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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3320)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2017 as follows:

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2018	2017	**Increase/ (decrease)**
Revenue *(HK$ million)*	**189,689.1**	172,532.2	9.9%
Profit for the year attributable to owners of the Company *(HK$ million)*	**4,037.9**	3,483.0	15.9%
Basic earnings per share	**HK$0.64**	HK$0.55	
Proposed final dividend per share	**HK$0.13**	HK$0.11	
	As at 31 December 2018	As at 31 December 2017	**Increase/ (decrease)**
Equity attributable to owners of the Company *(HK$ million)*	**39,373.3**	41,869.8	(6.0)%
Net debt *(HK$ million) (note 1)*	**34,302.8**	22,713.3	51%
Total equity *(HK$ million)*	**60,529.1**	63,137.2	(4.1)%
Gearing ratio *(note 2)*	**56.7%**	36.0%	
Net assets per share – book *(note 3)*	**HK$6.27**	HK$6.66	(5.9)%

notes:

1. Net debt equal to total bank borrowings, total debentures and total bonds payable less cash and cash equivalents.
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

For the year ended 31 December 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
REVENUE	*3*	**189,689,107**	172,532,204
Cost of sales		**(154,758,728)**	(144,256,056)
Gross profit		**34,930,379**	28,276,148
Other income		**1,854,650**	1,417,493
Other gains and losses	*5*	**3,357**	(32,486)
Selling and distribution expenses		**(18,340,880)**	(13,868,785)
Administrative expenses		**(4,793,429)**	(4,247,079)
Other expenses		**(1,351,850)**	(872,789)
Finance costs	*6*	**(3,196,631)**	(2,230,949)
Share of profits of associates and joint ventures		**137,168**	140,795
PROFIT BEFORE TAX	*7*	**9,242,764**	8,582,348
Income tax expense	*8*	**(1,610,153)**	(1,715,482)
PROFIT FOR THE YEAR		**7,632,611**	6,866,866
Attributable to:			
Owners of the Company		**4,037,890**	3,483,036
Non-controlling interests		**3,594,721**	3,383,830
		7,632,611	6,866,866
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted *(HK$)*	*10*	**0.64**	0.55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**7,632,611**	6,866,866
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Share of changes in translation reserve of associates	**(39,094)**	40,297
Exchange differences arising on translation of foreign operations	**(3,096,384)**	–
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(3,135,478)**	40,297
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation to presentation currency	**(713,390)**	4,236,619
Gain on revaluation of property, plant and equipment upon transfer to investment properties, net of income tax	**30,924**	21,036
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:	**(682,466)**	4,257,655
OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAX	**(3,817,944)**	4,297,952
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,814,667**	11,164,818
Attributable to:		
Owners of the Company	**1,564,914**	6,101,600
Non-controlling interests	**2,249,753**	5,063,218
	3,814,667	11,164,818

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**14,652,228**	14,737,651
Prepaid land lease payments		**2,590,622**	2,673,260
Investment properties		**1,541,437**	1,413,085
Goodwill		**19,804,854**	20,544,612
Intangible assets		**4,954,664**	4,740,460
Interests in joint ventures		**44,290**	–
Interests in associates		**2,233,808**	2,200,770
Available-for-sale investments		**–**	334,472
Other non-current financial assets		**222,673**	–
Deferred tax assets		**621,419**	573,516
Other non-current assets		**1,218,427**	337,799
Total non-current assets		**47,884,422**	47,555,625
CURRENT ASSETS			
Inventories		**21,527,923**	21,406,298
Trade and other receivables	*11*	**54,847,015**	67,127,969
Prepaid land lease payments		**123,128**	76,300
Other current financial assets		**28,023,549**	–
Available-for-sale investments		**–**	6,556,642
Amounts due from related parties		**2,402,557**	115,364
Tax recoverable		**57,895**	40,572
Pledged deposits		**3,428,676**	2,566,981
Cash and cash equivalents		**16,633,301**	14,161,833
		127,044,044	112,051,959
Assets classified as held for sale		**1,316,021**	1,146,564
Total current assets		**128,360,065**	113,198,523

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CURRENT LIABILITIES			
Trade and other payables	*12*	**56,198,259**	56,495,692
Short-term debentures		**3,423,868**	–
Contract liabilities		**1,711,938**	–
Amounts due to related parties		**4,057,107**	1,247,636
Bank borrowings		**37,362,593**	31,158,736
Bonds payable		**–**	2,272,782
Tax payable		**603,263**	559,549
		103,357,028	91,734,395
Liabilities directly associated with the assets classified as held for sale		**1,341**	–
Total current liabilities		**103,358,369**	91,734,395
NET CURRENT ASSETS		**25,001,696**	21,464,128
TOTAL ASSETS LESS CURRENT LIABILITIES		**72,886,118**	69,019,753
NON-CURRENT LIABILITIES			
Bank borrowings		**3,301,928**	1,051,052
Bonds payable		**6,847,740**	2,392,600
Deferred tax liabilities		**881,272**	964,443
Other non-current liabilities		**1,326,119**	1,474,488
Total non-current liabilities		**12,357,059**	5,882,583
NET ASSETS		**60,529,059**	63,137,170
EQUITY			
Equity attributable to owners of the Company			
Share capital		**27,241,289**	27,241,289
Reserves		**12,132,020**	14,628,510
		39,373,309	41,869,799
Non-controlling interests		**21,155,750**	21,267,371
Total equity		**60,529,059**	63,137,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, and certain debt and equity investments that are measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Company acts as an investment holding company

The directors of the Company re-evaluated the economic environment of the Company and determined that the functional currency of the Company should be changed from RMB to HK$ from 1 July 2018 given the change in investment strategy of the Company.

The financial information relating to the years ended 31 December 2018 and 2017 included in this announcement of 2018 annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2018 in due course.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
HKFRS 15	*Revenue from Contracts with Customer*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customer*
HKFRS 9	*Financial Instruments*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 40	*Transfers of Investment Property*
HK (IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

HKFRS 15 *Revenue from Contract Customers*

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group is in the business of providing the manufacturing, distribution and retail of pharmaceutical and healthcare products and principally derives revenue from sales of products. The Group concluded that no transitional adjustment is required to be made on 1 January 2018 to retained earnings upon initial adoption of HKFRS 15. It is because the Group recognised revenue upon the transfer of control, which coincides with the fulfilment of performance obligations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Amounts prepared under		
	HKFRS 15	**Previous HKFRS**	**Increase/ (decrease)**
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	55,101,811	56,495,692	(1,393,881)
Contract liabilities	1,393,881	–	1,393,881

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as trade and other payables. Under HKFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$1,393,881,000 from trade and other payables to contract liabilities in relation to the consideration received from customers in advance as at 1 January 2018.

