



華潤醫藥集團有限公司

China Resources Pharmaceutical Group Limited

2018 Interim Results

August 2018



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1H2018 Highlights

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Business Review

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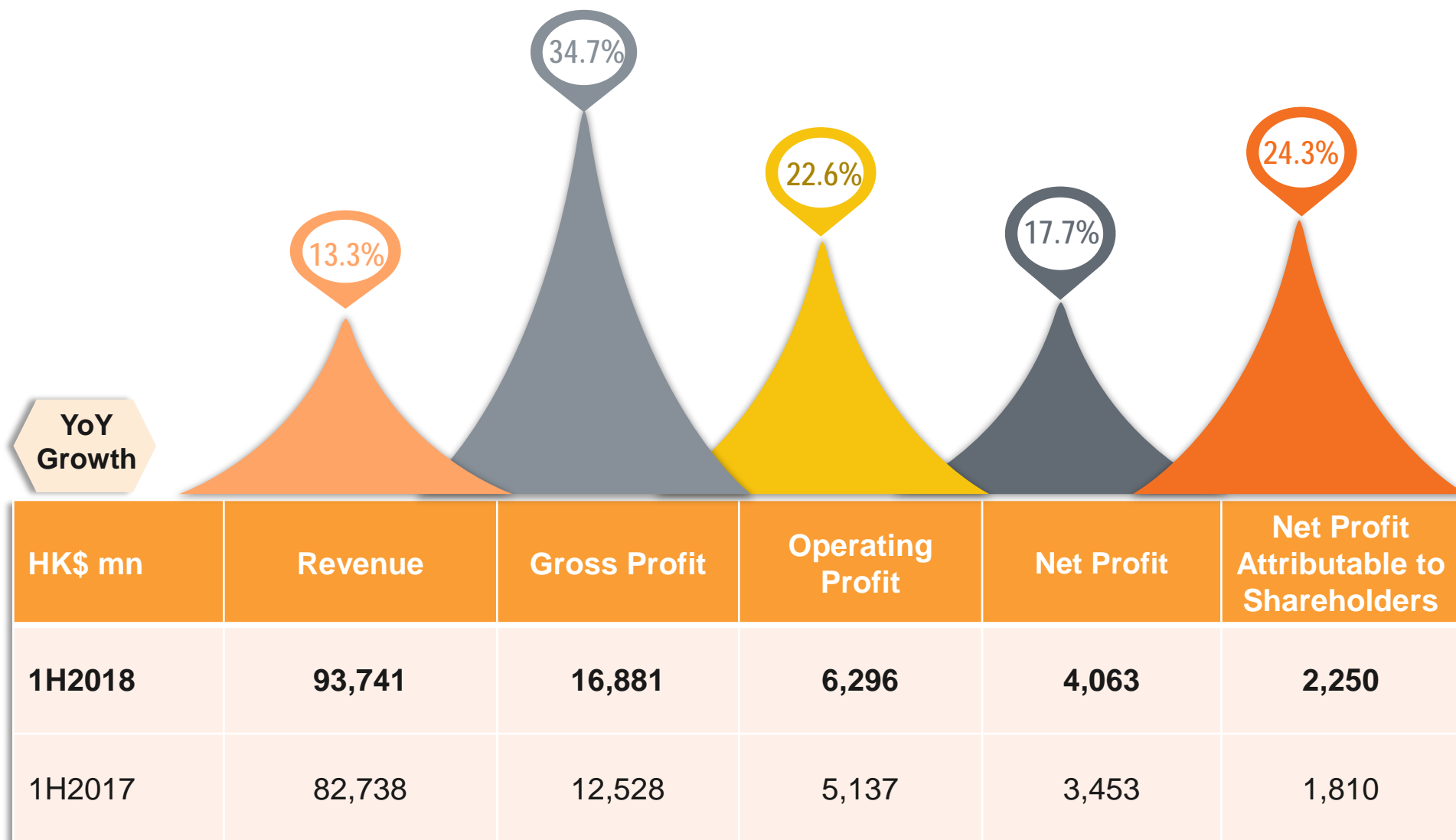
Financial Review

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Appendix



Strong Financial Performance



Operating Profit = Profit before Tax + Finance Expense – Interest Income – Foreign exchange loss – other gain/loss from non-operating activities

Steady Segment Growth, Manufacturing Outperformed

Manufacturing

Segment revenue: HK\$16.9bn
Segment gross profit: HK\$10.7bn

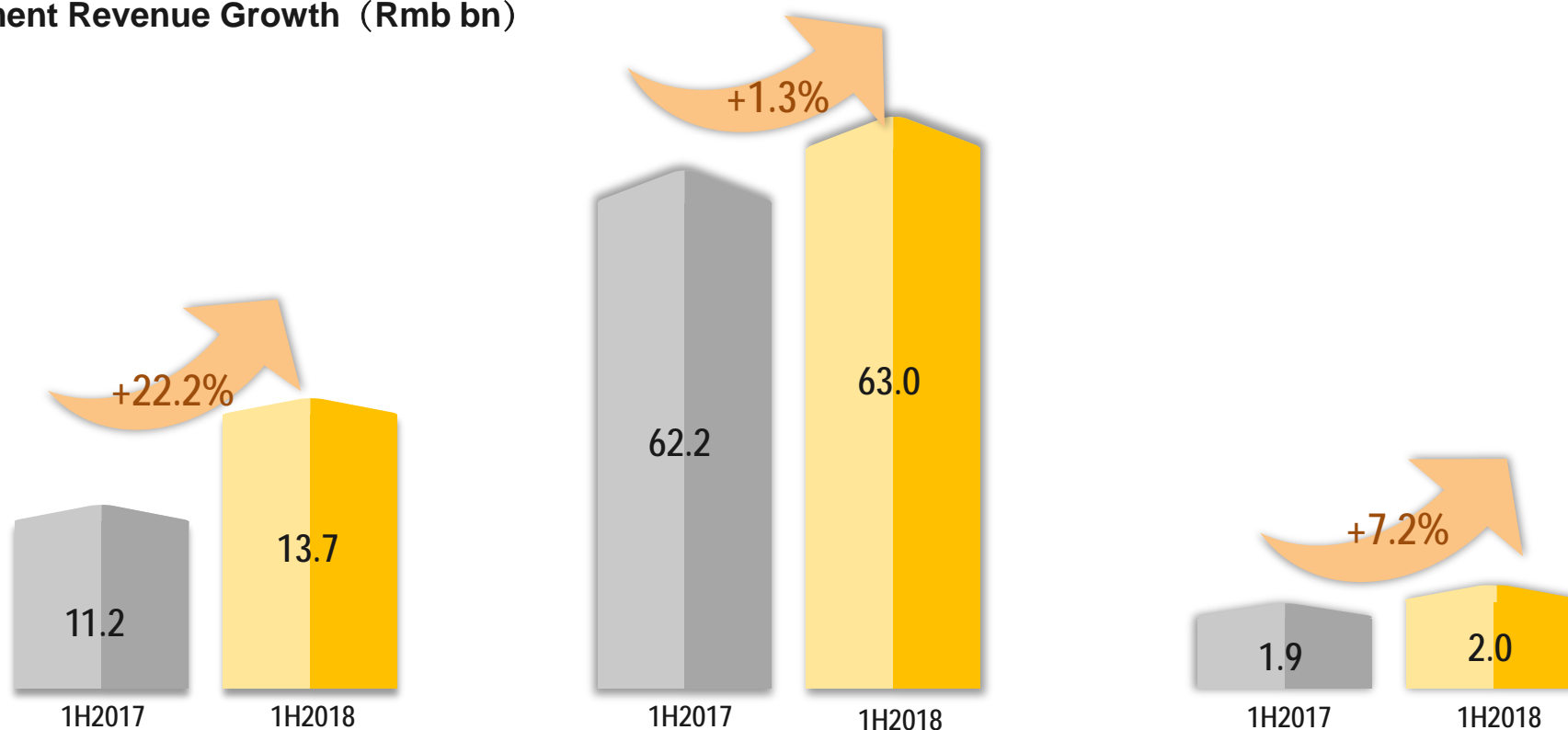
Distribution

Segment revenue: HK\$77.6bn
Segment gross profit: HK\$5.7bn

Retail

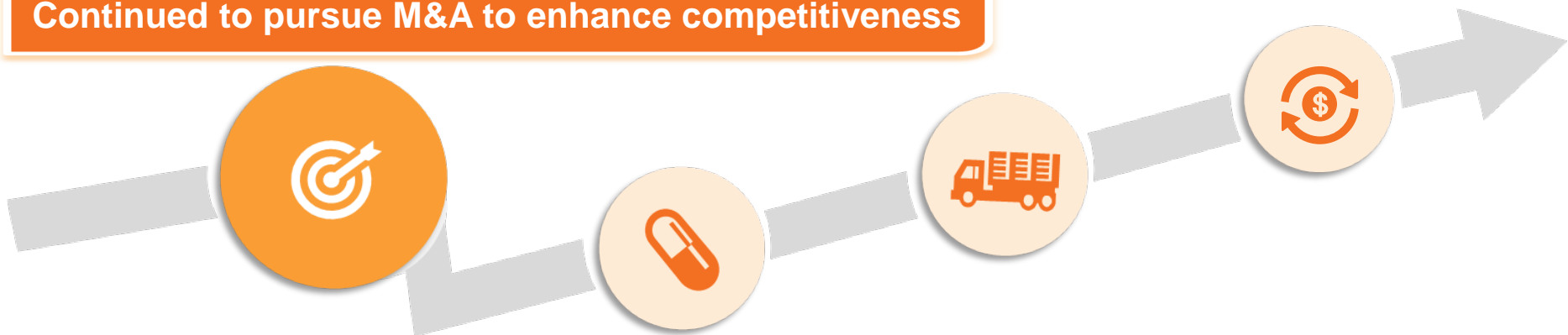
Segment revenue: HK\$2.5bn
Segment gross profit: HK\$0.4bn

Segment Revenue Growth (Rmb bn)



1H2018 Highlights

Continued to pursue M&A to enhance competitiveness



Acquisition of Jiangzhong Pharm, realizing synergies in OTC, etc.

