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華潤醫藥集團有限公司
China Resources Pharmaceutical Group Limited
(Incorporated in Hong Kong with limited liability)
(Stock Code: 3320)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019 (Unaudited)	2018 (Unaudited)	**Increase**
Revenue *(HK$ million)*	**101,923.0**	93,740.8	8.7%
Profit for the period attributable to owners of the Company *(HK$ million)*	**3,035.4**	2,249.6	34.9%
Basic earnings per share	**HK$0.48**	HK$0.36	
	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)	**Increase**
Equity attributable to owners of the Company *(HK$ million)*	**41,273.2**	39,373.3	4.8%
Net debt *(HK$ million) (note 1)*	**45,143.2**	34,302.8	31.6%
Total equity *(HK$ million)*	**68,792.8**	60,529.1	13.7%
Net debt to total equity	**0.66**	0.57	
Net assets per share – book *(note 2)*	**HK$6.6**	HK$6.3	4.8%

Notes:

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

The board (the "**Board**") of directors (the "**Director(s)**") of China Resources Pharmaceutical Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with the comparative figures for the previous year as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	NOTES	***HK$000***	*HK$000*
REVENUE	*4*	**101,922,961**	93,740,803
Cost of sales		**(84,489,378)**	(76,859,425)
Gross profit		**17,433,583**	16,881,378
Other income		**915,123**	652,262
Other gains and losses	*5*	**857,791**	24,096
Selling and distribution expenses		**(8,914,464)**	(8,440,435)
Administrative expenses		**(2,342,064)**	(2,140,030)
Other expenses		**(492,809)**	(644,220)
Finance costs	*6*	**(1,716,655)**	(1,292,562)
Share of profits and losses of associates and joint ventures		**67,593**	69,973
PROFIT BEFORE TAX	*7*	**5,808,098**	5,110,462
Income tax expense	*8*	**(1,124,811)**	(1,047,679)
PROFIT FOR THE PERIOD		**4,683,287**	4,062,783
Attributable to:			
Owners of the Company		**3,035,370**	2,249,627
Non-controlling interests		**1,647,917**	1,813,156
		4,683,287	4,062,783
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted *(HK$)*	*9*	**0.48**	0.36

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
PROFIT FOR THE PERIOD	**4,683,287**	4,062,783
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations	**(572,176)**	–
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(572,176)**	–
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation to presentation currency	**–**	(713,390)
Gain on revaluation of property, plant and equipment	**148,211**	4,675
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	**148,211**	(708,715)
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(423,965)**	(708,715)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**4,259,322**	3,354,068
Attributable to:		
Owners of the Company	**2,960,222**	1,895,880
Non-controlling interests	**1,299,100**	1,458,188
	4,259,322	3,354,068

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTES	30 June 2019 (Unaudited) HK$000	31 December 2018 (Audited) HK$000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**16,170,812**	14,652,228
Right-of-use assets	*2.2*	**5,286,784**	–
Prepaid land lease payments		**–**	2,590,622
Investment properties		**1,739,119**	1,541,437
Goodwill		**20,366,994**	19,804,854
Other intangible assets		**6,064,849**	4,954,664
Interests in joint ventures		**124,744**	44,290
Interests in associates		**2,787,316**	2,233,808
Other non-current financial assets	*12*	**587,507**	222,673
Deferred tax assets		**615,402**	621,419
Other non-current assets		**2,903,974**	1,218,427
Total non-current assets		**56,647,501**	47,884,422
CURRENT ASSETS			
Inventories		**22,730,996**	21,527,923
Trade and other receivables	*13*	**67,605,513**	54,847,015
Prepaid land lease payments		**–**	123,128
Other current financial assets	*12*	**29,005,621**	28,023,549
Amounts due from related parties		**3,769,208**	2,402,557
Tax recoverable		**53,686**	57,895
Pledged deposits		**3,377,118**	3,428,676
Cash and cash equivalents		**14,817,581**	16,633,301
		141,359,723	127,044,044
Assets classified as held for sale		**1,093,841**	1,316,021
Total current assets		**142,453,564**	128,360,065