There are no material impact on the Group's consolidated statement of profit or loss, the consolidated statement of comprehensive income and the consolidated statement of cash flows for the year ended 31 December 2018. The following table summarises the impact of applying HKFRS 15 on the Group's consolidated statement of position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Consolidated statement of financial position as at 31 December 2018:

	Amounts prepared under		
	HKFRS 15	**Previous HKFRS**	**Increase/ (decrease)**
	HK$'000	*HK$'000*	*HK$'000*
Liabilities			
Trade and other payables	56,198,259	57,910,197	(1,711,938)
Contract liabilities	1,711,938	–	1,711,938

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	31 December 2017					1 January 2018	
	Under HKAS 39		Reclassification*	ECL	FV adjustments	Under HKFRS 9	
	Category	Amount *HK$000*	Amount *HK$000*	Amount *HK$000*	Amount *HK$000*	Amount *HK$'000*	Category
Financial assets							
Trade and other receivables (a),(b)	L&R	67,127,969	(19,150,946)	50,909	–	48,027,932	AC
Other current financial assets							
Trade and bills receivables		–	19,150,946	11,847	(175,453)	18,987,340	FVOCI
Asset-backed securities		–	175,617	–	–	175,617	FVPL(debt)
Financial products		–	6,381,025	–	–	6,381,025	FVPL(debt)
Available-for-sale investments (c)	AFS	6,891,114	(6,891,114)	–	–	–	NA
Asset-backed securities		412,484	(412,484)	–	–	–	
Unlisted equity investments, at cost		97,605	(97,605)	–	–	–	
Financial products		6,381,025	(6,381,025)	–	–	–	
Non-current financial assets							
Asset-backed securities		–	236,867	–	–	236,867	FVPL(debt)
Unlisted Equity investments		–	97,605	–	(48,950)	48,655	FVPL(equity)
Due from related parties	L&R	115,364	–	–	–	115,364	AC
Pledged deposits	L&R	2,566,981	–	–	–	2,566,981	AC
Cash and cash equivalents	L&R	14,161,833	–	–	–	14,161,833	AC
		90,863,261	–	62,756	(224,403)	90,701,614	
Financial liabilities							
Trade and other payables	AC	52,805,119	–	–	–	52,805,119	AC
Due to related parties	AC	1,247,636	–	–	–	1,247,636	AC
Interest-bearing bank borrowings	AC	32,209,788	–	–	–	32,209,788	AC
Bonds payable	AC	4,665,382	–	–	–	4,665,382	AC
Other assets							
Deferred tax assets		573,516	–	20,570		594,086	
Equity							
Retained earnings (a),(b),(c)		18,650,557	–	(143,017)		18,507,540	
Non-controlling interests (a),(b),(c)		21,267,371	–	1,940		21,269,311	

Notes:

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

(a) The Group has classified trade and other receivables that are held within a business model both to collect cash flows and to sell, upon transition to fair value through other comprehensive income.

(b) Impairment allowances of trade and other receivables was remeasured based on ECLs approach under HKFRS 9, resulting in increases in trade and other receivables and, deferred tax assets and increase in retained earnings.

(c) Available-for-sale investments-asset-backed securities, Equity investments and Financial products under HKAS 39 were reclassified to fair value through profit and loss under HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECLs allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-classification**	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	477,858	(59,235)	(45,942)	372,681
Other receivables	58,990	–	(4,967)	54,023
Other current financial assets – trade receivables	–	59,235	(11,847)	47,388
	536,848	–	(62,756)	474,092

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on retained earnings is as follows:

	Retained earnings *HK$'000*
Balance as at 31 December 2017 under HKAS 39	18,650,557
Recognition of ECLs for trade and other receivables under HKFRS 9	63,619
Remeasurement of trade receivables measured at fair value through other comprehensive income	(177,866)
Remeasurement of unlisted equity investments at fair value through profit and loss previously measured at cost under HKAS 39	(49,623)
Deferred tax in relation to the above	20,853
Balance as at 1 January 2018 under HKFRS 9	18,507,540

3. REVENUE

An analysis of revenue is as follows:

	2018 ***HK$'000***
Revenue from contracts with customers	
Sale of pharmaceutical products	**189,574,548**
Revenue from other sources	
Rental income from investment properties	**114,559**
	189,689,107

	2017 *HK$'000*
Sales of pharmaceutical products	172,432,515
Rental income from investment properties	99,689
	172,532,204

Revenue from contracts with customers

Disaggregated revenue information

For the year ended 31 December 2018

	Manufacturing segment *HK$'000*	Distribution segment *HK$'000*	Retail segment *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Timing of revenue recognition						
At a point in time	35,115,531	155,256,959	5,454,635	29,521	(6,282,098)	189,574,548
Total revenue from contracts with customers	35,115,531	155,256,959	5,454,635	29,521	(6,282,098)	189,574,548

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 ***HK$'000***
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	**1,393,881**

4. OPERATING SEGMENT INFORMATION

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

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

(a) Pharmaceutical 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;

(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. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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:

Year ended 31 December 2018	**Manufacturing segment** *HK$'000*	**Distribution segment** *HK$'000*	**Retail segment** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Segment revenue					
External sales	**31,939,850**	**152,150,542**	**5,454,635**	**144,080**	**189,689,107**
Inter-segment sales	**3,103,805**	**3,178,293**	**–**	**–**	**6,282,098**
	35,043,655	**155,328,835**	**5,454,635**	**144,080**	**195,971,205**
Elimination:					
Elimination of intersegment sales					**(6,282,098)**
Revenue from continuing operations					**189,689,107**
Segment results	**8,689,898**	**7,714,721**	**105,959**	**78,921**	**16,589,499**
Other income					**1,854,650**
Other gains and losses					**3,357**
Administrative expenses					**(4,793,429)**
Other expenses					**(1,351,850)**
Share of profits of associates and joint ventures					**137,168**
Finance costs					**(3,196,631)**
Profit before tax					**9,242,764**

Year ended 31 December 2017	Manufacturing segment *HK$'000*	Distribution segment *HK$'000*	Retail segment *HK$'000*	Others *HK$'000*	Total *HK$'000*
Segment revenue					
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
	29,336,532	144,595,487	4,243,563	99,689	178,275,271
Elimination:					
Elimination of intersegment sales					(5,743,067)
Revenue from continuing operations					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 profits of associates and joint ventures					140,795
Finance costs					(2,230,949)
Profit before tax					8,582,348

5. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Gain on disposal of associates	**550**	3
Gain on disposal of available-for-sale investments	**–**	7,701
Gain on disposal of intangible assets	**18,037**	10,746
Loss on disposal of property, plant and equipment	**(7,048)**	(7,540)
Gain on disposal of prepaid land lease payments	**–**	1,321
Impairment recognised on property, plant and equipment	**(22,545)**	(14,094)
Impairment recognised on trade receivable, net	**(91,224)**	(66,507)
Impairment recognised on other receivables, net	**(8,270)**	(12,486)
Impairment recognised on goodwill	**(20,109)**	(59,244)
Impairment recognised on available-for-sale investments	**–**	(10,919)
Fair value changes on financial assets at fair value through profit or loss	**88,167**	–
Fair value changes on investment properties	**81,354**	57,772
Investment income on available-for-sale investments	**–**	154,070
Others	**(35,555)**	(93,309)
	3,357	(32,486)