- Signed strategic cooperation agreement with Jiangxi Government to restructure Jiangzhong Group, CR Pharm will acquire or subscribe $\geq 51\%$ interest in Jiangzhong Group, which controls 43.03% interest in Jiangzhong Pharm. Share subscription agreement signed between CR Pharm Holdings and shareholders of Jiangzhong Group
- Jiangzhong Pharm is a leading pharmaceutical manufacturer of OTC products in China. Synergies will be created with existing manufacturing business

Chemical drugs: further enrich product portfolio in psychiatry & neurology; acquired MI of Double-Crane Limin

- CR Double-Crane announced the acquisition of 45% & 40.65% interests in Xiangzhong Pharm in May & August 2018 to complement the product portfolio in psychiatric and neurological areas
- CR Double-Crane owns 100% of Double-Crane Limin after acquiring 40% minority interest, and further integrate business layout and resources

Optimized distribution network coverage in both width and depth

Accelerated the distribution network coverage in western provinces, further improved market penetration, completed prefecture level M&A to enhance penetration in major provinces, and strengthened competitive advantages in regional markets

Utilized industry investment fund for forward-looking layout

CR Pharm Industry Fund completed several investments in TCM, medical equipment and biopharm areas. Invested Pre-IPO in Fusen Pharm (the company completed the global offering in HK in July 2018)

The invested targets realized synergies with CR Pharm in terms of R&D, manufacturing and distribution, etc.

1H2018 Highlights

Integrated resources to promote development of biopharm

By injection of the R&D product dulaglutide from CR Pharm Holdings, as well as cash and the R&D product insulin aspart from China Resources Biomedical, Angde Biotech, a wholly-owned subsidiary of Dong-E-E-Jiao, underwent restructuring. After completion, these two companies jointly own 51% interest in Angde Biotech

A complete product portfolio of recombinant protein in diabetes area can be formed by combining the injected R&D products with Angde Biotech's own R&D product. **Angde Biotech will be developed into a production and operation platform for the recombinant protein biopharm drugs.** CR Pharm further integrated R&D, production and marketing resources of the biopharm business

CR Pharm's biopharm business **has advanced R&D and production platform, marketed products, as well as high potential R&D products,** focusing on oncology, immune system and cardiovascular areas

Included in the Hang Seng Corporate Sustainability Benchmark Index

CR Pharm was included in the Hang Seng Corporate Sustainability Series in August 2018. This is evidence of CR Pharma's **outstanding performance in environmental protection, social responsibility and corporate governance,** and also the recognition of the capital market for its **sustainable development**



Facilitate the transformation and upgrade of manufacturing business

Focusing on cardiovascular, oncology and central nervous system and nutrition areas etc., further expand and optimize product mix, and promote production upgrade

Strengthen leadership position in pharmaceutical distribution

Optimize distribution network and penetration in dominant regions, become an innovative intelligent service provider along the pharmaceutical supply chain

Further improve R&D and innovation system

Enhance R&D innovation platform, raise R&D expenditure, accelerate product development and industrialization, promote consistency evaluation of generic drugs

Accelerate business expansion through acquisitions

Accelerate inorganic growth through M&As, industry funds etc., to acquire high-quality assets and resources

International collaboration

Strengthen international collaboration platform, and facilitate cooperation with leading pharmaceutical MNCs

Enhance integration synergies , improve operational efficiency

Promote resource integration and create synergy to improve operation quality and efficiency



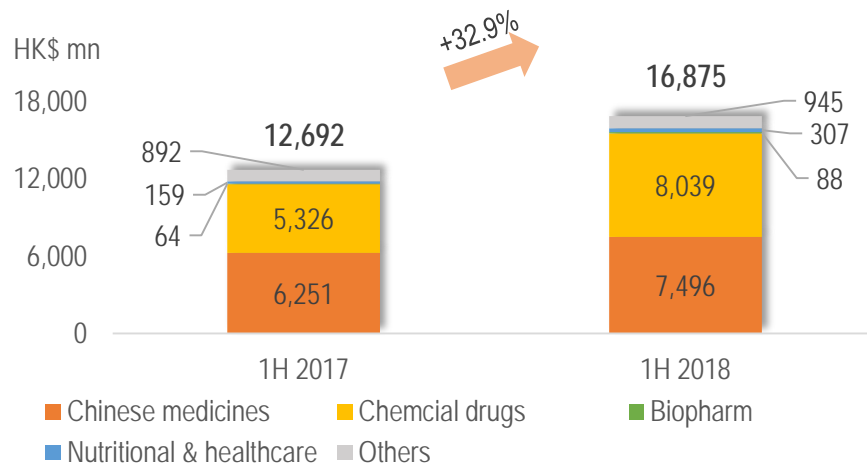
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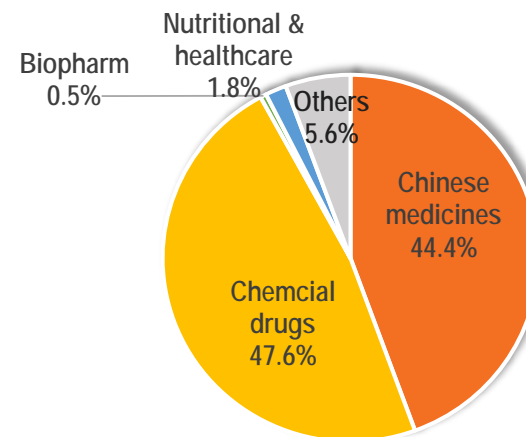
Manufacturing: Robust Topline Growth

- Manufacturing segment continued focusing on its core products, exploring new business areas, enriching product portfolio as well as adopting innovative sales models, revenue increased by 32.9% YoY, to HK\$16.9bn in 1H2018
- In 1H2018, Chinese medicines, chemical drugs, biological drugs and nutritional & healthcare products represented 44%, 48%, 0.5% and 2% of manufacturing segment revenue respectively
- Comprehensive product portfolio covering key therapeutic areas in cardiovascular, cold remedies, anti-infection, alimentary track & metabolism, dermatology and pediatrics
- Manufactured ~430 products, of which ~300 are included in NRDL as of 30 Jun 2018

Segment Revenue

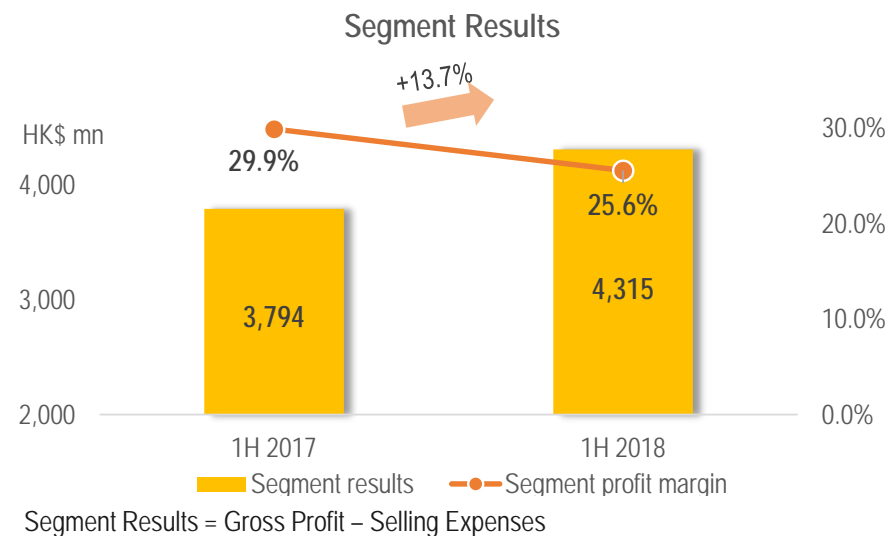
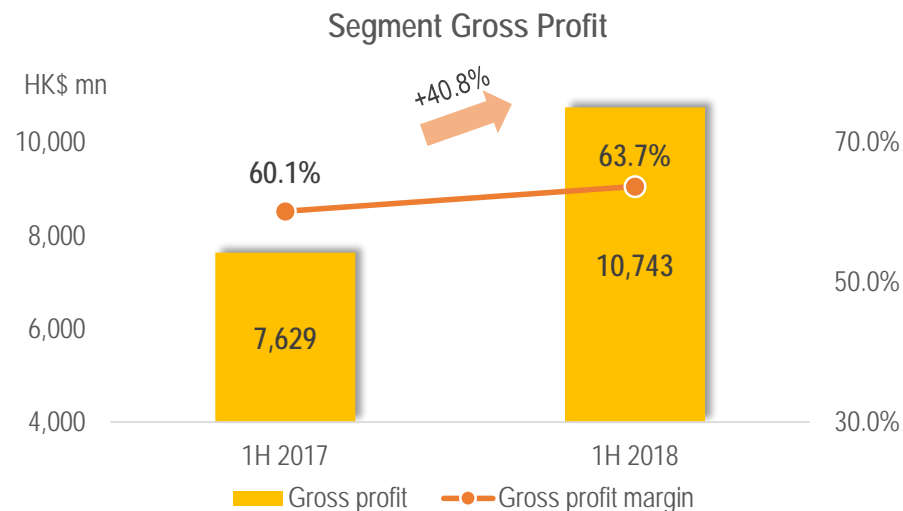
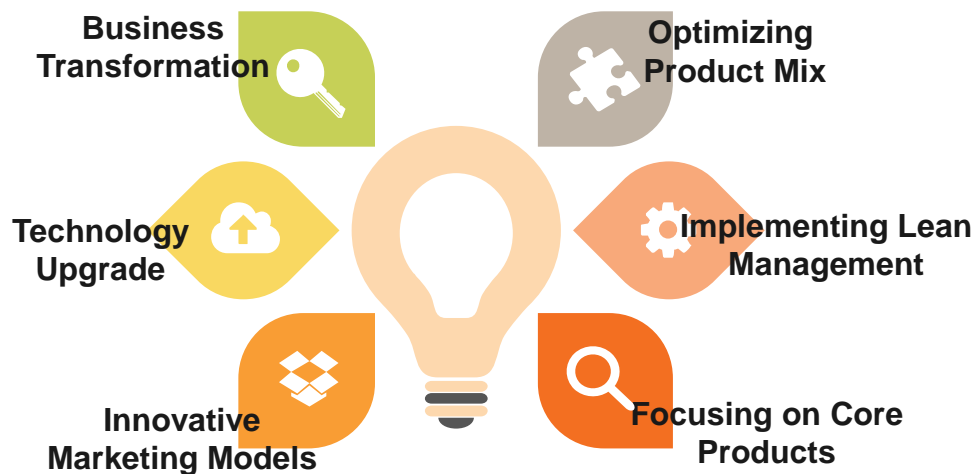


