% (an increase of 25.1% in terms of RMB) when compared with that of HK$2,821.4 million in 2016. Basic earnings per share was HK$0.55 in 2017. The Board recommended the payment of a final dividend of HK$0.11 per share for the year ended 31 December 2017.

Results Review

1. Pharmaceutical Manufacturing Business

In 2017, the pharmaceutical manufacturing business of the Group continued to enrich its product portfolio, optimize its product mix, promote capacity optimization and technology upgrading, and enhance the quality of its products as well as the efficiency of its operation. The Group also explored the value of its products, adopted innovative sales model, with the aim of expanding its market share. In addition, the Group also speeded up the acquisition of products by innovating R&D capabilities and expanding business cooperation on international level. During the Reporting Period, the segment revenue in pharmaceutical manufacturing business of the Group recorded HK$29,336.5 million, representing an increase of 15.9% (an increase of 17.4% in terms of RMB) when compared with 2016.

By product categories, during the Reporting Period, the revenue from sale of chemical drugs was HK$11,614.4 million, representing a year-on-year increase of 20.4% (an increase of 22.0% in terms of RMB) when compared with 2016, which was mainly due to the revenue increase in specialty drugs such as nephrology and pediatrics, anti-infective drugs and infusion products. The revenue from sale of Chinese medicines was HK$15,276.1 million, representing a year-on-year increase of 15.6% (an increase of 17.2% 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$148.3 million, representing a year-on-year decrease of 39.2% (a decrease of 38.4% in terms of RMB) due to adjustments of sales model. The revenue from sale of nutritional and health products was HK$495.3 million, representing a year-on-year decrease of 5.5% (a decrease of 4.3% in terms of RMB).

During the Reporting Period, the gross profit margin of pharmaceutical manufacturing business of the Group was 60.8%, representing an increase of 1.1 percentage points when compared with 2016, which was mainly due to restructuring and upgrading of the pharmaceutical manufacturing business, continuous optimization of the product mix and improvement in the manufacturing process.

As of 31 December 2017, more than 460 pharmaceutical products were produced and sold in our pharmaceutical manufacturing business. During the Reporting Period, the Group had 39 pharmaceutical products with an annual revenue of over HK$100 million, among which 7 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$1,054.3 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, the central nervous system as well as the immune 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. It also put in place post-doctoral research stations and had over 600 research and development personnel.

As of 31 December 2017, the Group had 223 projects including researches on innovative drugs, generic drugs and product improvements, and 19 projects were pending registration approval by CFDA. Moreover, priority was given to facilitate more than 40 consistency evaluation projects for generic drugs. Comparative drug studies have been completed for most of the projects, and bioequivalence clinical trials have commenced for various projects, four of which have completed their bioequivalence clinical trials. During the Reporting Period, the Group obtained 20 patents and had two products approved by CFDA for clinical trials and had four products approved by CFDA for production.

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 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), Union Institute of Materia Medica(協和藥物所), Fujifilm Corporation ("**FUJIFILM**") in Japan, Tsinghua University, Nankai University and Pharmaron, where therapeutic areas include oncology, 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, of which two projects had been supported by Ministry of Science and Technology of the PRC in establishment of significant new medicines development projects and funding. In addition, certain products under research of clinical and market values were introduced.

2. *Pharmaceutical Distribution Business*

In 2017, the Group made sustained efforts to expand the network layout with a view to enhancing the breadth and depth of terminal coverage in pharmaceutical distribution business. We also continuously optimized and adjusted product portfolios and business structure, and promoted innovative service models in order to improve operation efficiency and quality. During the Reporting Period, the Group's pharmaceutical distribution business achieved a segment revenue of HK$144,595.5 million, representing an increase of 9.3% (an increase of 10.8% in terms of RMB) when compared with 2016.

During the Reporting Period, the Group's distribution business successfully entered into four provinces, namely Jiangxi, Hainan, Qinghai, and Xinjiang. The Group also enhanced construction of provincial platforms, accelerated network consolidation and penetrated into grassroots markets to further strengthen the competitive edge of the Group's pharmaceutical distribution business in the regional markets. As at 31 December 2017, the pharmaceutical distribution network of the Group covered 27 provinces, municipalities and autonomous regions nationwide, with customers including 5,475 Class II and Class III hospitals, 37,941 primary medical institutions and 30,270 retail pharmacies.