6. FINANCE COSTS

	2018 *HK$'000*	2017 HK$'000
Interest on bank borrowings	**2,702,405**	1,901,920
Finance costs arising from initial measurement of trade receivables at fair value through other comprehensive income	**274,226**	–
Interest on bonds payable	**219,883**	299,682
Interest on borrowings from an intermediate holding company	**4,931**	65,398
Less: Interest capitalised in property, plant and equipment	**(4,814)**	(36,051)
	3,196,631	2,230,949

7. PROFIT BEFORE TAX

	2018 *HK$'000*	2017 *HK$'000*
Directors' remuneration	**15,840**	23,637
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**7,352,368**	6,969,907
Retirement benefit schemes contribution	**734,386**	689,659
Total staff costs	**8,102,594**	7,683,203
Auditors' remuneration	**13,296**	18,012
Depreciation of property, plant and equipment	**1,311,302**	1,262,790
Amortisation of intangible assets	**206,101**	226,615
Amortisation of prepaid land lease payments	**99,065**	76,300
Allowance for slow-moving and obsolete inventories	**44,359**	36,564
Cost of inventories recognised as cost of sales	**153,748,713**	143,463,829
Research and development expenditure (included in other expenses)	**1,015,244**	858,024
Minimum lease payments under operating lease	**636,122**	532,910
Foreign exchange loss/(gain), net	**257,388**	(44,511)
Donations	**38,115**	14,765
Dividend income	**2,216**	6,618
Government grants	**348,213**	364,641
Interest income	**716,102**	253,959
Gross rental income from investment properties	**114,559**	99,689
Less: direct operating expenses arising from rental-earning investment properties	**(36,414)**	(39,716)
	78,145	59,973

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

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

	2018	2017
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax ("PRC EIT"):	**1,823,546**	1,795,459
Hong Kong profits tax	**3,555**	6,311
Dividend withholding tax	**–**	171,089
Under/(over) provisions in prior year:		
PRC EIT	**(12,980)**	39,928
Hong Kong profits tax	**(847)**	–
	1,813,274	2,012,787
Deferred tax	**(203,121)**	(297,305)
Total tax charge for the year	**1,610,153**	1,715,482

9. DIVIDENDS

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK$0.13 (2017: HK$0.11) per ordinary share, in an aggregate amount of HK$817,000,000 (2017: HK$691,300,000) 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 ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic earnings per share attributable to ordinary equity holders of the Company are based on:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to owners of the Company used in the basic earnings per share calculation	**4,037,890**	3,483,036
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**6,284,506,461**	6,284,506,461

Diluted earnings per share equals to basic earnings per share as there were no potentially dilutive ordinary shares in issue for the year ended 31 December 2018 and 2017.

11. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Bills receivable	**2,559,563**	8,790,247
Trade receivables	**44,797,057**	50,558,374
Impairment allowance	**(436,084)**	(477,858)
	44,360,973	50,080,516
Prepayments	**3,425,706**	2,829,939
Other receivables	**4,637,120**	5,586,257
Impairment allowance	**(136,347)**	(158,990)
	4,500,773	5,427,267
	54,847,015	67,127,969

The Group generally allows credit periods ranging from 30 to 270 days to its trade customers, which may be extended to 360 days for selected customers depending on their trade volume and settlement terms. The bills receivable had maturity period ranging from 30 to 180 days as at 31 December 2018 (31 December 2017: 30 to 180 days).

Included in the Group's trade receivables are amounts due from the Group's joint ventures and associates of HK$782,000 (2017: nil) and HK$44,008,000 (2017: HK$76,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of the Group's trade receivables, net of loss allowance, based on the invoice date at 31 December 2018 and 2017 are as follows:

	2018	2017
	HK$'000	*HK$'000*
0-30 days	**16,743,995**	18,332,642
31-60 days	**6,757,515**	7,929,138
61-90 days	**4,286,534**	5,127,912
91-180 days	**10,084,492**	10,728,104
181-365 days	**5,726,756**	7,483,440
Over 1 year	**761,681**	479,280
	44,360,973	50,080,516

An aging analysis of the Group's bills receivable based on the issue date at 31 December 2018 and 2017 are as follows:

	2018	2017
	HK$'000	*HK$'000*
0-30 days	**317,149**	3,463,726
31-60 days	**393,062**	1,231,698
61-90 days	**432,406**	1,249,963
91-180 days	**1,416,946**	2,844,860
	2,559,563	8,790,247

12. TRADE AND OTHER PAYABLES

	Note	2018 HK$'000	2017 HK$'000
Trade payable	*(a)*	**27,227,869**	30,310,063
Bills payable	*(a)*	**12,281,222**	11,881,483
Receipts in advance		**–**	1,458,105
Accrued salaries		**1,600,012**	1,365,439
Interest payable		**304,111**	216,742
Other tax payables		**1,314,669**	867,029
Other payables		**12,360,798**	9,468,912
Refund liabilities		**17,086**	–
Payable for acquisitions of subsidiaries		**1,092,492**	927,919
		56,198,259	56,495,692

Note:

(a) The average credit period on purchases of goods range from 30 to 120 days. The bills payable have maturity period ranging from 30 to 360 days. As at 31 December 2018, the Group's bills payable of HK$7,125,681,000 (31 December 2017: HK$1,920,463,000) were secured by the Group's bills receivable with an aggregate carrying amount of HK$408,919,000 (31 December 2017: HK$294,428,000) and pledged bank deposits of HK$3,193,308,000 (31 December 2017: HK$2,554,080,000).

An ageing analysis of the Group's trade payables based on the invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**16,405,519**	18,208,036
31–60 days	**4,092,276**	5,108,347
61–90 days	**1,971,968**	2,059,560
Over 90 days	**4,758,106**	4,934,120
	27,227,869	30,310,063

An ageing analysis of the Group's bills payable based on the issue date is as follows:

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**9,581,425**	9,523,518
31–60 days	**616,290**	723,160
61–90 days	**852,340**	622,845
Over 90 days	**1,231,167**	1,011,960
	12,281,222	11,881,483

13. BUSINESS COMBINATION

For the year ended 31 December 2018, the Group acquired ten companies which were engaged in manufacturing and sales of pharmaceutical products from independent third parties at an aggregated cash consideration of RMB650,827,062 (equivalent to HK$742,782,000). Those transactions had been accounted for using the acquisition method. These subsidiaries were acquired so as to provide human resources, economies of scale and synergy to the Group and expand in pharmaceutical industry.