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTES	30 June 2019 (Unaudited) HK$000	31 December 2018 (Audited) HK$000
CURRENT LIABILITIES			
Trade and other payables	14	**58,904,952**	56,198,259
Short-term debentures		**1,705,200**	3,423,868
Contract liabilities		**1,292,026**	1,711,938
Lease liabilities	2.2	**601,779**	–
Amounts due to related parties		**4,942,850**	4,057,107
Interest-bearing bank and other borrowings		**46,688,892**	37,362,593
Tax payable		**534,001**	603,263
		114,669,700	103,357,028
Liabilities directly associated with the assets classified as held for sale		**–**	1,341
Total current liabilities		**114,669,700**	103,358,369
NET CURRENT ASSETS		**27,783,864**	25,001,696
TOTAL ASSETS LESS CURRENT LIABILITIES		**84,431,365**	72,886,118
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**3,609,073**	3,301,928
Bonds payable		**7,957,600**	6,847,740
Lease liabilities	2.2	**1,324,162**	–
Deferred tax liabilities		**1,531,162**	881,272
Other non-current liabilities		**1,216,576**	1,326,119
Total non-current liabilities		**15,638,573**	12,357,059
NET ASSETS		**68,792,792**	60,529,059
EQUITY			
Equity attributable to owners of the Company			
Share capital		**27,241,289**	27,241,289
Reserves		**14,031,931**	12,132,020
		41,273,220	39,373,309
Non-controlling interests		**27,519,572**	21,155,750
Total equity		**68,792,792**	60,529,059

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

China Resources Pharmaceutical Group Limited (the "**Company**") is a public limited company incorporated in Hong Kong, whose shares are listed on the Stock Exchange of Hong Kong Limited with effect from 28 October 2016. The registered office is located at 41/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Group is principally engaged in the manufacturing, distribution and retail of pharmaceutical and healthcare products.

2. Basis of preparation and changes to the Group's accounting policies

2.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018.

The financial information relating to the year ended 31 December 2018 that is included in the interim condensed consolidated statement of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (the "**Companies Ordinance**") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

2.2. *New standards, interpretations and amendments adopted by the Group*

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and revised Hong Kong Financial Reporting Standards ("**HKFRS**") effective as of 1 January 2019. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK (IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on this financial information.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases* ("**HKAS 17**"), HK (IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* ("**HK(IFRIC)-Int 4**"), HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most of the leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged under HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact for leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings as at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land, buildings and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for certain (i) leases of low-value assets (e.g., office equipment); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities as at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate on 1 January 2019 and included in lease liabilities.

The right-of-use assets for most of the leases were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate on 1 January 2019. For the other leases, the right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties on 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The difference between the operating lease commitments applying HKAS 17 as at 31 December 2018 and lease liabilities recognised in the interim condensed consolidated statement of financial position as at 1 January 2019, the date of initial application of HKFRS 16 by the Group is mainly due to discounting of future lease payments, reclassification of accrued lease expenses to lease liabilities, the election not to recognise lease liabilities for certain leases for which the lease term ends within 12 months of the date of initial application or for leases of low-value, and lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options not to recognise as at 31 December 2018. The leasee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged from 2.62% to 5.00%.

The Group has used the following elective practical expedients when applying HKFRS 16 on 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 is as follows:

	Increase/(decrease)
	(Unaudited)
	HK$000
Assets	
Increase in right-of-use assets	4,572,410
Decrease in property, plant and equipment	(11,589)
Decrease in prepaid land lease payments	(2,713,750)
Increase in deferred tax assets	23,782
Increase in total assets	1,870,853
Liabilities	
Increase in lease liabilities and total liabilities	(1,942,197)
Decrease in retained earnings	(71,344)

At 30 June 2019, the right-of-use assets, current lease liabilities and non-current lease liabilities were amounted to HK$5,286,784,000, HK$601,779,000 and HK$1,324,162,000, respectively.

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease buildings for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of buildings due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operation if a replacement is not readily available.

3. 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 *Operating Segments* are as follows:

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

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

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

(d) Other business operations (Others) – property holding.

No operating segments have been aggregated to derive the reportable segments of the Group.