In 2017, leveraging on the implementation of medical reform policies such as "Two-Invoice System", the Group optimized its business structure on an on-going basis. The proportion of the revenue from direct sales to medical institutions in the total revenue from distribution business continued to increase. As a result, the Group's pharmaceutical distribution business recorded a gross profit margin of 6.7% during the Reporting Period, representing an increase of 0.5 percentage points when compared with 2016.

During the Reporting Period, the Group actively implemented its supply chain management and promoted the distribution business operation integration, aiming to build up its core competitive edge. The Group steadily promoted the establishment of an integrated and professional logistics system for the purpose of enhancing logistics efficiency and management. As at 31 December 2017, the Group's distribution businesses had 153 logistics centers, and the Group continued to expand its upstream resources, increased introduction of quality products designed for chronic diseases and major diseases, optimized product mix, increased the imported categories and services. Efforts were also made to vigorously develop 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 31 December 2017, the Group provided hospital logistic intelligence ("**HLI**") services to more than 200 hospitals cumulatively, and commenced dozens of 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$4,243.6 million, representing a year-on-year increase of 8.4% (an increase of 9.9% in terms of RMB), while the gross profit margin of the retail business was 17.5%, representing a decrease of 0.8 percentage points when compared with 2016. This was mainly due to the rapid growth of direct-to-patient (DTP) business which has a relatively low profit margin.

As of 31 December 2017, the Group had 786 retail pharmacies in total. During the Reporting Period, the Group further integrated the pharmaceutical retail resources in terms of operational management, operational categories and information system. The Group also actively built up centralized procurement platforms to foster deployment of its DTP business in western China, and carried out a variety of novel business models such as chronic diseases management etc. As at the end of the Reporting Period, the Group had 88 DTP pharmacies covering more than 50 cities in the PRC.

Inclusion in a Number of Key Capital Market Indices

Since its listing, the Group has been incorporated into a number of key capital markets indices. Each of the indices is an crucial reference for investing in the stock market. The Group's inclusion indicated the overall affirmation of its business results, development potential, market value and stock liquidity by the capital market.

The Group was included in the constituent stocks of the Hang Seng Composite LargeCap Index in March 2017 and was eligible for southbound trading via Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. It is also included in the Hang Seng Mainland Healthcare Index and the Hang Seng Healthcare Index.

It was included in the FTSE Global Equity Index (LargeCap), FTSE All-World Index and FTSE Global AllCap Index in June 2017. The FTSE Indices are the world's leading stock indices and are primarily used as a business performance benchmark and as a basis for derivatives and other index-linked products, which are widely adopted by investors in North America, Europe and Asia.

The Group formally became a constituent stock of Morgan Stanley Capital International (MSCI) China Index in November 2017. MSCI China Index Series consists of a series of national indices, composite indices, domestic and overseas indices, which are used by institutional investors as important reference for investment in the PRC market.

In March 2018, the Group was included in Hang Seng Stock Connect Hong Kong Index, Hang Seng SCHK Mainland China Companies Index, Hang Seng SCHK ex-AH Companies Index, as well as the Hang Seng SCHK New Economy Index Series. The Hang Seng Stock Connect Hong Kong Index is designed to reflect the overall performance of securities listed on the Main Board of the Stock Exchange eligible for investment by parties in the PRC through the Hong Kong Stock Connect. The index serves as a valuable indicator for the southbound trading and investment through the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Strengthen Overall Competitiveness through Mergers and Acquisitions

The Group has strong merger and acquisition capabilities and ample experiences with proven track records. During the Reporting Period, the Group successfully implemented several external acquisition projects, expanded its business deployment. Besides, the Group applied advanced management concepts and business models in the acquired entities, enabled integration of resources, and facilitated continuous growth of business.