Name of acquiree	**Date of acquisition**	**Percent of interest acquired**
China Resources Zhenjiang Pharmaceutical Co., Ltd. (formerly known as Jiangsu Nanshan Pharmaceutical Co., Ltd.)	31 March 2018	70.00%
China Resources Lianyungang Pharmaceutical Co., Ltd. (formerly known as Lianyungang Dezhong Pharmaceutical Co., Ltd.)	31 March 2018	70.00%
China Resources Guobang (Shanghai) Pharmaceutical Co., Ltd. (formerly known as Shanghai Guobang Pharmaceutical Co., Ltd.)	1 January 2018	51.00%
Guoyao Guang'an Pharmaceutical Co., Ltd.	10 May 2018	70.00%
Zhangjiakou Namei Pharmaceutical Co., Ltd.	1 November 2018	70.00%
Hunan Xiangzhong Pharmaceutical Co., Ltd.	16 August 2018	85.65%

Business acquired from the following company	**Date of acquisition**
Shanxi Kancheng Pharmaceutical Co., Ltd.	31 December 2018
Anhui Qiaoling Pharmaceutical Co., Ltd.	31 December 2018
Huaibei Pharmaceutical Co., Ltd.	31 December 2018
Nanjing Xinye Pharmaceutical Industrial Co., Ltd.	1 July 2018

The goodwill arose from the above acquisition amounted to HK$225,064,000.

14 DISPOSAL OF SUBSIDIARIES

On 25 May 2018, Anhui Double-crane Pharmaceutical Co., Ltd ("**Anhui Double-crane**"), a subsidiary of the Group, entered into an investment agreement with Suzhou Chuangyang Pharmaceutical Technology Co., Ltd. ("**Suzhou Chuangyang**"). According to the agreement, Suzhou Chuangyang shall invest RMB9,711,000 into Anhui Double-crane Pharmaceutical Packaging Co., Ltd. ("**Anhui Double-crane Packaging**"), a wholly-owned subsidiary of Anhui Double-crane. Upon the completion of the investment on 29 June 2018, Anhui Double-crane lost the control over Anhui Double-crane Packaging and the investment was accounted for using the equity method as a joint venture. The disposal of Anhui Double crane resulted in a gain on disposal of the subisidariy of HK$502,000.

15. EVENTS AFTER THE REPORTING PERIOD

Pursuant to an equity transfer agreement dated 3 August 2018, the Company announced to acquire or subscribe 51% or above equity interests of Jiangxi Jiangzhong Pharmaceutical (Group) Co., Ltd. at a consideration of RMB3,099,400,000 (equivalent to HK$3,537,300,000). The transaction was completed in February 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In 2018, facing the complex domestic and international environment, China's economy maintained its stability within a reasonable range with a year-on-year GDP growth of 6.6%. The effects of structural reform of the supply side are continuously realized, while the opening-up policy entered a new phase of expansions. Factors like consumption upgrading and technological progress continued to drive economic development and advance transformation and the transition from rapid development to high-quality development has become a new feature of China's economic development.

Along with the implementation of "Healthy China" strategy, reforms in the medical and healthcare system continued to deepen. With the focus on all-arounded attention on national health at all times, there was an expansion of medical insurance coverage and improvement of the citizen's livelihood. Meanwhile, the pharmaceutical industry underwent a sustainable and healthy development, driven by great efforts to optimize the industry structure, to regulate the order of the industry, and to reasonably control the medical cost. The pharmaceutical industry was in the stage of structural optimization, transformation and upgrading. The overall growth rate of the industry decelerated but continued to outperform the macro economy.

In 2018, the policy environment of China's pharmaceutical industry continued to show significant changes. The entire industry was undergoing a comprehensive structural adjustment and order reconstruction. On the supply side, the quality consistency evaluations has been accelerated, which further deepened the reforms in drug appraisal and approval, and continued to improve generic drug quality and support the development of innovative drugs. The first batch of volume procurement pilot program was organized in the PRC, and the roadmap of China's generic drug development has accelerated its integration into the developed international market. On the distribution side, the "Two Invoice System" has been implemented comprehensively, completely restructuring the commercial distribution pattern and squeezing out the allocation business. In the end user market, the construction of integrated health care system was continuously promoted in the PRC, fully implemented the "Zero Markup", and released the "Internet Plus" medical and healthcare policies. At the same time, the rules regarding prescription outflow was explored nationwide while the policies regarding restrictions on auxiliary drugs was enhanced. Therefore, the trend of diversifying drug sales terminals became more obvious. On the payment side, the revised Medical Insurance Drugs Catalog was implemented, the negotiation of the types of medical insurance was completed, and the implementation scope of the multi-element compound payment method focusing on disease-based payment gradually expanded. Regarding supervision, the regulators intensified the efforts and frequencies in the comprehensive supervision of the industry and of the entire process. After reforming the regulators, the industry's influence and ability to control costs greatly increased, thereby further strengthening the market supervision mechanisms.

China has now become the world's second largest pharmaceutical market. Many factors such as policy guidance, development of the healthcare industry and demographic changes have allowed China's pharmaceutical industry to enter into a new development cycle after industrial restructuring. In the short term, under the impact of factors such as control over medical insurance premium and lower bid prices, enterprises will face many challenges, including stricter supervision, vigorous competition, structural adjustment, industrial upgrading, and payment collection. However, in the long term, the steady increase in the demand for medical services, changes in disease spectrum and continual upgrading of the drug usage structure will still be important guarantees for the industry's medium- and long-term growth potential. The extensive medical reform will continue to strengthen the general trend of the industry's structural development. The further integration between new technologies and the pharmaceutical industry will accelerate the emergence of new industry formats. Long-term stable growth for China's pharmaceutical industry still can be expected. We believe that the Group, as a large pharmaceutical enterprise with a leading position in China, will play a greater role in this new era for the pharmaceutical industry by virtue of its diversified business layouts and product portfolios, quality advantages and innovation capability, integrated business model and standardized operations.

Group Results

During the year of 2018, along with the changes in industry policies and market demand, the Group actively and continues to promote the implementation of "13th Five-year Plan". With the accelerating pace of merger and acquisition activity and with sustainable business structure optimization, the Group continually facilitates innovative transformation and effective resources consolidation in order to improve sustainable operating management. While the external challenges have worsened in a large degree, the Group strives to achieve a solid growth in operating results and a continuous improvement in efficiency of operation and profitability.

During the Reporting Period, the Group recorded a total revenue of HK$189,689.1 million, representing an increase of 9.9% compared with that of HK$172,532.2 million in 2017 (total revenue of the Group during the Reporting Period recorded a year-on-year increase of 6.9% in terms of RMB). In 2018, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses, accounted for 16.8%, 80.2% and 2.9% of the total revenue, respectively.