Revenue Breakdown



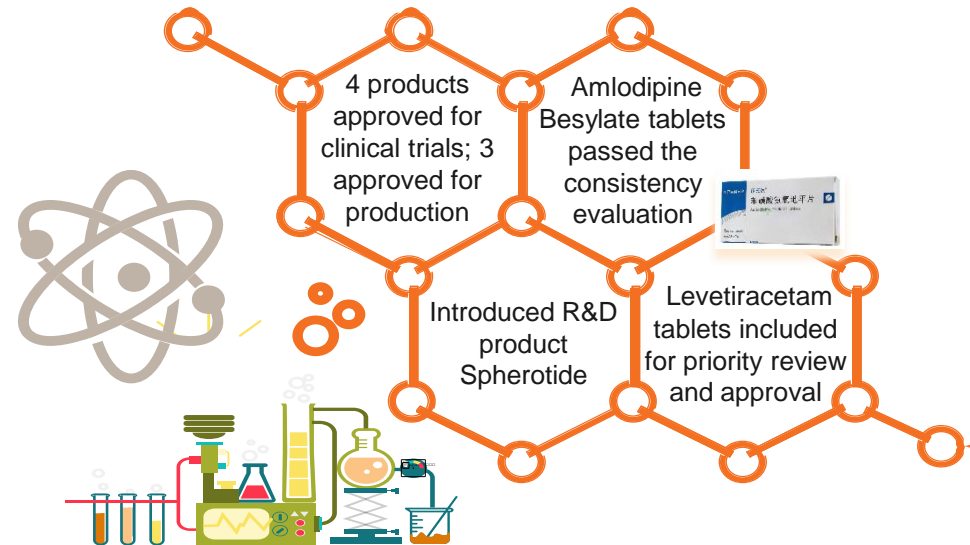
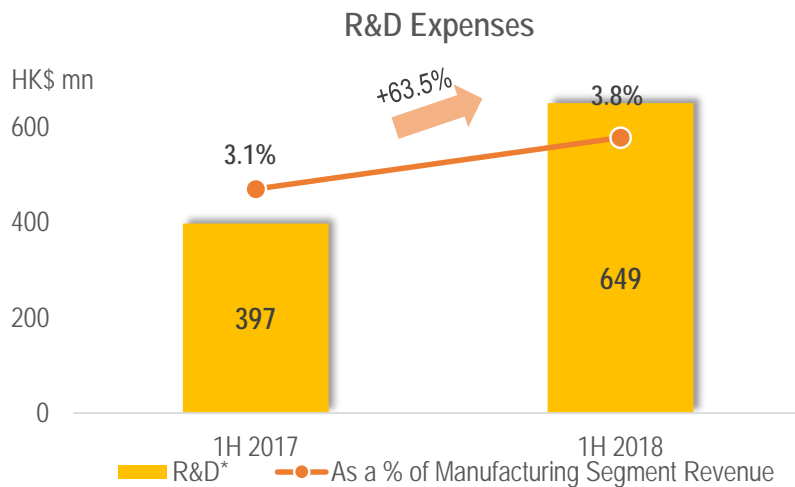
Increase in GP Margin by Optimizing Product Mix

- Manufacturing business in 1H2018:
 - Gross Profit soared 40.8% YoY to HK\$10.7bn ; GP Margin was 63.7%, 3.6ppt higher YoY
 - Segment Profit was HK\$4.3bn, or 13.7% YoY growth
- Continued to optimize product mix, upgrade technology, promote business transformation and implement lean management



Gained Quality Product by Improving R&D Capabilities

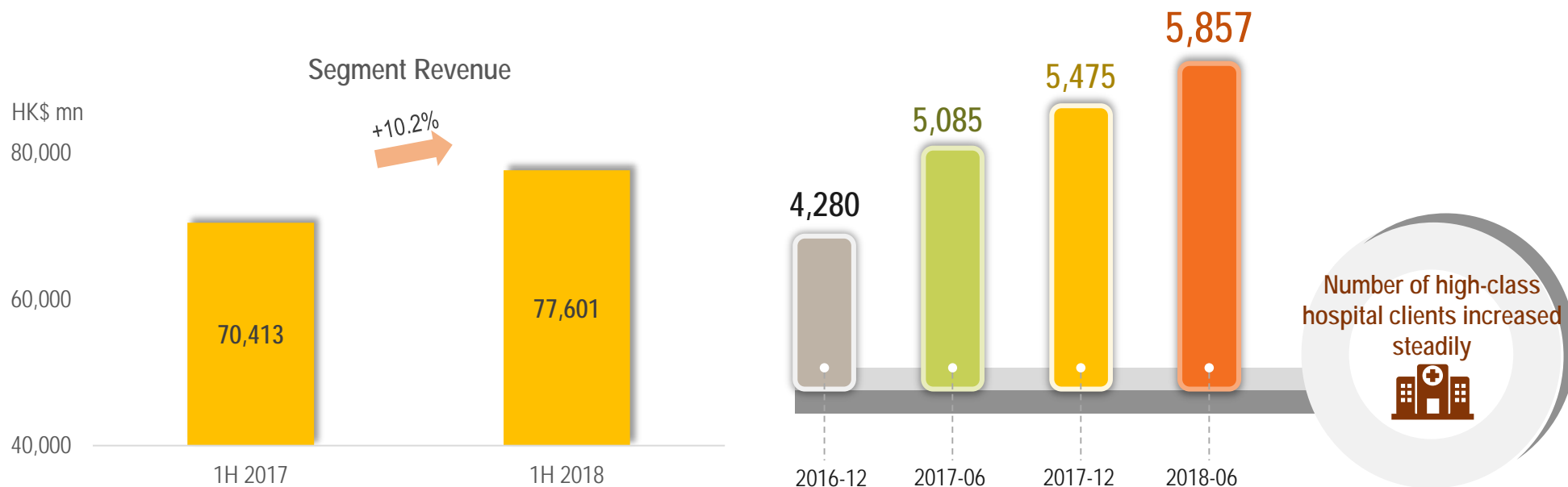
- In 1H2018, the R&D expenditure was HK\$649 mn, or 3.8% of total revenue in manufacturing segment. At the end of 1H2018, a total of 197 R&D projects, including 37 projects on innovative drugs; four products approved by SDA for clinical trials and three approved for production in 1H2018. The Levetiracetam tablet was included in the public list for priority review and approval in July 2018
- Conducted strategic cooperation with Fujifilm, National Center for Nanoscience and Technology of Chinese Academy of Sciences, Union Institute of Materia Medica, Nankai University, WuXi AppTec and Pharmaron; introduced Spherotide, a long-acting microsphere-based injectable drug of clinical and market values, developed by Swedish company Xbrane
- Over 40 consistency evaluation projects have commenced; Terazosin Hydrochloride tablets, Amlodipine Besylate tablets & Metformin Sustained Release tablets completed application, and Amlodipine Besylate tablets passed the consistency evaluation in July 2018



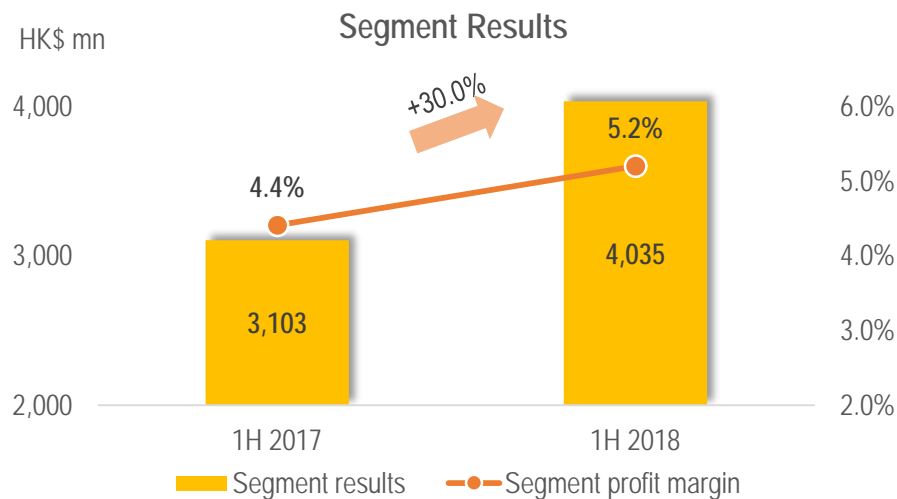
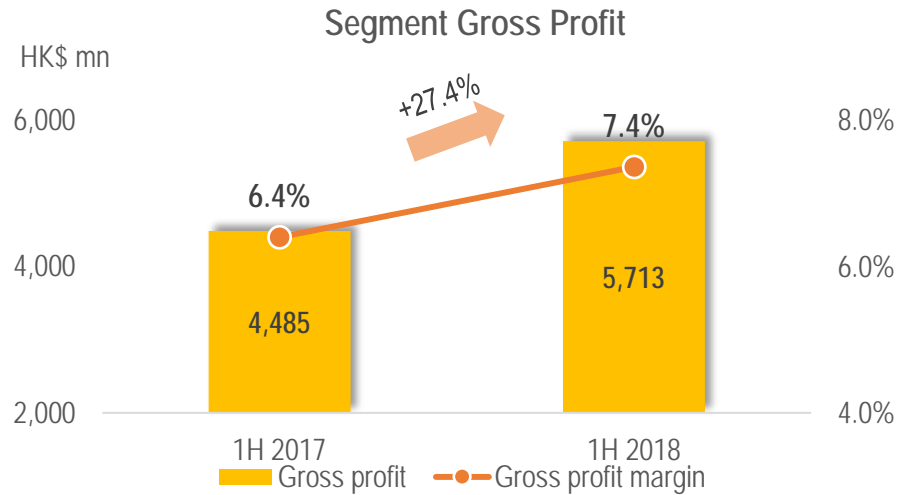
Including capitalized R&D expenditure