Inter-segment sales are conducted at prices and terms mutually agreed amongst those operating segments, with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

Segment results represent the profit earned by each segment without allocation of other income, other gains and losses, administrative expenses, other expenses, share of profits and losses of associates and joint ventures and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2019 and 2018:

Six months ended 30 June 2019	**Manufacturing (Unaudited)** *HK$000*	**Distribution (Unaudited)** *HK$000*	**Retail (Unaudited)** *HK$000*	**Others (Unaudited)** *HK$000*	**Total (Unaudited)** *HK$000*
Segment revenue					
External sales	**15,789,938**	**83,094,210**	**2,945,616**	**93,197**	**101,922,961**
Inter-segment sales	**1,576,862**	**1,854,691**	**–**	**–**	**3,431,553**
	17,366,800	**84,948,901**	**2,945,616**	**93,197**	**105,354,514**
Elimination:					
Elimination of inter-segment sales					**(3,431,553)**
Segment revenue					**101,922,961**
Segment results	**4,280,221**	**4,129,288**	**55,998**	**53,612**	**8,519,119**
Other income					**915,123**
Other gains and losses					**857,791**
Administrative expenses					**(2,342,064)**
Other expenses					**(492,809)**
Finance costs					**(1,716,655)**
Share of profits and losses of associates and joint ventures					**67,593**
Profit before tax					**5,808,098**

Six months ended 30 June 2018	Manufacturing (Unaudited) *HK$000*	Distribution (Unaudited) *HK$000*	Retail (Unaudited) *HK$000*	Others (Unaudited) *HK$000*	Total (Unaudited) *HK$000*
Segment revenue					
External sales	15,055,900	76,110,967	2,470,449	103,487	93,740,803
Inter-segment sales	1,818,628	1,490,059	–	–	3,308,687
	16,874,528	77,601,026	2,470,449	103,487	97,049,490
Elimination:					
Elimination of inter-segment sales					(3,308,687)
Segment revenue					93,740,803
Segment results	4,315,205	4,034,537	68,026	23,175	8,440,943
Other income					652,262
Other gains and losses					24,096
Administrative expenses					(2,140,030)
Other expenses					(644,220)
Share of profits and losses of associates and joint ventures					69,973
Finance costs					(1,292,562)
Profit before tax					5,110,462

4. REVENUE

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2019	2018
	HK$000	*HK$000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of pharmaceutical products	**101,844,865**	93,677,978
Revenue from other sources		
Rental income from investment properties	**78,096**	62,825
	101,922,961	93,740,803

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Gain on disposal of intangible assets	**4,516**	17,616
Loss on disposal of property, plant and equipment	**(489)**	(16,802)
Impairment loss recognised on trade receivables, net	**(268,301)**	(133,719)
Impairment loss reversed on other receivables, net	**15,996**	2,123
Fair value changes on financial assets at fair value through profit or loss	**57,684**	74,045
Fair value changes on investment properties	**–**	63,961
Investment income on financial assets	**10,148**	14,540
Gain on disposal of a subsidiary *(note 16)*	**1,060,563**	–
Others	**(22,326)**	2,332
	857,791	24,096

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Interest on bank borrowings	**1,435,604**	1,212,517
Interest on bonds payable	**204,801**	81,484
Interest on borrowings from an intermediate holding company	**32,231**	208
Interest on lease liabilities	**50,217**	–
Less: Interest capitalised in property, plant and equipment *(Note)*	**(6,198)**	(1,647)
	1,716,655	1,292,562

Note: Capitalised interest arose on funds borrowed specifically for the purpose of obtaining qualifying assets and on the general borrowing pool which are calculated by applying a capitalisation rate of 4.8% (six months ended 30 June 2018: 4.8%) per annum to expenditure on qualifying assets.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Depreciation of property, plant and equipment	**704,703**	666,624
Depreciation of right-of-use assets	**302,462**	–
Amortisation of other intangible assets	**117,420**	111,362
Amortisation of prepaid lease payments	**–**	39,390
Allowance for slow-moving and obsolete inventories	**4,862**	29,963
Cost of inventories recognised as cost of sales	**84,037,854**	76,330,975
Research and development expenditure (included in other expenses)	**498,968**	390,566
Operating lease payments in respect of leased premises	**3,436**	316,256
Impairment of property, plant and equipment	**8,027**	211
Foreign exchange (gain)/loss, net	**(50,445)**	214,704
Dividend income	**(2,888)**	(1,867)
Government grants	**(213,940)**	(120,821)
Interest income	**(326,102)**	(151,250)

8. INCOME TAX EXPENSE

The Group calculates income tax expense for the period using the tax rate that would be applicable to the expected total period earnings.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Current tax		
PRC Enterprise Income Tax ("**PRC EIT**"):	**1,090,545**	1,008,380
Hong Kong Profits Tax	**–**	1,105
Under provisions in previous period:		
PRC EIT	**5,026**	5,178
	1,095,571	1,014,663
Deferred tax	**29,240**	33,016
Tax charge for the period	**1,124,811**	1,047,679

9. 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:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Earnings		
Profit for the period attributable to owners of the Company used in the basic earnings per share calculation	**3,035,370**	2,249,627
Number of shares		
Weighted average number of ordinary shares in issue during the period 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 during the six months ended 30 June 2019 and 2018.