During the Reporting Period, the Group recorded a gross profit of HK$34,930.4 million, representing 23.5% increase compared with that of HK$28,276.1 million in 2017. The overall gross profit margin was 18.4%, representing an increase of 2.0 percentage points compared with the gross profit margin of 16.4% in 2017. Driven by continuous improvement of product mix and business structure, the gross profit margin of the pharmaceutical manufacturing sector and the pharmaceutical distribution sector increased significantly.

In 2018, the Group recorded profit attributable to owners of the Company of HK$4,037.9 million, representing an increase of 15.9% (an increase of 12.7% in terms of RMB) when compared with that of HK$3,483.0 million in 2017. Basic earnings per share was HK$0.64 in 2018 (HK$0.55 in 2017). The Board proposed to declare an annual dividend of HK$0.13 per share for the year ended 31 December 2018.

Results Review

1. Pharmaceutical Manufacturing Business

In 2018, the pharmaceutical manufacturing business of the Group continues to focus on its core products, while diversifying and optimizing product portfolio, strengthen its capability of academic based marketing and sales promotion, and proactively expand customer coverage, increase brand influence; and facilitate the transformation and upgrade of industrial manufacturing so as to further consolidate the market status in core therapeutic area. During the Reporting Period, the segment revenue in pharmaceutical manufacturing business of the Group recorded HK$35,043.7 million, representing an increase of 19.5% compared with 2017.

By product categories during the Reporting Period, the revenue from sale of chemical drugs was HK$15,583.9 million in 2018, representing a rapid increase of 34.2% when compared with the same period of last year, which mainly benefited from the revenue increase in anti-infective drugs, infusion products as well as chronic diseases drugs and specialty drugs. The revenue from sale of Chinese medicines was HK$16,892.6 million, representing a year-on-year increase of 10.6%, which mainly caused by revenue increase both in Traditional Chinese Medicines' (TCM) OTC products and formula granules of TCM. The revenue from sale of biopharmaceutical drugs was HK$170.3 million, representing a year-on-year increase of 14.8% caused by adjustment of sales model. The revenue from sale of nutritional and healthcare products was HK$784.1 million, representing a year-on-year increase of 58.3%, benefit from the enriched variety of healthcare products.

During the Reporting Period, the gross profit margin of pharmaceutical manufacturing business of the Group was 64.8%, representing an increase of 4.0 percentage points compared with 2017, which was mainly caused by restructuring and upgrade of the pharmaceutical manufacturing business, continuous optimization of product portfolios and improvement of manufacturing process.

As of 31 December 2018, the pharmaceutical manufacturing business of the Group produced and sold more than 430 pharmaceutical products. During the Reporting Period, the Group had 49 pharmaceutical products with annual revenue over HK$100.0 million, among which seven pharmaceutical products achieved annual revenue over HK$1 billion.

The Group believes the research & development and product innovation is an important driver for long-term growth, and continue to increase investments in research & development activities. During the Reporting Period, the research & development expenditures were HK$1,454.8 million. Following the government policies, industrial technology development trends and market demand, the Group integrates research and development capabilities on generics and innovative drugs, focusing on therapeutic areas such as cardiovascular, respiratory, oncology, gastroenterology and metabolism, central nervous system, immune system, anti-infection, hematology and urology, so that to improve company's core competitiveness. As of the end of the Reporting Period, the Group operates 2 nationally certified engineering and technological centers, 2 nationally certified enterprise technical centers and 15 provincially or municipally certified research centers. Aside from that, the Group also puts in place post-doctoral research stations with over 600 research & development personnel.

As of 31 December 2018, the Group had 222 research & development projects, including 32 projects regarding to innovative drugs, mainly focusing on research & development areas such as cardiovascular system, metabolism and endocrine, respiratory system, tumor and immunity, psychiatric and neurological system, anti-infection, blood and genitourinary system. One of the oncology drug is in phase II clinical research, while another respiratory system Category 1 innovative drug has initiated US FDA IND (Investigational New Drug) application process. At the end of the Reporting Period, 11 projects were pending for registration approval by NMPA. During the Reporting Period, the Group obtained 33 patents, among which ten products (such as the pegylated injectable recombinant human erythropoietin (聚乙二醇重組人促紅素注射液) has approved by NMPA for clinical trials, and four products (such as busulfan injection (白消安注射液)) has approved by NMPA for production, which further enhanced product line for the pharmaceutical manufacturing sector. Moreover, the Group's Levetiracetam tablet (左乙拉西坦片) was included in the list of priority review and approval published by Center for Drug Evaluation (藥品審評中心) in July 2018.

The Group has collaborated with domestic and foreign research & development institutions the way of technology licensing, service outsourcing and the establishment of joint laboratories. During the Reporting Period, the Group conducted multi-directional strategic collaboration with the 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）, Nankai University, WuXi AppTec, Fujifilm Corporation in Japan ("**FUJIFILM**"), Pharmaron and Peking University School of Pharmaceutical Sciences in various therapeutic areas including oncology, immune diseases, anti-infection and respiratory system. In addition, the Group in-licensed a number of researched stage new products from overseas that carry significant clinical and market value, including two Class 1 chemistry innovative drug and one biosimilar drug which are in therapeutic areas of respiratory system and digestive system. Furthermore, the Group introduced a product Spherotide, a long-acting microsphere-based injectable drug developed by Swedish company Xbrane. This product is used in the treatment of prostate cancer, uterine fibroids and endometriosis.

The Group puts strong emphasis and gives priority to facilitate consistency evaluation work of generic drugs from different direction. As at the end of the Reporting Period, over 40 consistency evaluation projects have commenced (of which, over 20 projects are not in the 289 catalog). Over 10 projects have commenced bioequivalence clinical trials and 8 products have completed bioequivalence clinical trials, of which, Metformin Sustained Release Tablets（二甲雙胍緩釋片）, Azithromycin Tablets（阿奇黴素片）, Mifepristone Tablets（米非司酮片）and Finasteride Tablets（非那雄胺片）have completed application filing. In July and December 2018, the Group received the "Approval Document for Supplementary Application of Drugs" issued by NMPA on Amlodipine Besylate tablets (5mg) and Terazosin Hydrochloride Tablets (2mg), respectively, which passed the consistency evaluation. In addition, in January 2019, Mifepristone Tablets (10mg and 25 mg) passed the consistency evaluation and obtained national reference drug qualification.

2. Pharmaceutical Distribution Business

Leveraging on the implementation of "Two-Invoice System" policy, the Group optimized business structure, promoted transformation and upgrade, and made sustained efforts to expand the distribution network, with a view to enhance the customer coverage and further optimize product portfolios. In 2018, the Group's pharmaceutical distribution business achieved a segment revenue of HK$155,328.8 million, representing an increase of 7.4% compared with 2017.