Strengthened Distribution Network Coverage

- Bolstered the coverage of pharmaceutical distribution network; continued expanding distribution network in western unserved provinces; enhanced construction of provincial platforms and penetrated into grassroots markets to further strengthen the competitive advantage in dominant regions. Distribution network covered 27 provinces by end of 1H2018
- Segment revenue in 1H2018 was HK\$77.6bn, or 10.2% increase YoY
- At the end of 1H2018, serving ~ 80,000 downstream customers, including 5,857 Class II and Class III hospitals, and 38,954 primary medical institutions, customer coverage continued to improve
- Continued to improve efficiency by the establishment of an integrated and modernized intelligent logistics system; operating 160 logistics centers at the end of 1H2018

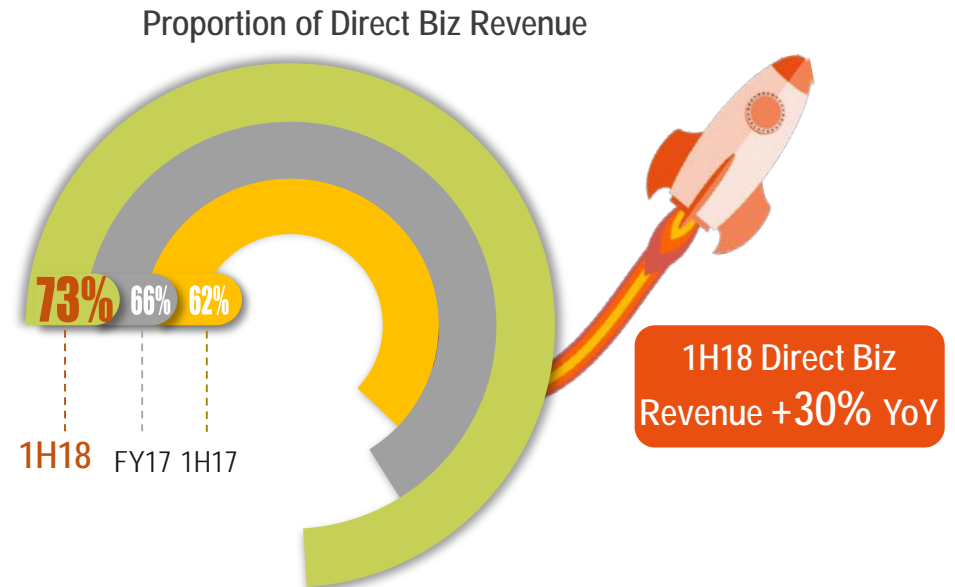


Optimized Biz Structure; Strong Growth in Direct Biz



Segment Results = Gross Profit – Selling Expenses

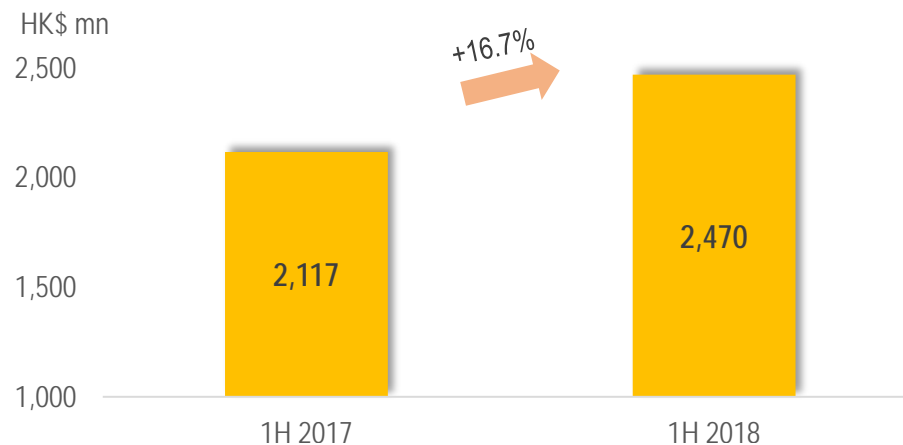
- Leveraging the opportunity of the Two-Invoice System, optimized business structure, revenue proportion of direct business increased to 73%
- GP Margin was 7.4% in 1H2018, lifted 1.0ppt YoY; Segment Profit was HK\$4.0bn, up 30.0% YoY
- Explored and initiated various innovative business models and value-added services to promote integrated operation in distribution business



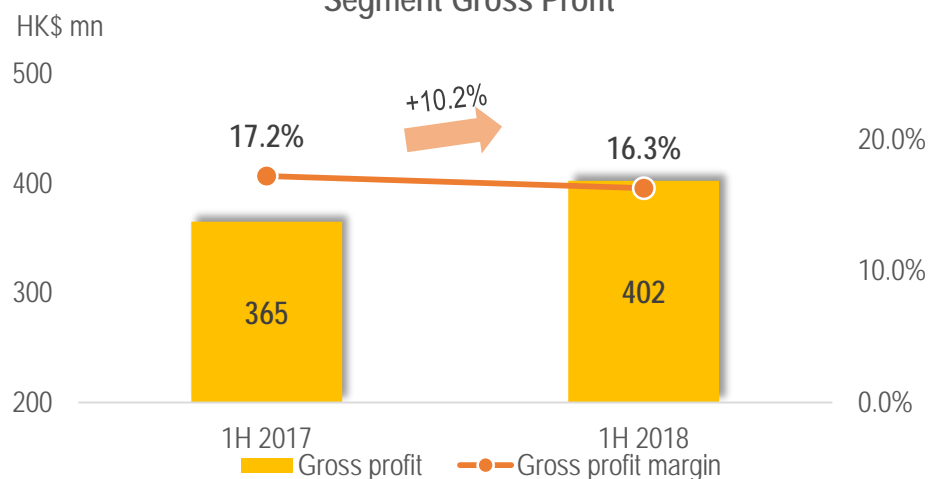
Retail Business

- Retail business in 1H2018:
 - Segment revenue was HK\$2.5 bn, or 16.7% YoY growth, mainly due to rapid growth of DTP business
 - GP Margin was 16.3%, 0.9ppt lower YoY, mainly due to the fast growing DTP business has relatively lower GP Margin
- At the end of 1H2018, operated 812 retail pharmacies, of which 94 are DTP pharmacies covering more than 50 cities nationwide