10. DIVIDENDS

The directors of the Company resolved not to declare any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

	2019	**2018**
	HK$000	***HK$000***
Dividend for ordinary shareholders of the Company recognised as distribution during the year:		
Final 2018 – HK$0.13 per ordinary share (2018: Final 2017 – HK$0.11 per ordinary share)	816,986	691,296

A final dividend of HK$816,986,000 (HK$0.13 cents per share) in respect of the year ended 31 December 2018 was approved at the annual general meeting of the Company on 28 May 2019. The aggregate amount of the final dividend paid to the shareholders of the Company in the current period amounted to HK$816,986,000.

11. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 30 June 2019, the Group acquired property, plant and equipment amounting to HK$777,555,000 (six months ended 30 June 2018: HK$866,669,000), excluding the property, plant and equipment acquired through business combination and property under construction.

Assets (other than those classified as held for sale) with a net book value of HK$31,265,000 were disposed of by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: HK$61,103,000), resulting in a net loss on disposal of HK$489,000 (six months ended 30 June 2018: a net loss on disposal of HK$16,802,000).

12. OTHER CURRENT/NON-CURRENT FINANCIAL ASSETS

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$000	*HK$000*
Asset-backed securities, at fair value *(Note a)*	**321,617**	385,217
Trade and bills receivables, at fair value *(Note b)*	**21,455,245**	19,088,152
Unlisted equity investments, at fair value *(Note c)*	**439,885**	74,467
Financial products, at fair value *(Note d)*	**6,524,319**	8,549,773
Financial products, at amortised cost *(Note e)*	**852,062**	148,613
Total	**29,593,128**	28,246,222
Analysed into:		
Current assets	**29,005,621**	28,023,549
Non-current assets	**587,507**	222,673
	29,593,128	28,246,222

Note a: The amounts represented the Group's investments in asset-backed securities with returns linked to the performance of those securities which were issued by independent third parties in the PRC. These securities are measured at fair value through profit and loss. The Group's asset-backed securities comprised two subordinated tranches of securities with maturity dates in November 2019 and September 2020.

Note b: The Group classified trade and bills receivables that are held within a business model both to collect cash flows and to sell to financial assets at fair value through other comprehensive income.

Note c: The Group's unlisted equity investments represented investments in unlisted private entities established in the PRC as at 30 June 2019 and 31 December 2018. These unlisted entities are principally engaged in the research and development, distribution and related operations of pharmaceutical products. They are measured at fair value through profit or loss.

Note d: Financial products at fair value included structured deposits entered into by the Group with banks and financial institutions. These structured deposits (where the effect of the structured element is not material) are designated as financial assets measured at fair value through profit or loss.

Note e: Financial products at amortised cost include financial products with principal and interest guaranteed. The assets are measured at amortised cost as they meet two conditions: (i) the financial asset is held within a business model with the objective to hold financial assets to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

13. TRADE AND OTHER RECEIVABLES

	30 June 2019 (Unaudited) ***HK$000***	31 December 2018 (Audited) *HK$000*
Bills receivable	**2,808,864**	2,559,563
Trade receivables	**56,000,403**	44,797,057
Impairment allowance	**(720,615)**	(436,084)
	55,279,788	44,360,973
Prepayments	**3,434,572**	3,425,706
Other receivables	**6,202,929**	4,637,120
Impairment allowance	**(120,640)**	(136,347)
	6,082,289	4,500,773
	67,605,513	54,847,015

The Group generally allows credit period 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 has maturity periods ranging from 30 to 180 days.

An aging analysis of the Group's trade receivables, based on the invoice date and net of impairment allowance, is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$000	*HK$000*
0-30 days	**18,883,934**	16,743,995
31-60 days	**8,189,421**	6,757,515
61-90 days	**7,134,966**	4,286,534
91-180 days	**12,492,982**	10,084,492
181-365 days	**7,076,225**	5,726,756
Over 1 year	**1,502,260**	761,681
	55,279,788	44,360,973

An aging analysis of the Group's bills receivable, based on the issue date is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$000	*HK$000*
0-30 days	**933,755**	317,149
31-60 days	**384,933**	393,062
61-90 days	**495,582**	432,406
91-180 days	**994,594**	1,416,946
	2,808,864	2,559,563