During the Reporting Period, the Group expedited its expansion of distribution network in western provinces. The Group also enhanced construction of provincial platforms and penetrated further at community-level to consolidate and promote competitive edge in regional markets, aiming to further strengthen the control over downstream terminals. As of 31 December 2018, the pharmaceutical distribution network of the Group covered 28 provinces, municipalities and autonomous regions nationwide, with customers including 6,581 Class II and Class III hospitals, 51,505 primary medical institutions and 26,964 retail pharmacies.

In recent years, the Group has optimized its business structure on an on-going basis. The percentage of the revenue from direct distribution business (to medical institutions) verse the total revenue from distribution business has increased further. As a result, the Group's pharmaceutical distribution business recorded a gross profit margin of 7.3% during the Reporting Period, representing an increase of 0.6 percentage point compared with that of 2017.

During the Reporting Period, by proactively following the guidance of governance policies, the Group encouraged the further transformation of pharmaceutical distribution business, exploration and implementation of value-added services along the supply chain, aiming to strengthen its core competitive advantages. The Group continues to improve its efficiency by developing integrated and modernized intelligent logistics system. As at the end of the Reporting Period, the Group's distribution business operates in 170 logistics centers. The Group's distribution business expanded upstream resources from various directions, enriched and optimized product structure in the long run, strengthened import/export services and increase categories of import drugs, and accelerate the development of medical device distribution business. Meanwhile, the Group actively explores innovative business models to further enhance the capability of providing value-added services to its end customers. As of 31 December 2018, the Group provided hospital logistic intelligence ("**HLI**") services to approximately 300 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$5,454.6 million, representing a year-on-year increase of 28.5% while the gross profit margin of the retail business was 14.6%, representing a decrease of 2.9 percentage points when compared with 2017. The decreasing of gross profit margin was mainly due to the rapid growth of direct-to-patient (DTP) business which has a relatively lower profit margin.

As of 31 December 2018, the Group had 853 retail pharmacies in total. During the Reporting Period, the Group further integrated the pharmaceutical retail resources in terms of brand, product and information system, built up centralized procurement platforms for both medical and non-medical products, aiming to enrich and optimize the variety of products. The Group also actively carried out a variety of novel business models such as DTP and chronic disease management. At the end of the Reporting Period, the Group had 140 DTP pharmacies covering 66 cities in the PRC.

ACCELERATING BUSINESS EXPANSION TO EXPLORE GROWTH POTENTIAL

For pharmaceutical manufacturing business, the Group has successfully completed several external acquisitions of new TCM and chemical drugs during the Reporting Period, which further expanded product portfolio and improved business coverage.

In May 2018, the Company and Jiangxi Government entered into a strategic collaboration agreement, pursuant to which, both parties agreed to leverage their relevant strengths, consolidate industry resources and establish long-term and stable strategic business collaboration and cooperative mechanism. As part of the strategic alliance, Jiangxi Government agreed to restructure Jiangxi Jiangzhong Pharmaceutical (Group) Co., Ltd. (江西江中製藥(集團)有限責任公司). In August and September 2018, CR Pharmaceutical Holdings entered into a share subscription agreement and a supplemental agreement thereto, respectively, with the then shareholders of Jiangzhong Group for the subscription of the shares of Jiangzhong Group. As at January 2019, all conditions for the effectiveness of the supplemental share subscription agreement have been satisfied and the supplemental share subscription agreement has taken effect. According to the supplemental share subscription agreement, Jiangzhong Group has conditionally agreed to increase their registered capital by approximately RMB129.6 million, while CR Pharmaceutical Holdings has conditionally agreed to make a capital contribution of approximately RMB3,099.4 million (equivalent to approximately HK$3,537.3 million) (subject to adjustment) by way of cash for the subscription of the newly increased registered capital of Jiangzhong Group. In February 2019, Jiangzhong Group has completed its relevant change of business registration for the proposed subscription. Jiangzhong Group has become a non-wholly-owned subsidiary of the Company. CR Pharmaceutical Holdings directly holds 51% interests in Jiangzhong Group, and thereby indirectly holds 43.03% interests in Jiangzhong Pharmaceutical, a leading pharmaceutical manufacturer of OTC products in the PRC. Jiangzhong Pharmaceutical has strong brand influence and high market share in both gastroenterology and oropharynx. In the future, Jianzhong Pharmaceutical shall collaborate with the Group in various aspects such as brand, product, manufacturing, research & development and sales channels to realize synergies with the Group's pharmaceutical manufacturing business, which will enhance the Group's core competitiveness in TCM self-diagnosis and self-treatment, as well as in product development of herbal TCM, among others.

In 2018, CR Double-Crane successively acquired 45% and 40.65% equity interests in Xiangzhong Pharmaceutical Co., Ltd.（湘中製藥有限公司）, upon completion of which CR Double-Crane holds an aggregate of 85.65% equity interests in Xiangzhong Pharmaceutical, with an aim to expand and strengthen the product pipeline of psychiatric and neurological specialty drugs, and improve its hospital sales and marketing capability of psychiatric specialty drugs. In addition, in June 2018, CR Double-Crane announced the acquisition of 40% equity interests in China Resources Double-Crane Limin Pharmaceutical (Jinan) Company Limited（華潤雙鶴利民藥業（濟南）有限公司）("**Double-Crane Limin**"), one of its subsidiaries, using its own capitals. Upon the acquisition, CR Double-Crane holds 100% equity interests in Double-Crane Limin, which helps to further unify the business layout and integrate industry resources.

For pharmaceutical distribution business, the Group continued to implement the external merger and acquisition strategy of "establishing platforms at provincial level and building distribution networks at municipal level" and optimized business network layout in both width and depth on an ongoing basis. During the Reporting Period, the Group has made business presence in Gansu Province and completed several prefecture-level acquisitions in Fujian and Jiangsu to consolidate business networks both vertically and horizontally, which in turn further strengthen its competitive advantage in the regional markets. China Resources Pharmaceutical Commercial Group Company Limited（華潤醫藥商業集團有限公司）proposed to subscribe, by way of cash, all non-publicly issued share of Zhejiang Int'l Group Co., Ltd.（浙江英特集團股份有限公司）, and upon the subscription, it would hold 16.67% equity interests in Zhejiang Int'l Group, which will help further sharpen the comprehensive competitive edge of the Group in Eastern China.

As at the end of the Reporting Period, China Resources Pharmaceutical Industrial Investment Fund LLP (the "**Fund**"), one of the diversified investing platforms of the Group, has completed a number of investments in the fields of TCM medical devices, biopharmaceuticals, etc., enabling the Group to improve its business layout and to consolidate and strengthen the Group's leading position in the industry, among which the Fund invested as a pre-IPO investor in Fusen Pharmaceutical Company Limited, which successfully completed the global offering in Hong Kong in July 2018. The investment projects of the Fund have achieved business synergies with the Group in terms of research & development, pharmaceutical manufacturing and distribution.