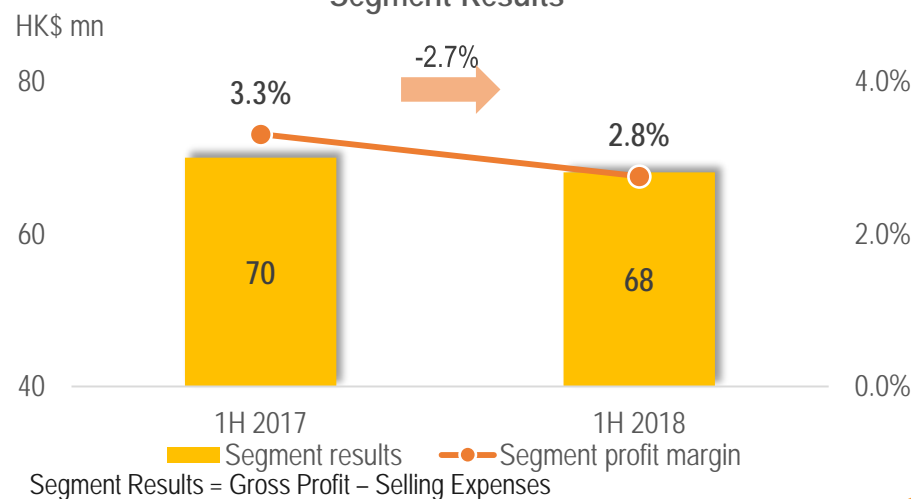
Segment Revenue



Segment Gross Profit



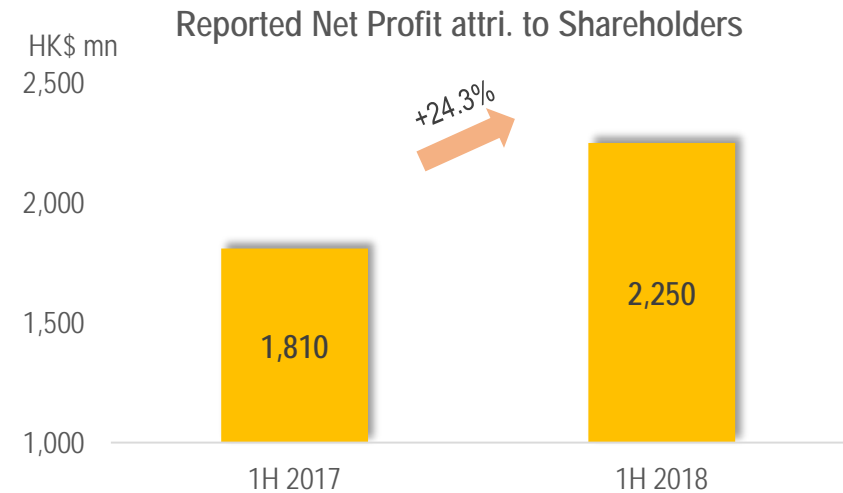
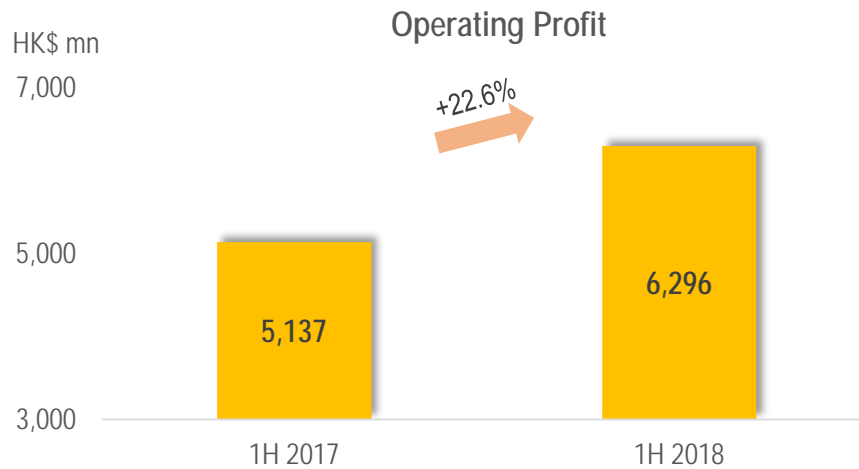
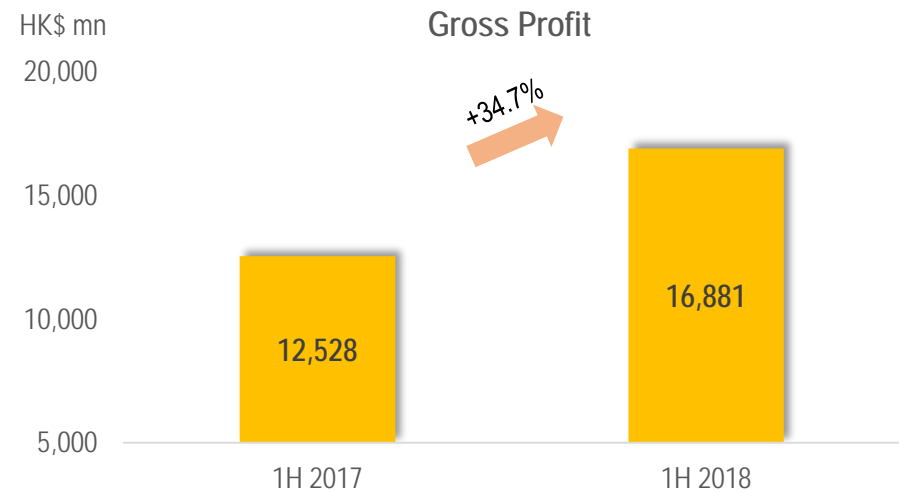
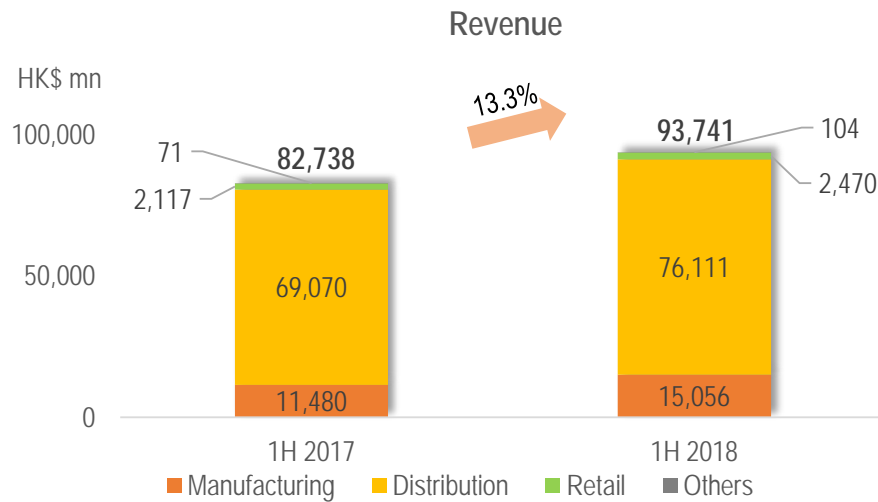
Segment Results



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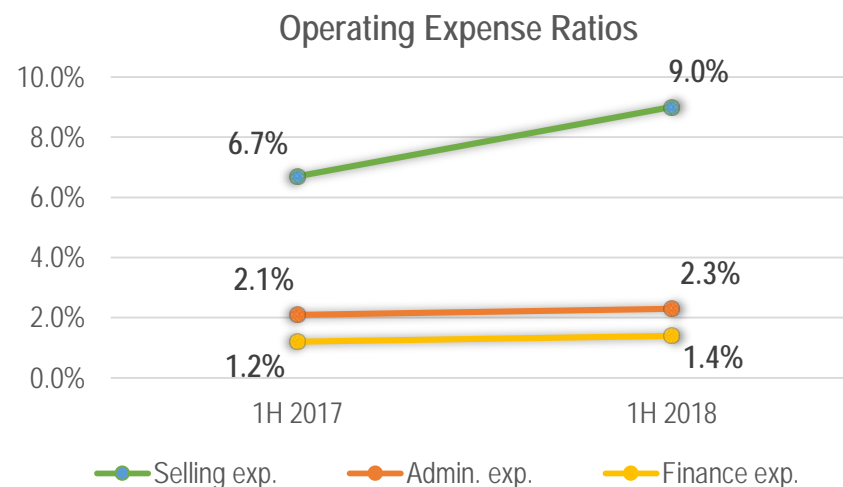
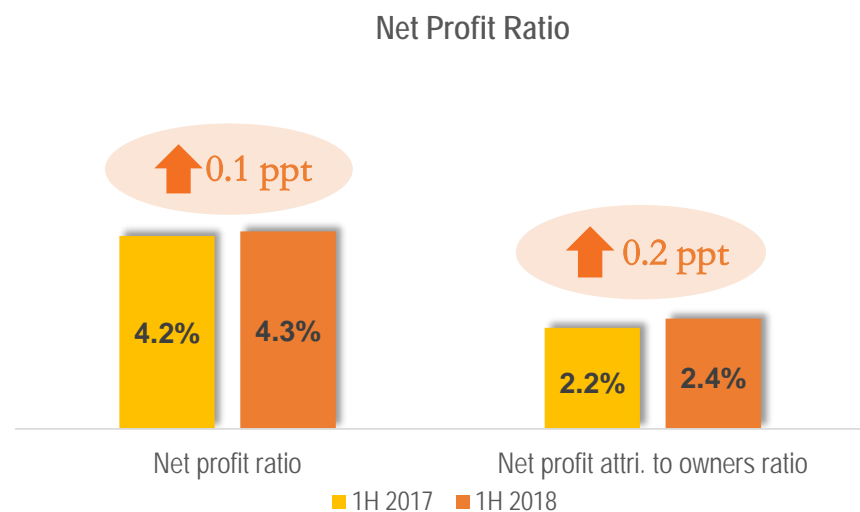
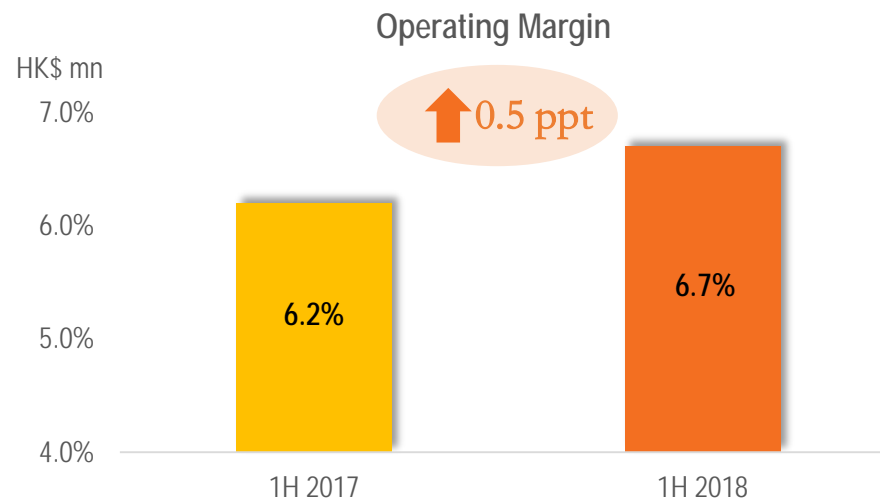
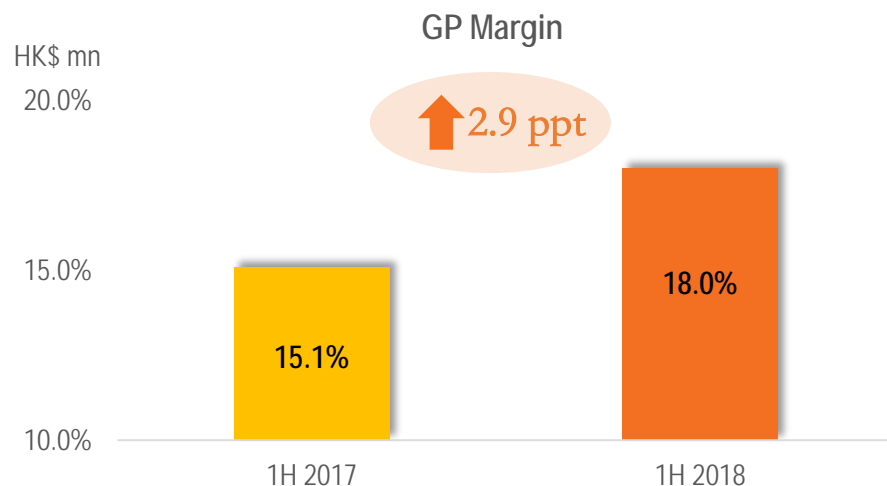


Solid Growth of Key Financials



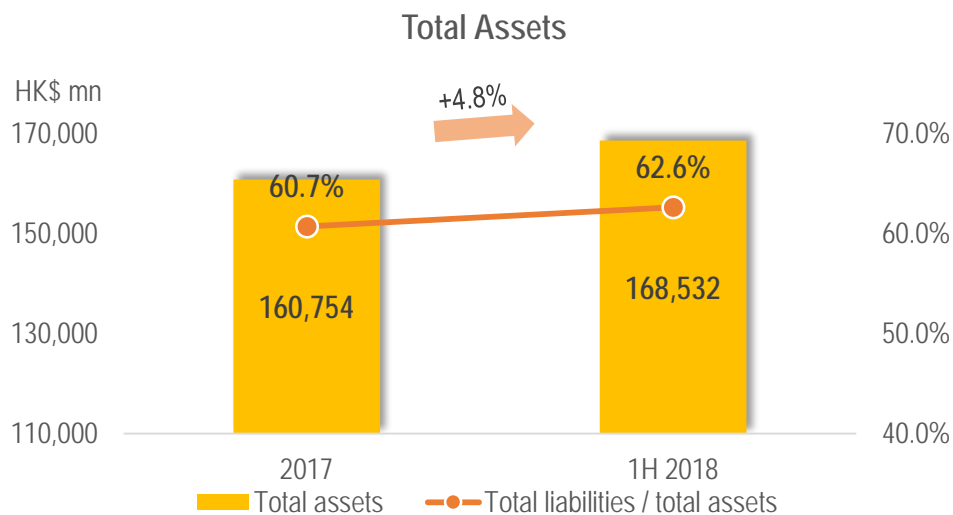
Operating profit = Pre-tax profit + finance expense – interest income – FX gain (loss) – other non-operating items