14. TRADE AND OTHER PAYABLES

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$000	*HK$000*
Trade payables	**30,037,358**	27,227,869
Bills payable	**12,617,605**	12,281,222
Accrued salaries	**1,325,778**	1,600,012
Interest payable	**362,076**	304,111
Other tax payables	**610,730**	1,314,669
Other payables	**12,974,237**	12,377,884
Payable for acquisitions of subsidiaries	**977,168**	1,092,492
	58,904,952	56,198,259

The average credit period on purchases of goods range from 30 to 120 days. The bills payable has maturity periods ranging from 30 to 360 days. As at 30 June 2019, the Group's bills payable of HK$10,013,897,000 (31 December 2018: HK$7,125,681,000) were secured by the Group's bills receivable with an aggregate carrying amount of HK$947,224,000 (31 December 2018: HK$408,919,000) and pledged bank deposits of HK$3,145,413,000 (31 December 2018: HK$3,193,308,000).

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

	30 June 2019 (Unaudited) ***HK$000***	31 December 2018 (Audited) *HK$000*
0-30 days	**19,158,457**	16,405,519
31-60 days	**3,786,873**	4,092,276
61-90 days	**2,271,465**	1,971,968
Over 90 days	**4,820,563**	4,758,106
	30,037,358	27,227,869

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

	30 June 2019 (Unaudited) ***HK$000***	31 December 2018 (Audited) *HK$000*
0-30 days	**10,631,130**	9,581,425
31-60 days	**410,938**	616,290
61-90 days	**497,372**	852,340
Over 90 days	**1,078,165**	1,231,167
	12,617,605	12,281,222

15. BUSINESS COMBINATIONS

(a) Acquisition of Jiangzhong Group

China Resources Pharmaceutical Holdings Company Limited ("**CR Pharmaceutical Holdings**") entered into a share subscription agreement and a supplemental subscription agreement on 30 July 2018 and 14 September 2018, respectively, with the then shareholders of Jiangxi Jiangzhong Pharmaceutical (Group) Co., Ltd ("**Jiangzhong Group**", currently known as China Resources Jiangzhong Pharmaceutical Group Co. Ltd) for the subscription of increased registered capital shares of Jiangzhong Group by way of capital contribution of approximately RMB3,099.4 million in cash (equivalent to HK$3,636.5 million) (the "**Consideration**"). Out of the Consideration, approximately RMB1,040.8 million (equivalent to HK$1,221.1 million) shall be treated as an interest-bearing shareholder's loan advanced to Jiangzhong Group, save for the amount for repayment of any outstanding entrusted loans receivable from its associate which shall be contributed to the reserve capital of Jiangzhong Group. On 22 February 2019, the above share subscription of Jiangzhong Group was completed and Jiangzhong Group became a 51%-owned subsidiary of CR Pharmaceutical Holdings. Jiangzhong Group is a large-scale pharmaceutical enterprise specialised in traditional Chinese medicine and directly holds equity interest in Jiangzhong Pharmaceutical Co., Ltd ("**Jiangzhong Pharmaceutical**"). Jiangzhong Pharmaceutical is a company listed on the Shanghai Stock Exchange and is principally engaged in the manufacturing, research and development, distribution of OTC medicines and healthcare products. As at 30 June 2019, the Group, through Jiangzhong Group, indirectly holds a 43.03% equity interest in Jiangzhong Pharmaceutical.

Goodwill arising from acquisition of the Jiangzhong Group amounting HK$660,324,000 is based on the provisional amounts of the fair values of the identifiable assets and liabilities of the Jiangzhoug Group and the fair value is subject to the finalisation.

(b) Acquisition of other subsidiaries

During the six-months ended 30 June 2019, the Group acquired other three companies which were engaged in the manufacture and sale of pharmaceutical products from independent third parties at an aggregated cash consideration of RMB22.6 million (equivalent to approximately HK$26.3 million). Goodwill arising from acquisitions of these companies accounting to HK$270,000 is based on the provisional amounts of fair value of the identifiable assets and liabilities of these three companies and the fair value estimation is subject to finalisation.

These subsidiaries were acquired as part of the Group's strategy to expand its market share in the pharmaceutical industry.