For pharmaceutical manufacturing business, the Group completed several acquisitions in different therapeutic areas and further enriched its product portfolio in the fields of anti-tumor, digestive system and nutraceuticals. China Resources Sanjiu Medical & Pharmaceutical Company Limited ("**CR Sanjiu**") completed its acquisition of 65% equity interests in Jilin Sanjiu Jin Fu Kang Pharmaceutical Limited (吉林三九金複康藥業有限公司) (formerly known as Jilin Jin Fu Kang Pharmaceutical Limited (吉林金複康藥業有限公司)), which manufactures anti-tumor drugs; it also completed the acquisition of 65% equity interests in Shandong Shenghai Health Products Co., Ltd. (山東聖海保健品有限公司) with a view to speeding up the establishment of network in the field of healthcare business. China Resources Double-Crane Pharmaceutical Company Limited completed the acquisition of 100% equity interest in Double-Crane Pharmaceutical (Hainan) Company Limited (雙鶴藥業(海南)有限責任公司) (formerly known as Hainan Zhong Hua Lian He Pharmaceutical Company Limited (海南中化聯合制藥工業股份有限公司)), a company that specializes in the manufacturing of digestive tract, anti-infective 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 the establishment of its nationwide network. During the Reporting Period, the Group tapped into four provinces, namely Jiangxi, Hainan, Qinghai and Xinjiang by mergers and acquisitions. It also promoted the sinking of networks and strengthened its the competitive edge in regional markets through the completion of mergers and acquisitions of several prefecture-level projects. 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.

As at the end of 2017, the Group completed the subscription of 40% of the enlarged equity interests in China Resources Leasing Co., Ltd. ("**CR Leasing**"). The subscription marked an important step for the Group to enter into the area of finance leasing. Based on its leading position in the pharmaceutical distribution segment in the PRC and in combination with its own resources and branding advantages, the transaction allowed the Group to further promote synergy between pharmaceutical business and financing, strengthen the coverage of medical institutions, and to capture greater market share against the backdrop of full implementation of the "Two-Invoice System".

Moreover, during 30 November 2017 to 29 December 2017 and on 9 February 2018, China Resources Pharmaceutical Investment Company Limited further acquired approximately 12.16 million shares of Dong-E-E-Jiao, increasing its direct interests in Dong-E-E-Jiao Company Limited ("**Dong-E-E-Jiao**") from 5% to 6.86%. 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 30% equity interests in Dong-E-E-Jiao. Such acquisition has enhanced the Group's overall competitiveness and synergy over its pharmaceutical manufacturing business.

Accelerate the Acquisition of High-quality Products through External Cooperation

In September 2017, Shenzhen China Resources Gosun Pharmaceutical Co., Ltd.（深圳華潤九新醫藥有限公司）, a non-wholly-owned subsidiary of the Company, entered into an agreement with Basilea Pharmaceutical International Ltd ("**Basilea**"), a Swiss Company in respect of the fifth-generation cephalosporin antibiotic (Ceftobiprole) developed by Basilea, for the purpose of establishing the exclusive licensing cooperation in Mainland China, Hong Kong and Macao. Ceftobiprole, a cephalosporin antibiotic for intravenous injection, is primarily used in treatment of community-acquired bacterial pneumonia (CABP) and hospital-acquired bacterial pneumonia (HABP) among adult patients.

In April 2017, the Group entered into the strategic cooperation agreement with FUJIFILM in respect of a comprehensive cooperation in various areas, including biosimilars, chemical drugs and medical equipment, Chinese medicine and healthcare products. Both parties have agreed to cooperate in projects on 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 a biosimilar product developed by FUJIFILM for the treatment of rheumatoid arthritis in the PRC, deploy sales network, and optimize the biopharmaceutical product line of the Group.

In February 2018, a legally binding license agreement was signed between the Group and Xbrane Biopharma AB ("**Xbrane**"), a Swedish company, under the framework of a strategic cooperation agreement previously signed between the two parties. Pursuant to the licensing agreement, the Group will introduce a key product being developed by Xbrane – Spherotide – a long-acting microsphere-based injectable drug. The long-acting microsphere-based injectable Spherotide is a GnRH analogue developed by Xbrane and is used in the treatment of prostate cancer, breast cancer, uterine fibroids and endometriosis. After the launch of the product in Europe, the Group will cooperate with Xbrane to engage in clinical research in the PRC, and will complete the registration for exclusive introduction as well as commercial sales.