Improved Operating Efficiency & Profitability

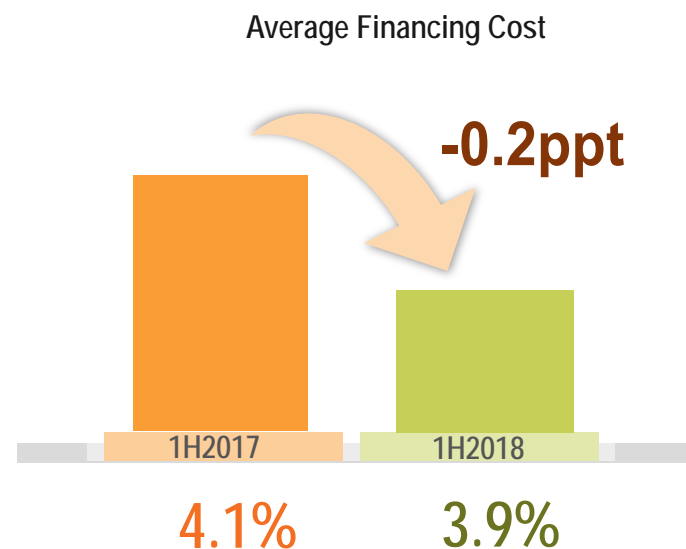
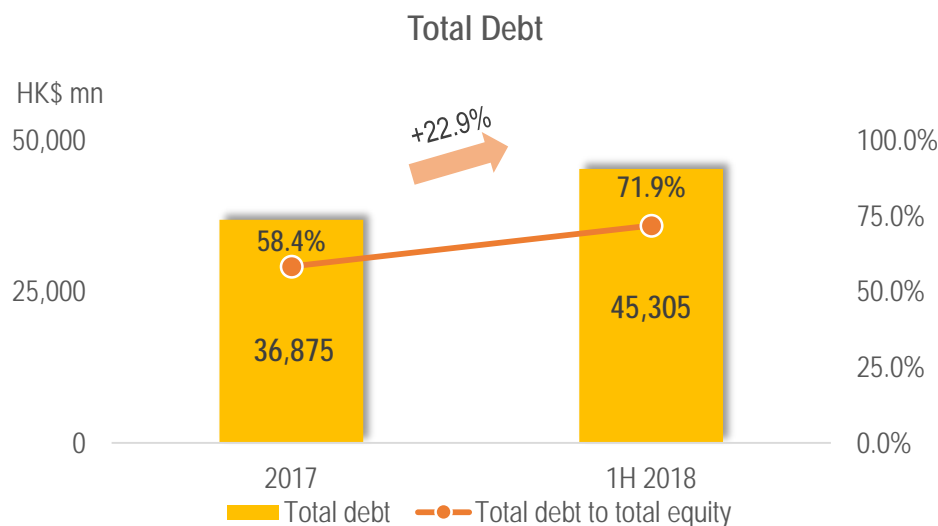


Operating Profit = Profit before Tax + Finance Expense - Interest Income - Foreign exchange loss - other gain/loss from non-operating activities

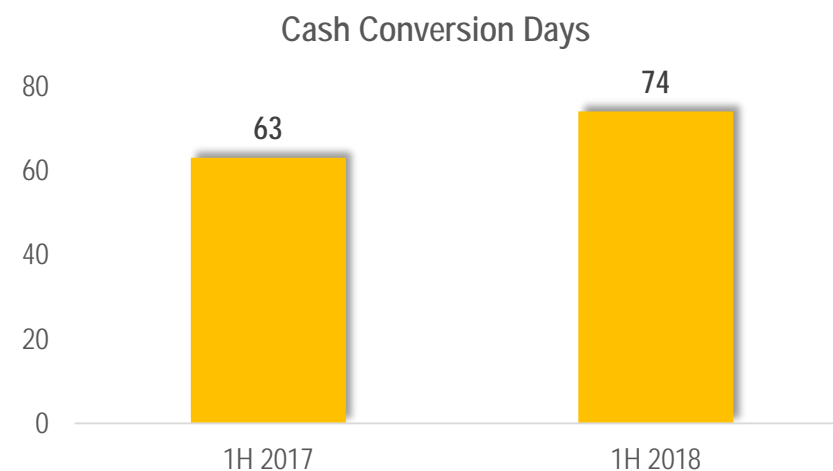
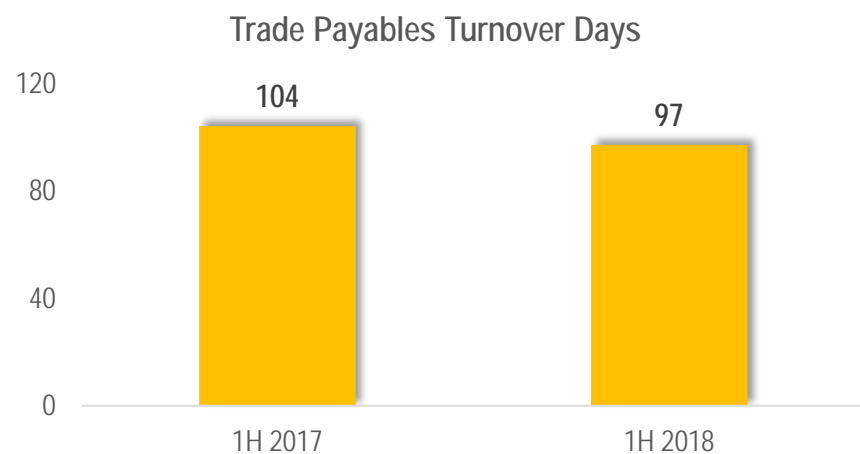
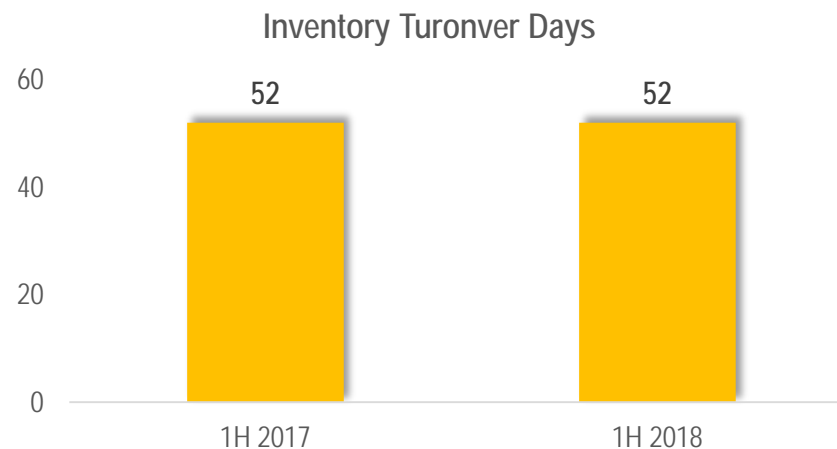
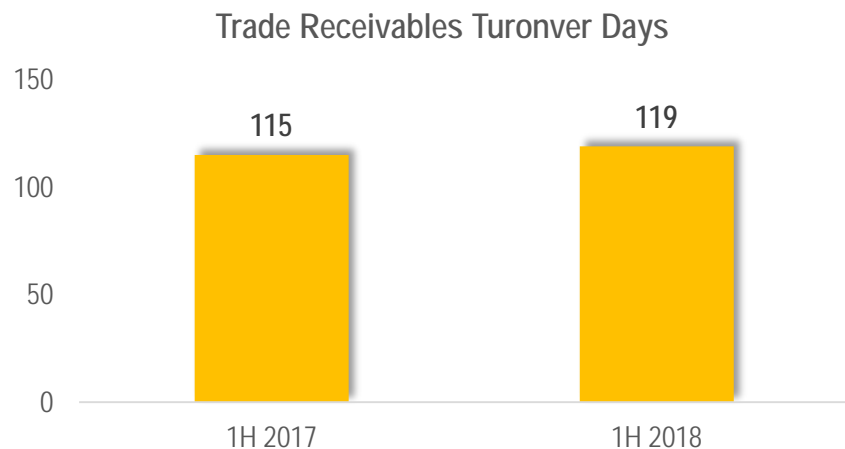
Effective Interest Rate Declined



- In 1H2018:
 - Total asset increased 4.8% to HK\$168.5 bn
 - Total debt increased 22.9% to HK\$45.3 bn, resulting from the increase in bank borrowings
- The weighted average effective interest rate declined by 0.2ppt YoY to 3.9% in 1H2018



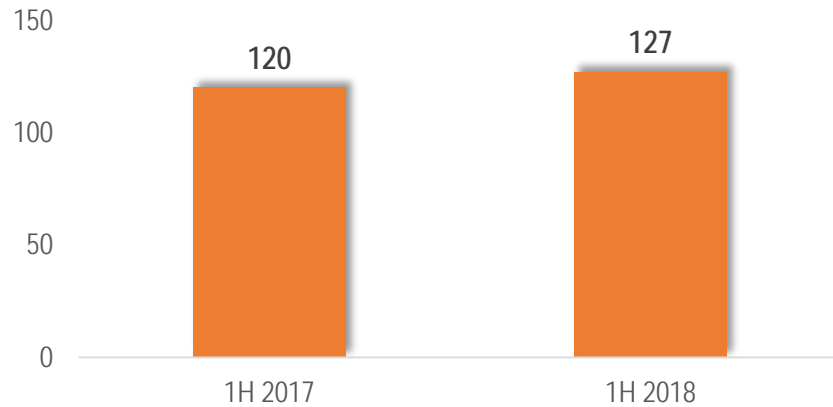
Working Capital Turnover - Overall



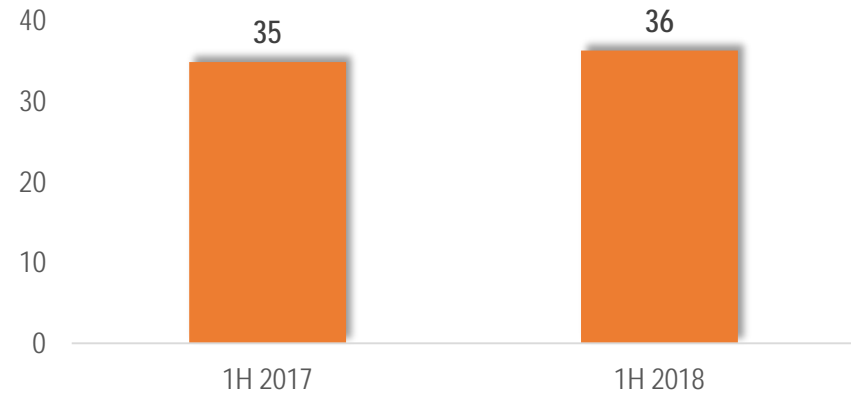
Accounts receivable and payable include bills receivable and payable. 1H2018 trade receivables adjusted for comparability.