16. DISPOSAL OF SUBSIDIARY

In January 2019, the Group disposed of 100% equity interests of Shenzhen Sanjiu Hospital Co., Ltd. ("**Shenzhen Sanjiu**") to Shenzhen Xinshen Hospital Management Co., Ltd. at a cash consideration of RMB1,116,886,000 (equivalent to HK$1,289,903,000), resulting in a gain on disposal of HK$1,060,563,000.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2019, facing the complex global environment and slower growth for the world's major economies, China's economy showed remarkable resilience with a year-on-year GDP growth of 6.3%, securing steady progress while maintaining a sound development momentum. As the main theme of China's economic development, the supply-side structural reform continued to stimulate high-quality development, strengthen innovation as a driver, accelerate industrial upgrades and facilitate in unleashing consumption potential and invigorating market vitality.

As one of the imperative foundations for national economic growth, the medical and healthcare industry has continuously implemented deepening reforms from different aspects, such as the industrial structure, protection of people's welfare, and market regulation. Accordingly, a number of industrial plans have been launched, underscoring the concept of healthcare development and promoting the development of pharmaceutical industry. Meanwhile, the expenditure control of medical insurance has become more scientific and refined. Along with the implementation of centralized bulk procurement policy, various relevant policies have been announced to optimize the structure of drug usage and to enhance the efficiency of fund utilization. The pharmaceutical and healthcare reform featuring coordination between healthcare services, medical insurance and drug distribution has accelerated the reshaping of the market competitive landscape, resulting in deepened internal polarization, which became the "new normal" for the pharmaceutical industry.

In terms of the supply side, China's drug appraisal and approval system has step up to adapt the international standards. On one hand, with policies such as drug consistency evaluation in place, the quality of drugs has been improved, generic drug manufacturing companies have geared towards high efficiency, low cost and large-scale development, and branded generic drugs have been prominently replaced by domestic generic drugs. On the other hand, as the process of new drug launching has been accelerated under further reform of the drug appraisal and approval system, as well as the effective implementation of innovation-encouraging policies, the speed and quantity of new drugs entering the market have increased significantly, and pharmaceutical companies have sped up to expand into the innovative drug market. As for the distribution side, with the comprehensive implementation of the "Two-Invoice System", the integration of the pharmaceutical distribution market was boosted. Benefiting from the advantages in products, channels and capital, pharmaceutical distribution companies with nationwide distribution channels further strengthened their competitiveness. In terms of the end user market, the medical partnership and medical association were continuously developed at a deeper level. Policies such as the standardization of clinical pathway and hierarchical diagnosis and treatment were implemented with greater effort, and drug sales terminals sank deeper by expanding into the lower-tier cities rapidly. The "Internet

Plus Medical and Healthcare" policy boosted the development of pharmaceutical e-commerce, and the rules regarding prescription outflow from hospital was explored nationwide. The separation of medical and pharmaceutical services dramatically increased the number of retail pharmacies, intensified market concentration and popularized chained operations. And as for the payment side, as a "strategic purchaser" of drugs and medical services, the Bureau of Medical Insurance (BMI) had exerted increasingly notable influences on the industry. It organized the implementation of the centralized bulk procurement of drugs and the revision of Medical Reimbursement List, extensively carried out Diagnosis-Related Groups (DRGs) pilots and promoted the computerization and standardization of medical reimbursement system to drive the optimization of industry structure and the healthy development of the industry. The implementation of policies such as the drug structure adjustment, market of critical care drugs saw promising prospects, and monitoring on use of adjuvant drugs will continue to be strengthened.

As the world's second largest pharmaceutical market, China is entering a new development cycle of consumption upgrade and industrial upgrade driven by multiple factors such as policy orientation, consumption capacity improvement, disease spectrum changes and technological advance. Affected by multiple factors, such as adjustment on macroeconomic structure and medical reform entering the deep-water zone, the pharmaceutical industry is confronted with challenges like fast-changing policies and intensifying competition. However, the steady growth of medical demand and the continuous upgrade of technology, products and medical services will remain to be an important guarantee for the industry's mid-term to long-term development. The Group believe that as a leading integrated pharmaceutical conglomerate in China, we will play a greater role in this new era for the pharmaceutical industry by virtue of its diversified business and product portfolios, quality advantages and innovation capability, integrated business model and operation with high compliance standard.

GROUP RESULTS

In the first half of 2019, the Group proactively responded to the changes of policies and challenges in the market, and motivated the implementation of "13th Five-year Plan" to continue mergers and acquisitions in a steady pace and improve the development of business across the industry. The Group upgraded its research and development ("**R&D**") system, boosted its business and product structure, and enhanced its operating management, which translated into a solid growth in operating results and continuous improvement in profitability.