In addition, in 2018, CR Pharmaceutical Investment cumulatively increased shareholding in Dong-E-E-Jiao by acquiring approximately 9.60 million shares, resulting direct equity interests in Dong-E-E-Jiao increased to 8.12%. As at the end of the Reporting Period, together with the 23.14% interests in Dong-E-E-Jiao held by 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 31.26% equity interests in Dong-E-E-Jiao in total. Such increase in shareholding helps to further enhance the overall strengths and synergies of the Group's pharmaceutical manufacturing business.

SYSTEMATIC INTEGRATION OF RESOURCES IN BIOPHARMACEUTICAL SECTOR TO ENHANCE THE STRENGTH OF BIOPHARMACEUTICAL BUSINESS

In June 2018, the Group restructured Angde Biotech Pharmaceutical Co., Ltd.（昂德生物藥業有限公司）("**Angde Biotech**"), by injection of research & development product dulaglutide from China Resources Pharmaceutical Holdings Company Limited（華潤醫藥控股有限公司）("**CR Pharmaceutical Holdings**") as well as cash and research & development product insulin aspart from China Resources Biomedical (Shenzhen) Co., Ltd.（華潤生物醫藥（深圳）有限公司）("**CR Biomedical**").

Angde Biotech was established in 2001 and originally wholly-owned by Dong-E-E-Jiao. Leveraging on years of development, the company has laid a solid foundation in the research & development and production of recombinant protein biopharmaceutical drugs. After the capital increase, CR Pharmaceutical Holdings and CR Biomedical jointly hold 51% equity interests in Angde Biotech, thus, the Group's control over Angde Biotech was further consolidated.

Through the restructuring of Angde Biotech, the Group further complete the integration of the research& development, production and marketing resources related to the biopharmaceutical business. The two products injected are recombinant protein products that treat the diabetes disease, which have huge market potential and have potential to develop an advanced product portfolio with Angde Biotech's own research & development product, insulin detemir. Meanwhile, taking advantage of the Group's capital and technology edges, Angde Biotech shall be developed into a production and operation platform for the Group's recombinant protein biopharmaceutical drugs by riding on the marketing and sales terminal resources of the Group's pharmaceutical business.

The Group devotes significant attention to the development of biopharmaceutical business and continues to increase investment in this field. Our biopharmaceutical business has equipped with advanced platforms for research & development and production, with marketed products including reteplase, interleukin-11, etc. and high-potential research & development products focusing on anti-tumor, immune, cardiovascular and other areas. Furthermore, the research & development products also include the polyethylene glycol recombinant human endostatin (M2ES), a candidate of long-acting anti-neoplastic molecule targeted drug under the National Class I New Drugs（國家一類新藥）. In the future, the Group shall pushing forward the introduction of high-quality products through acquisition, licensing, international cooperation and other methods to continuously enhance the overall strength of the Group's biopharmaceutical business.

Inclusion in Hang Seng Corporate Sustainability Index

In August 2018, the Group was selected as a constituent member of the Hang Seng Corporate Sustainability Index ("**HSSUS**"), which came into effect on 10 September 2018.

The HSSUS includes Hong Kong-listed companies with the best performances in enterprise sustainable development involving corporate governance, human rights, labor practices, environment, fair operation practices, consumers, community participation, and development. The index is objective, reliable, and highly investment-oriented. The selection process for the constituent stocks is rigorous. An independent and expert examination body conducts sustainable development evaluation, providing high-quality benchmarks for index funds that focus on enterprises that show evidence of sustainable development.

The inclusion fully reflects the Group's outstanding performance in environmental protection, social responsibility, and corporate governance. The Group's sound and sustainable development capabilities have been recognized in the capital market.

Outlook and Future Strategies

China's pharmaceutical industry is currently in a period of significant adjustment and transformation. With reforms continuing to delve deeper, the industry showed features of the new era in terms of structural optimization, quality upgrading, stricter supervision, and accelerated industrial transformation. The market still has room for development and industrial integration, with challenges and opportunities coexisting. Guided by the needs of market and industry policies, the Group will seize the opportunities of development and reform in China's pharmaceutical and healthcare industry, consolidate its core advantages, explore its organic development potential, and actively plan for the core areas and core segments in the industrial chain. Also, as propelled by merger and acquisition as well as R&D, the Group will optimize resources allocation, promote business modifications and industrial upgrading, accomplish long-term steady and sustainable development of its primary business sectors, and unceasingly strengthen and enhance its leading position in China's pharmaceutical industry.

1. ***Focus on core areas, strengthen brand advantages, optimize product portfolios, and promote the transformation and upgrading of pharmaceutical manufacturing business***

   The Group will respond to the impact of policies regarding volume purchases, medical insurance premium control, and lower bid prices in line with policy changes and trends of market structure adjustments. Also, the Group will continue to focus on key strategic products and core treatment areas, further optimize product structures, enforce practical management, strengthen the exploration of internal potential, and improve product quality. Moreover, the Group will strengthen its existing advantages across its brand, production, and marketing resources related to its pharmaceutical manufacturing business. It will always keep abreast of changes to the disease spectrum and expand its business into treatments of cardiovascular and cerebrovascular diseases, anti-tumor treatment, central nervous systems, and respiratory systems. It will keep an eye on improving the proper concoction of drugs for chronic disease treatment, as well as specialized and infusion therapies. The Group will seek opportunities to develop in the Traditional Chinese Medicine industry supported by the state, focus on consumption upgrades and healthcare needs, explore classic and famous prescriptions, promote the layout of the entire Traditional Chinese Medicine industrial chain, and accelerate the development of its healthcare business. Meanwhile, it will leverage any development opportunities for evaluating, and accelerating the process of quality consistency for generic drugs and injections. The Group will improve manufacturing capacity and product quality by improving and optimizing processes associated with production capacity layout, and promote sustainable and steady development of its pharmaceutical business.

2. Strengthen regional advantages, optimize business structures, and develop into an intelligent service provider on the pharmaceutical supply chain

With the full implementation of the "Two-Invoices System" and the policies for hierarchical diagnosis and separation between medical and pharmaceutical services, the Group will continue to develop its specialized sectors, such as businesses at the municipal level and medical equipment based on its promotion of the national layout. The Group will continue to strengthen its coverage of grassroots medical terminals and retail terminals and explore regions where it has the most advantageous position. At the same time, the Group will improve services for upstream enterprises, optimize variety and business structures, strengthen operational efficiency and quality, and accelerate development into medical equipment distribution and import. The Group will optimize the logistical layouts and accelerate the development of third-party logistics. Furthermore, the Group will continue to promote innovative business models that involve the intelligent integration of hospitals and logistics, DTP, and e-commerce businesses; consolidate its leading position as a pharmaceutical distribution solution provider, and actively promote a focused direction for China's pharmaceutical circulation industry.