Promote Business Development by Leveraging on Intellectual Capital

In 2017, the Group established China Resources Pharmaceutical Industrial Investment Fund LLP (the "**Fund**") with China Resources Capital Management Limited and other partners. The Fund is principally engaged in equity investment in pharmaceutical industry in the PRC. In the first phase, the size of the Fund was RMB2,500 million. The capital commitment of the Group represented approximately 12.21% of the total capital commitment in the Fund. As one of the diversified investments of the Group, the Fund will build various portfolios of biopharmaceuticals, chemical drugs, Chinese medicine and pharmaceutical distribution at different stages based on the strategic directions of the Group, and enable the Group to improve its business network and to consolidate and strengthen the Group's leading position in the industry. The Fund had completed an investment during the Reporting Period. With the facilitation of this investment, the Group also carried out comprehensive collaboration with the invested companies in their business areas and successfully achieved synergy.

Outlook and Future Strategies

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. The development model in the industry has been continuously transforming towards high-quality and highly-efficient, 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, industrial funds and international collaboration. It will improve its intrinsic development potential through optimizing its product mix and business model, continuously 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. ***Continuously strengthen core businesses and optimize product portfolio to facilitate transformation and upgrade of pharmaceutical business***

By leveraging on the existing brand superiority, production and marketing resources, and through measures such as external mergers and acquisitions and brand extension, the Group will expand business areas in cardiovascular, anti-tumor, central nervous system and universal health to create important products with clinical efficacy and market value and to improve product mix of chemical drugs which combine the treatment in chronic disease, specialty therapies and intravenous 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 consistency evaluation of generic drugs, production technique improvement, quality advancement and production capacity optimization, the Group will improve its production standard and promote the industrial upgrade to achieve sustainable development for the pharmaceutical manufacturing business.

2. ***Optimize distribution network and innovate business models to turn into a highly efficient and intelligent service provider on the pharmaceutical supply chain***

Capitalizing on the opportunities arising from the implementation of policies such as “Two-Invoice System” and hierarchical diagnosis and treatment, the Group will complete the nationwide distribution network as soon as possible, continuously penetrate the grassroots market, and strengthen the coverage of medical terminals. The Group will also make constant efforts to optimize its product mix and business structure and accelerate the development of medical device distribution business. Meanwhile, leveraging on 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 business so as to consolidate its market leading position as a pharmaceutical distribution solution provider, and to play an active role in promoting the consolidation of the pharmaceutical distribution industry in the PRC.

3. Optimize R&D and innovation system and accelerate the acquisition of products based on the orientation of clinical needs

Prioritizing technological innovation and the orientation of clinical needs, the Group will increase its investment in research and development, innovate the mechanism of research and development and further optimize the establishment of the integrated research and development platform. It will continue to enhance its research and development capability by building a leading research and development team in the industry and expand new product acquisition channels through in-depth cooperation with external research and development institutions. The Group will optimize the industrial chain of research and development in the areas of anti-tumor, autoimmune, cardiovascular, central nervous system and respiratory system, focus on the development of biopharmaceutical drugs, and adopt forward-looking approach to develop new therapeutic areas and enhance the product capability in unserved therapeutic areas and the industrialization of projects. Through innovation of dosage forms, further optimization and consistency evaluation, the Group will strengthen its competitive edge of the existing core products.

4. Accelerate external development in various ways and consolidate the leading position in the industry

Taking on the opportunities arising from consolidation across the pharmaceutical industry in China, the Group will achieve external growth through strategic mergers and acquisitions to accelerate the acquisition of quality resources and achieve forward-looking business layout and foster new stimulations for business growth by leveraging on the healthcare industrial fund. 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 therapeutic segments including cardiovascular, anti-tumor, pediatrics and biopharmaceutical sectors. For pharmaceutical distribution and retail businesses, the Group will strengthen its competitive edge by investing in or acquiring distribution companies with high-quality medical clients and product resources, as well as by investing in or acquiring high-quality pharmaceutical retail chains.