During the Reporting Period, the Group recorded a total revenue of HK$101,923.0 million, representing an increase of 8.7% compared with that of HK$93,740.8 million in the first half of 2018 (representing a year-on-year increase of 15.7% in terms of RMB). In the first half of

2019, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses, accounted for 15.5%, 81.5% and 2.9% of the total revenue, respectively.

During the Reporting Period, the Group recorded a gross profit of HK$17,433.6 million, representing a 3.3% increase compared with that of HK$16,881.4 million in the first half of 2018 (representing a year-on-year increase of 9.9% in terms of RMB). The overall gross profit margin was 17.1%, representing a decrease of 0.9 percentage points compared with the gross profit margin of 18.0% in the first half of 2018, mainly due to the faster revenue growth from the pharmaceutical distribution business than that of the pharmaceutical manufacturing business.

In the first half of 2019, the Group recorded profit attributable to owners of the Company of HK$3,035.4 million, representing an increase of 34.9% (representing an increase of 43.6% in terms of RMB) when compared with that of HK$2,249.6 million in the first half of 2018. Basic earnings per share was HK$0.48 in the first half of 2019 (HK$0.36 in the first half of 2018).

1. The pharmaceutical manufacturing business

The Group's pharmaceutical manufacturing business further focused on core TA areas and products by continuously optimizing its product portfolio, upgrading its R&D system, further facilitating the industrial transformation and upgrading and forging advantages in product quality and cost. It also promoted its innovative marketing model to enhance brand influence and control over the distribution channels, thereby increasing its market share. During the Reporting Period, the segment revenue in pharmaceutical manufacturing business of the Group recorded HK$17,366.8 million, representing an increase of 2.9% (9.5% in terms of RMB) compared with the first half of 2018.

In terms of product categories, during the Reporting Period, the revenue from sales of chemical drugs was HK$8,463.0 million, representing a year-on-year increase of 5.3% (an increase of 12.0% in terms of RMB), which was mainly attributable to the increase in the revenue from chronic diseases drugs and specialty drugs. The revenue from sale of Chinese medicines was HK$7,486.7 million, generally remained stable compared with that in the first half of 2018 (representing an increase of 6.3% in terms of RMB), which was mainly driven by the increase in the revenue from OTC products for cold, gastrointestinal diseases, orthopedics, cardiovascular diseases and formula granules of Traditional Chinese Medicines ("**TCM**"), as well as the impact from acquisition of Jiangzhong Pharmaceutical Co., Ltd. ("**Jiangzhong Pharmaceutical**") The revenue from sale of biopharmaceutical drugs was HK$105.8 million, representing a year-on-year increase of 19.7% (an increase of 27.3% in terms of RMB) caused by optimization of sales model. The revenue from sale of nutritional and healthcare products was HK$328.2 million, representing a year-on-year increase of 7.0% (an increase of 13.8% in terms of RMB).

During the Reporting Period, the gross profit margin of pharmaceutical manufacturing business of the Group was 63.6%, generally remained stable with a slight decrase of 0.1 percentage point compared with that in the first half of 2018.

After acquiring the Jiangzhong Pharmaceutical Co., Ltd, the Group has further strengthened its position as a market leader in the CHC (Consumer Healthcare) business (including the business of OTC products and nutritional and healthcare products). In the CHC area, brands under the Group like Sanjiu, Dong-E-E-Jiao, Jiangzhong and Tianhe, are widely recognized by the market. By forging advantages of quality brand clustering, realizing synergies between product, marketing, distribution and sales terminal, the Group's advantages in the CHC area are further strengthened. For the OTC market in China in 2018, in terms of the sales revenue, four out of the top ten products are manufactured by the Group.

The Group believes that the R&D and product innovation are important drivers for long-term growth, and will continue to increase investments in R&D activities. During the Reporting Period, the total R&D expenditures were HK$658.3 million. The Group has adopted the government policies, followed industrial technology development trends and market demand, via integrating R&D capabilities on generic and innovative drugs, as well as focusing on therapeutic areas such as cardiovascular, respiratory, oncology, gastroenterology and metabolism, central nervous system, immune system, anti-infection, hematology and genitourinary, so as to improve the Company's competitiveness from the core. As of the end of the Reporting Period, the Group operates two nationally certified engineering and technological centers, two nationally certified enterprise technical centers and 15 provincially or municipally certified research centers. The Group also set up post-doctoral research stations with over 700 R&D employees.