3. Commit to meeting clinical needs, optimizing R&D innovation system, and accelerating access to high-quality products

The Group will seize favorable opportunities for national pharmaceutical innovation and development and never cease to optimize its R&D system and improve its innovation mechanisms. Meanwhile, driven by technological innovation, product capacity improvement, and clinical needs, it will further improve its plan for developing innovation in R&D, increase R&D investments, introduce high-end talents, improve R&D capabilities, and accelerate strategic transformation from generic and innovation to independent innovation. Concurrently, the Group will actively seek cooperation in the field of R&D; expand access to new products; and enrich the R&D product chain in anti-tumor, autoimmune, cardiovascular, central nervous system, and respiratory system fields. It will also seek to accelerate development into bio-drugs, build a platform for bio-drug innovation technology, and cultivate core products with competitive market advantages.

4. Speed up extensive development and consolidate competitive advantages through various ways

The Group will fully utilize any opportunity that integrates China's pharmaceutical industry in the PRC, focusing on mixed reform targeting state-owned enterprises in the pharmaceutical industry. It will accelerate garnering access to high-quality resources through strategic mergers and acquisitions, and realize external development. Meanwhile, it will leverage pharmaceutical industry funds to accomplish a forward-looking layout in the fields of bio-drugs, innovative drugs, and pharmaceutical retail to foster new business growth points. In terms of its pharmaceutical manufacturing business, the Group will focus on exclusive or competitive variants with higher technical barriers during its strategic investment in high-growth treatment fields such as cardiovascular, anti-tumor, bio-drugs, and healthcare, selectively acquiring enterprises with differentiated product portfolios or those that complement its existing core products. In terms of pharmaceutical distribution and retail businesses, the Group will further consolidate its leading position in the industry by investing in or acquiring distribution enterprises with high-quality customer resources and premium pharmaceutical retail enterprises.

5. Expand international cooperation, acquire high-quality resources and cutting-edge technologies, and enhance comprehensive competitiveness

The Group will continue to improve the development and construction of international cooperation platforms. Based on its existing domestic business and competitive advantages, the Group will conduct multi-faceted cooperation with international pharmaceutical manufacturers, medical device companies and overseas pharmaceutical distributors. Through various means of cooperation including import of products, distribution agency, entrusted production, establishment of joint ventures, and cooperative development, the Group will introduce high-quality products, cutting-edge technologies and management concepts, build a mutually beneficial and win-win cooperation model, jointly expand the Chinese pharmaceutical market, and further promote the optimization and upgrading of product portfolios and business models. At the same time, the Group will carry out in-depth analysis and research on the international pharmaceutical market to achieve a breakthrough in the overseas business deployment.

6. Promote business synergy and resource integration, and optimize resource allocation and operational efficiency

While further unleashing the synergies in its integrated business deployment, the Group will expand the scope of business synergy, innovate synergy modes, and promote the synergies among the pharmaceutical manufacturing, distribution and retail businesses as well as the subsectors of each business segment in the aspects such as market entry, expansion of terminals and introduction of products. Leveraging CR Leasing as a quasi-financial platform, the Group will explore new opportunities for growth through the synergy of industry and financing to establish market forces. Concurrently, by improving information system, strengthening capital control and reinforcing comprehensive management over internal resources, the Group will promote the integration of the existing and new resources, strengthen overall control and operational efficiency, and effectively control operational risks.

Other information

As the Group's investment strategy is moving to overseas and the overseas business is in the development, the directors of the Company determined that the functional currency of the Company changed from HK$ to RMB from 1 July 2018 after the re-valuation of such change.

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 2018, the Group had bank balances and cash of HK$16,633.3 million (2017: HK$14,161.8 million), which were primarily in RMB, US dollars ("**USD**") and HKD.

As at 31 December 2018, the RMB-denominated, and HKD-denominated bank borrowings accounted for approximately 77.0% (2017: 78.5%) and 23.0% (2017: 21.5%), respectively, of the Group's total bank borrowings, and the bank borrowings which carried interests at fixed and variable rates accounted for 35.2% (2017: 65.6%) and 64.8% (2017: 34.4%), respectively, of the Group's total bank borrowings. Among the Group's total bank borrowings as at 31 December 2018, a substantial portion of approximately 91.9% (2017: 96.7%) 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 2018 (2017: 1.2:1).

As at 31 December 2018, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 56.7% (2017: 36.0%).

In 2018, the Group's net cash from operating activities remained solid at HK$8,247.0 million (2017: HK$4,857.5 million). The Group's net cash used in investment activities in 2018 amounted to HK$11,971.8 million (2017: HK$8,511.6 million). The Group's net cash from financing activities in 2018 amounted to HK$6,838.2 million (2017: HK$3,126.9 million).

As at 31 December 2018, the Group had not used any financial instruments for hedging purposes.

Pledge of Assets

As at 31 December 2018, the Group's total bank borrowings amounted to HK$40,664.5 million (31 December 2017: HK$32,209.8 million), of which HK$408.8 million (31 December 2017: HK$548.7 million) were secured and accounted for 1.0% (31 December 2017: 1.7%) of the total borrowings.

Certain of the Group's trade and bills receivables with an aggregate net book value of HK$934.0 million (31 December 2017: HK$1,320.4 million) have been pledged as security.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: 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 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 2018 amounted to HK$2,614.1 million (2017: HK$2,005.6 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 2018, the Group employed around 62,000 staff (31 December 2017: 56,000 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**").

The Company had not changed the uses of the IPO proceeds as set out in the Prospectus. All the IPO proceeds had been utilized in accordance with the intended uses during the year ended 31 December 2018.

DIVIDEND

The Board recommended the payment of a final dividend of HK$0.13 per share for the year ended 31 December 2018 (2017: HK$0.11). 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 28 May 2019 (the "**AGM**") and the final dividend will be distributed on or about 21 June 2019 to the Shareholders whose names appear on the register of members of the Company on 5 June 2019.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2019 to 28 May 2019, 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 21 May 2019.

The register of members of the Company will also be closed on 5 June 2019, 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 4 June 2019.

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 then Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2018 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 2018 and 2017 included in this preliminary announcement of annual results 2018 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 2017 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 2018 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 ERNST & YOUNG

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 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the preliminary announcement.

AUDIT COMMITTEE

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

PUBLICATION OF THE ANNUAL RESULTS AND 2018 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 2018 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
Chairman

Hong Kong, 21 March 2019

As of the date of this announcement, the executive Directors are Mr. WANG Chuncheng and Mr. LI Guohui; the non-executive Directors are Mr. CHEN Rong, Mr. YU Zhongliang, Mr. WANG Shouye and Mr. LYU Ruizhi; and the independent non-executive Directors are Mdm. SHING Mo Han Yvonne, Mr. KWOK Kin Fun, Mr. FU Tingmei and Mr. ZHANG Kejian.