Working Capital Turnover - Distribution

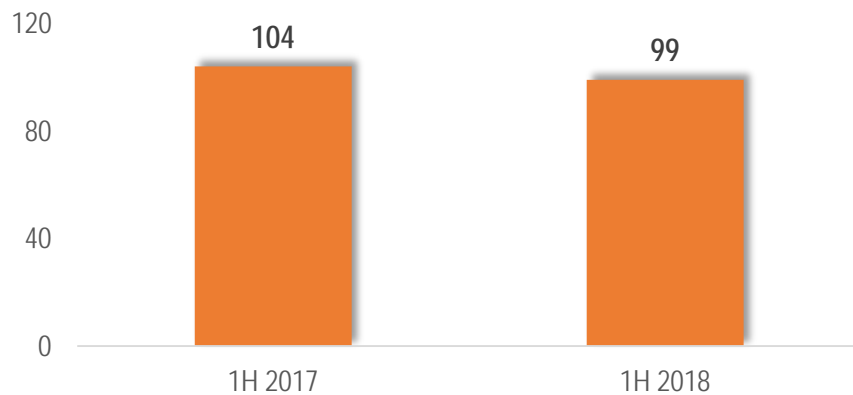
Trade Receivables Turnover Days



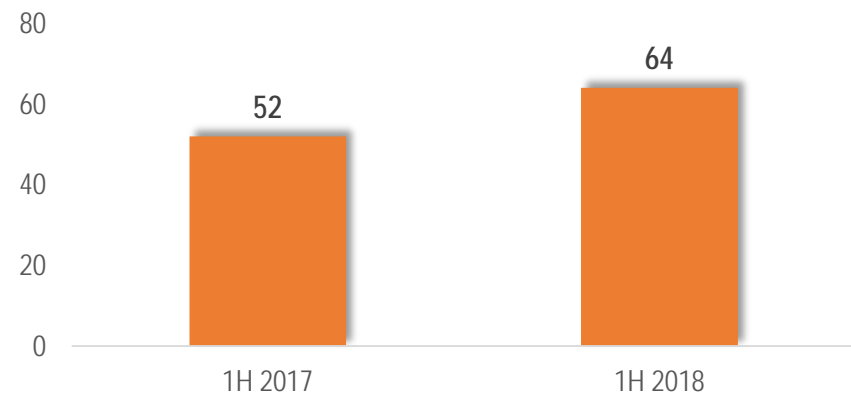
Inventory Turnover Days



Trade Payables Turnover Days



Cash Conversion Days



Accounts receivable and payable include bills receivable and payable. 1H2018 trade receivables adjusted for comparability.



Q&A

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Appendix 1: Income Statement

HK\$ mn	1H2017	1H2018	YoY
Revenue	82,738	93,741	13.3%
Gross Profit	12,528	16,881	34.7%
Gross Profit Margin	15.1%	18.0%	
Operating Profit	5,137	6,296	22.6%
Operating Profit Margin	6.2%	6.7%	
Net Profit for the Company	3,453	4,063	17.7%
Net Profit Attributable to Shareholders	1,810	2,250	24.3%
Net Profit Margin (Attributable to Shareholders)	2.2%	2.4%	
EPS (HK\$)	0.29	0.36	

Appendix 2: Balance Sheet

HK\$ mn	31/12/2017	30/6/2018
Total assets	160,754	168,532
PPE	14,738	14,710
Goodwill	20,545	20,473
Trade and receivables	67,128	63,645
Inventories	21,406	22,704
Bank and cash	14,162	11,243
Total liabilities	97,617	105,559
Trade and other payables	56,496	54,318
Bank borrowings	32,210	42,933
Bonds payable	4,665	2,372
Total equity	63,137	62,973
Shareholders' equity	41,870	41,923
Current ratio	1.2	1.2
Total debt	36,875	45,305
Net debt	22,713	34,062
Net debt / total equity	0.36	0.54

Appendix 3: 1H2018 Performance by Segment

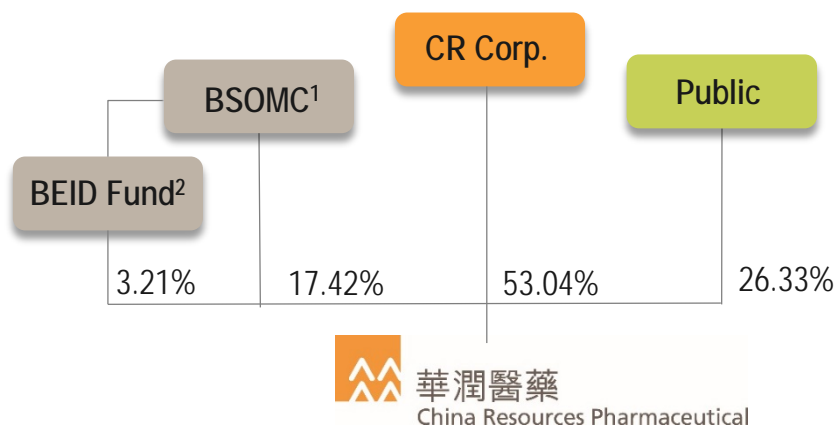
HK\$ mn	Manufacturing	Distribution	Retail	Others	Total
External Revenue	15,056	76,111	2,470	103	93,741
Segment results	4,315	4,035	68	23	8,441
Other income					652
Other gains & losses					24
Admin expenses					(2,140)
Other expenses					(644)
Share of results of associates and jointly controlled entities					70
Finance costs					(1,293)
Profit before tax					5,110

Appendix 4: Corporate Overview

Principal Business

- A leading integrated pharmaceutical company in China
- Principally engaged in the manufacture, distribution and retail of pharmaceutical and healthcare products

Shareholding Structure



¹ Beijing State-Owned Capital Operations and Management Centre (BSOMC) is owned by Beijing SASAC

² BEID Fund is an offshore investment fund controlled by BEIDMCI Limited, which is a joint venture owned

³ By the close of business on 22 Aug 2018

Share Information

- Listed on the SEHK on 28 Oct 2016 (stock code: 3320.HK)
- Issued shares: 6,285 mn ³
- Market cap: HK\$70.1 bn ³
- Inclusion in key capital market indices:
 - **FTSE Index Series**
 - Global Equity Index (Large Cap)
 - FTSE All-World Index
 - FTSE All Cap (LMS) Index
 - **Hang Seng Index Series**
 - Composite Large Cap Index (eligible for trading under SHA/SZ–HK Stock Connect)
 - Mainland Healthcare Index
 - Healthcare Index
 - **CR Pharm and two of its A-share listed subsidiaries (CR Sanjiu/ Dong-E-E-Jiao) have been included in MSCI China Index**
 - **Hang Seng Stock Connect Hong Kong Index Series**
 - **Hang Seng Corporate Sustainability Benchmark Index**

Appendix 5: Business Overview



Manufacturing

Revenue: HK\$16.9 bn
Gross Profit: HK\$10.7 bn

- One of the largest pharmaceutical manufacturers in China
- The largest OTC drug manufacturer in China
- Own well-known brand names in China – CR Sanjiu, Dong-E-E-Jiao, CR Double-Crane and CR Zizhu



- Manufacture ~430 pharmaceutical products

Distribution

Revenue: HK\$77.6 bn
Gross Profit: HK\$5.7 bn

- The 2nd largest pharmaceutical distributor in China
- 176 subsidiaries covering 27 provinces
- Distribute more than 140,000 types of products, comprising over 50,000 types of prescription drugs and around 20,000 OTC pharmaceutical products
- Source pharmaceutical products from over 10,000 international and domestic manufactures