5. ***Expand international cooperation, access to quality resources and enhance overall competitiveness***

Adhering to the guiding principles of “bringing in” and “going global”, the Group will continue to improve the expansion and establishment of its international cooperation platforms. The Group will cooperate with large multinational pharmaceutical manufacturers, overseas pharmaceutical distributors and international medical device manufacturers through various means, such as import of products, distribution agency and collaborative development, to introduce quality products and advanced technologies, and explore the pharmaceutical market in China, thereby building a mutually beneficial cooperation model and achieving the optimization and upgrade of the existing product portfolio and business model. Meanwhile, the Group will conduct in-depth analysis and research on international pharmaceutical market, with a view to making breakthrough in the distribution of its overseas business.

6. ***Promote the integration of resources and business synergy to improve quality and efficiency of operation***

The Group will continue to explore the synergies in its integrated business deployment, 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, expansion of terminals and introduction of products. The Group will also take CR Leasing as quasi-financial platform, innovating the synergetic mode of industry and financing, exploring new space for growth and forming a market force. At the same time, we will continue to improve the construction of information system, strengthen the integrated management of internal resources, promote the integration of existing and new resources, and control the operational risks by strengthening fund supervision and control as well as business assessment, so as to constantly enhance the Group’s overall quality and 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 2017, the Group had bank balances and cash of HK$14,161.8 million (2016: 13,960.2 million), which were primarily in RMB, US dollars ("**USD**") and HKD.

As at 31 December 2017, the RMB-denominated, and HKD-denominated bank borrowings accounted for approximately 78.5% (2016: 87.4%) and 21.5% (2016: 12.6%), respectively, of the Group's total bank borrowings, and the bank borrowings which carried interests at fixed and variable rates accounted for 65.6% (2016: 29.6%) and 34.4% (2016: 70.4%), respectively, of the Group's total bank borrowings. Among the Group's total bank borrowings as at 31 December 2017, a substantial portion of approximately 96.7% (2016: 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 1.2:1 as at 31 December 2017 (2016: 1.3:1).

As at 31 December 2017, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 36.0% (2016: 21.6%).

In 2017, the Group's net cash from operating activities remained solid at HK$4,857.5 million (2016: HK$4,119.6 million). The Group's net cash used in investment activities in 2017 amounted to HK$8,511.6 million (2016: HK$1,953.1 million). The Group's net cash from financing activities in 2017 and net cash used in financing activities in 2016 amounted to HK$3,376.9 million and HK$625.5 million), respectively.

As at 31 December 2017, the Group had not used any financial instruments for hedging purposes.

Pledge of Assets

As at 31 December 2017, the Group's total borrowings amounted to HK$32,209.8 million (31 December 2016: HK$15,762.5 million), of which HK$548.7 million (31 December 2016: HK$1,346.9 million) were secured and accounted for 1.7% (31 December 2016: 8.5%) of the total borrowings.

Certain of the Group's trade and bills receivables with an aggregate net book value of HK$1,320.4 million (31 December 2016: HK$2,164.9 million) have been pledged as security.

Contingent Liabilities

As at 31 December 2017, the Group had no material contingent liabilities (31 December 2016: 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 2017 amounted to HK$2,005.6 million (2016: HK$1,982.3 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 2017, the Group employed around 56,000 staff (31 December 2016: 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 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 2017, the Company had used approximately HK$1,476.7 million for repayment of bonds; approximately HK$3,697.2 million for partial payment of strategic acquisitions; approximately HK$146.5 million for establishment of more advanced logistics centers and warehouses; approximately HK$136.5 million for HLI Solutions; approximately HK$1,061.5 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.

DIVIDEND

The Board recommended the payment of a final dividend of HK$0.11 per share for the year ended 31 December 2017 (2016: HK$0.09). 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 18 May 2018 (the "**AGM**") and the final dividend will be distributed on or about 8 June 2018 to the Shareholders whose names appear on the register of members of the Company on 25 May 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 14 May 2018 to 18 May 2018, 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 11 May 2018.

The register of members of the Company will also be closed on 25 May 2018, 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 24 May 2018.

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 Reporting Period, 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 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 Reporting Period.

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 2017 and 2016 included in this preliminary announcement of annual results 2017 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 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 and will deliver the financial statements for the year ended 31 December 2017 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 2017 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 2017 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

PUBLICATION OF THE ANNUAL RESULTS AND 2017 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 2017 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, 21 March 2018

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.