Retail

Revenue: HK\$2.5 bn
Gross Profit: HK\$0.4 bn

- Operate 812 retail pharmacies
- Own premium brand names

CR Care 华润堂



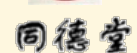
Yibaoquanxin 医保全新



Li'an chain 礼安连锁



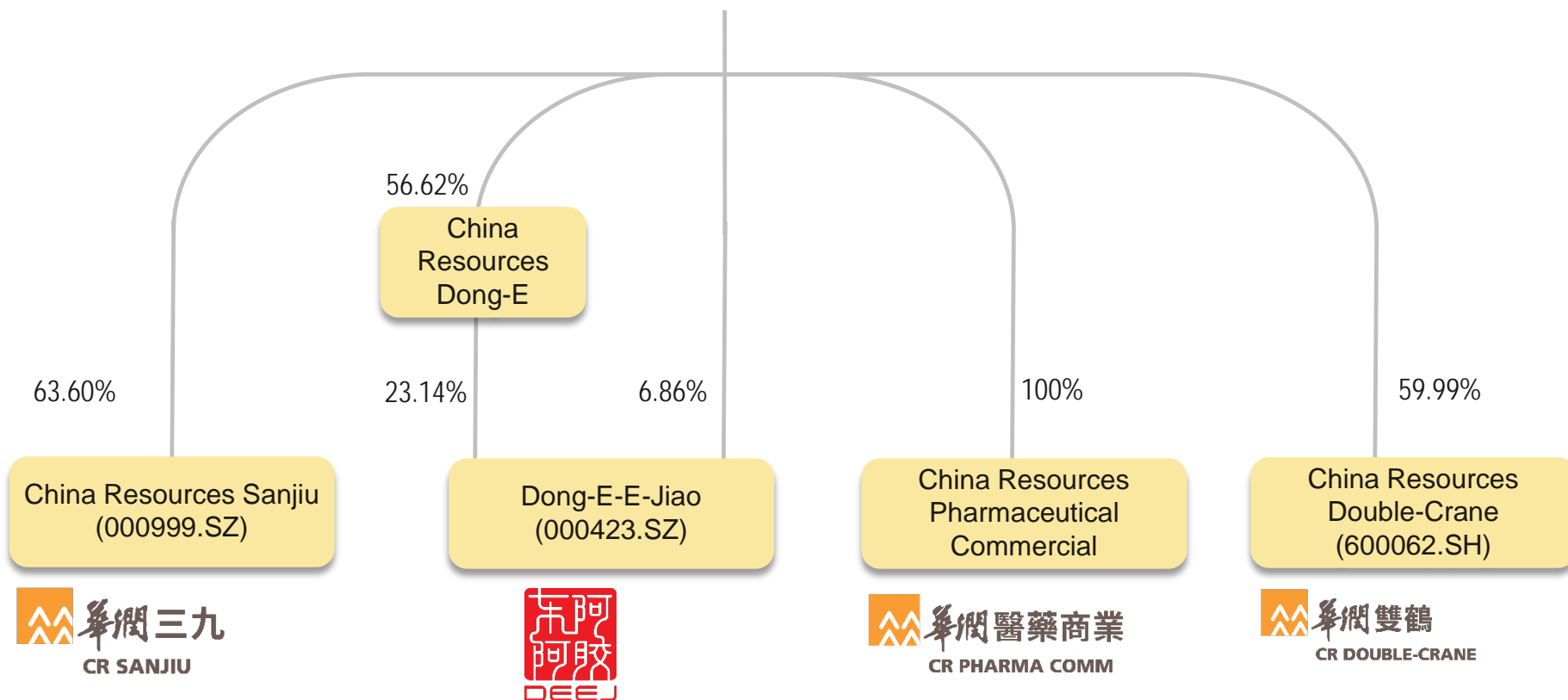
Tung Tak Tong 同德堂



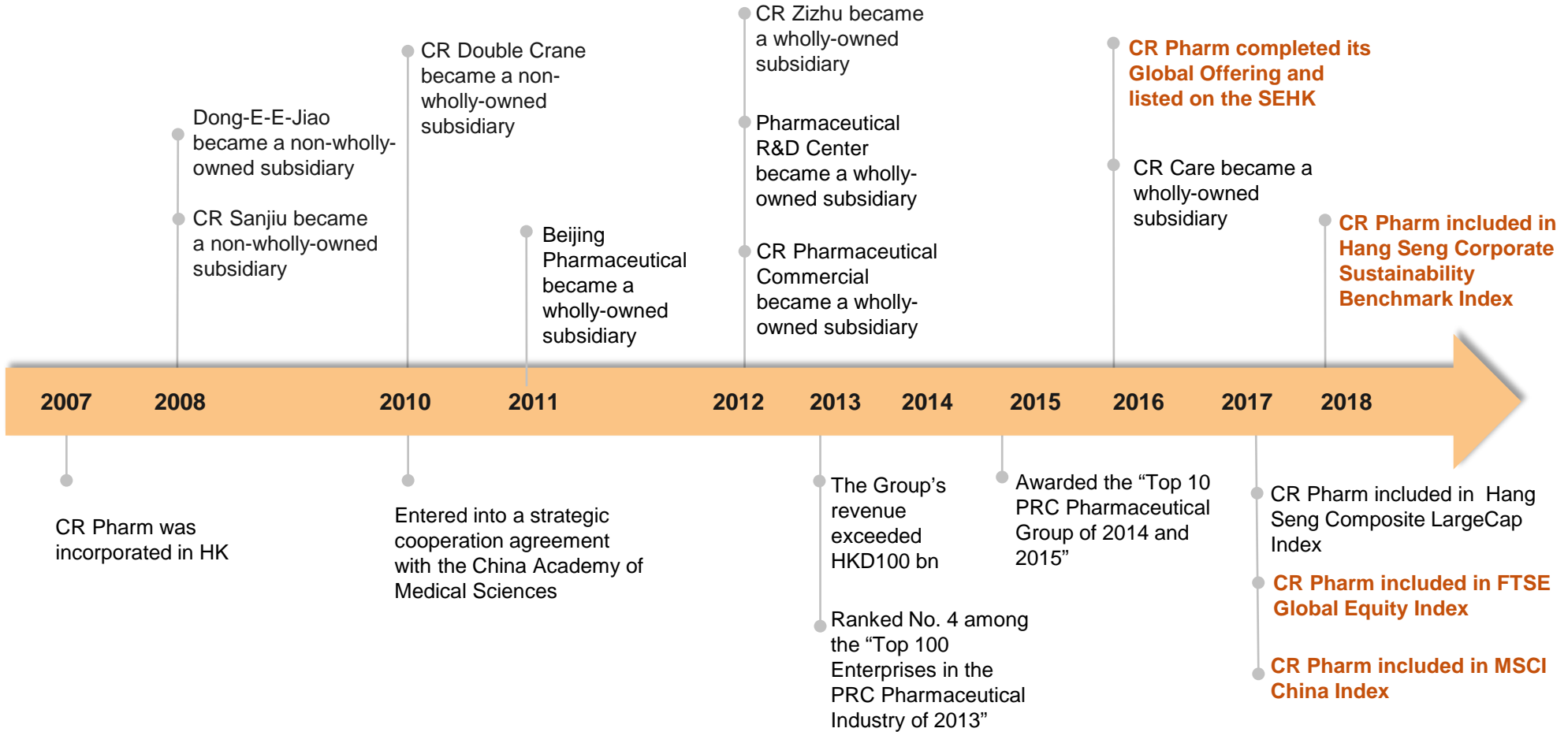
Appendix 6: Corporate Structure



華潤醫藥集團有限公司 China Resources Pharmaceutical Group Limited



Appendix 7: Development Milestones



Appendix 8: Chinese Medicine & Nutritional Products

Major Product	Therapeutic Area	Major Product	Therapeutic Area
 <p>E-Jiao block (阿胶块) and compound E-Jiao syrup</p>	Blood tonic	 <p>the Tianhe-branded Gutong patch (骨通贴膏), Tianhe Zhuifeng ointment (天和追风膏), and the Zhuanggu product series (壮骨系列)</p>	Orthopedics
 <p>Ganmaoling (感冒灵) and Compound Ganmaoling (复方感冒灵), Qiangli Pipalu (强力枇杷露)</p>	Cold and cough remedies	 <p>Shenfu injection (参附注射液), Shenmai injection (参麦注射液) and Shengmai injection (生脉注射液)</p>	Cardiovascular system
 <p>The Zhengtian (正天) product series</p>	Headache	 <p>Huachansu (华蟾素) and Javanica oil soft capsule (鸦胆子油软胶囊)</p>	Oncology
 <p>Sanjiu Weitai (三九胃泰), Qizhi Weitong (气滞胃痛), and Yinzh Huang (茵栀黄)</p>	Alimentary tract and metabolism	 <p>A portfolio of Chinese medicine formula granules comprised of over 600 products</p>	Chinese medicine formula granules (中药配方颗粒)
 <p>Xiao'er Ganmao granules (小儿感冒颗粒) and Xiao'er Zhike syrup (小儿止咳糖浆)</p>	Pediatrics	 <p>Taohuaji (桃花姬) and Zhen Yan E-Jiao Cake (真颜阿胶糕) derived from our E-Jiao Chinese medicine product series</p>	Nutritional product
 <p>Xuesaitong soft capsules (血塞通软胶囊)</p>	Cardiovascular system	 <p>Nutritional supplement and dietary supplement derived from core TCM</p>	Nutritional product

Appendix 9: Chemical Drugs

Major Product	Therapeutic Area	Major Product	Therapeutic Area
 <p>Compound Reserpine and Triamterene tablets (Hypertensive No. 0) (复方利血平氨苯蝶啶片(降压0号))</p>	Cardiovascular system	 <p>Cefazolin Sodium Pentahydrate for injection (Xintailin) (注射用五水头孢唑林钠 (新泰林))</p>	Anti-infectives
 <p>Amlodipine Besylate tablets (Yashida) (苯磺酸氨氯地平片(压氏达))</p>	Cardiovascular system	 <p>The peritoneal dialysis solution, or peritoneal dialysate</p>	Nephrology
 <p>Valsartan capsules (Suiyue) (缬沙坦胶囊(穗悦)) and Valsartan-Hydrochlorothiazide tablets (Fu Suiyue) (缬沙坦氢氯噻嗪片(复穗悦))</p>	Cardiovascular system	 <p>Calf Pulmonary Surfactant for injection (Kelisu) (注射用牛肺表面活性剂(珂立苏))</p>	Pediatrics
 <p>Pitavastatin Calcium tablets (Guanshuang) (匹伐他汀钙片(冠爽))</p>	Cardiovascular system	 <p>Pediatric Compound Amino Acid injection (小儿复方氨基酸注射液)</p>	Pediatrics
 <p>Gliquidone tablets (Tangshiping) (格列喹酮片(糖适平)) Metformin Sustained-release tablets (Buke) (二甲双胍缓释片(卜可))</p>	Alimentary tract and metabolism (Anti-diabetes)	 <p>Levonorgestrel tablets (左炔诺孕酮片), branded as Yuting and Golden Yuting</p>	Reproductive Health
 <p>Five basic types of IV solution container systems, namely glass bottle, plastic bottle, flexible bag, standing bag and BFS</p>	Large-volume IV infusion	 <p>Compound Dexamethasone Acetate cream (Piyanping) (复方醋酸地塞米松乳膏(皮炎平)) product series</p>	Dermatological Products