As of 30 June 2019, the Group had approximately 200 R&D projects in the pipeline, including 45 projects in the pipeline on innovative drugs, mainly focusing on R&D in TA areas such as cardiovascular system, metabolism and endocrine, respiratory system, oncology and immune system, psychiatric and central neurological system, anti-infection, hematology and genitourinary system. During the Reporting Period, the Group obtained 38 patents, filed 47 patent applications, and received 21 awards and project funds from governments at various levels. During the Reporting Period, the Irinotecan Hydrochloride for Injection Nano-Micelle (注射用鹽酸伊立替康(納米)膠束) received clinical approval from the National Medical Products Administration ("**NMPA**"). The manufacturing and registration application for Moxifloxacin Hydrochloride Eyedrops (鹽酸莫西沙星滴眼液) were filed with NMPA. The Hydrotalcite Chewable Tablets (鋁碳酸鎂咀嚼片) and Paracetamol Oral Solution (對乙醯氨基酚口服溶液) were approved by NMPA for production, which further enriched the Group's product line for the pharmaceutical manufacturing segment. The Group has collaborated with domestic and foreign R&D institutions in different flexible ways such as technology licensing, service outsourcing and establishment of joint laboratories. During the Reporting Period, the Group in-licensed a number of new R&D products in mainland China from overseas that carry significant clinical and market value, mainly in relation to ophthalmology, cardiovascular, oncology, metabolism and gastrointestinal tract treatment areas, including five Class 1 innovative chemical drugs and one biosimilar drug.

The Group, via various means, values and prioritizes to facilitate consistency evaluation on the quality and effectiveness of generic drugs. As at the end of the Reporting Period, over 40 key consistency evaluation projects have been commenced (of which, over 20 projects are not in the 289 catalog). During the Reporting Period, eight projects have commenced bioequivalence clinical trials and nine products have completed, of which Valsartan Capsules (纈沙坦膠囊), Mifepristone Tablets (米非司酮片) (0.2g), Misoprostol Tablets (米索前列醇片) and Montmorillonite Powder (蒙脱石散) have completed application filing. Piperacillin Sodium and Sulbactam Sodium for Injection (注射用哌拉西林舒巴坦鈉) and Calf Pulmonary Surfactant for Injection (注射用牛肺表面活性劑) have been filed for reference drug qualification. In January 2019, Mifepristone Tablets (10mg and 25 mg) passed the consistency evaluation and obtained national reference drug qualification. In April 2019, Metformin Sustained-Release Tablets (二甲雙胍緩釋片) passed the consistency evaluation. As of the end of the Report Period, a total of five products passed the consistency evaluation.

2. *Pharmaceutical Distribution Business*

The Group's pharmaceutical distribution business has proactively responded to the changes of policies and advocated transformation and innovation. It has extensively expanded the upstream resources and accelerated the construction of national network to enhance the customer coverage, cultivate potential businesses, and optimize the logistics system. In the first half of 2019, the Group's pharmaceutical distribution business achieved a segment revenue of HK$84,948.9 million, representing an increase of 9.5% compared with the first half of 2018 (representing a 16.5% increase terms of RMB).

In recent years, to adapt to the structural adjustment in the market, the Group's pharmaceutical distribution business has accelerated the expansion of the medical sales terminals, increased the number of platforms at municipal level, extended the network coverage downward and penetrated to the lower-tier markets. The Group also promoted multi-business development in advantageous regions to boost the market share in the end market. The business structure continued to be optimized, and the proportion of the revenue from direct hospital sales increased consistenly to approximately 78% of total distribution business. As at 30 June 2019, the pharmaceutical distribution network of the Group has covered 28 provinces, municipalities and autonomous regions nationwide, serving customers including 6,862 Class II and Class III hospitals, 53,640 primary medical institutions and 35,888 retail pharmacies. During the Reporting Period, the Group's pharmaceutical distribution business recorded a gross profit margin of 7.0%, representing a slight decrease of 0.4 percentage points compared with that of the first half of 2018.

The Group continued to strengthen our competitive advantages from the core by enhancing efficiency of the integrated and modernized intelligent logistics system. As at the end of the Reporting Period, the Group's distribution business operated 185 logistics centers in total.

The Group proactively leveraged upstream resources for distribution and retail businesses and continuously optimized product portfolio, resulting in continuous increase of revenue contribution from medical devices, imported drugs and TCM Herbal Medicine businesses. The Group also promoted the international development of our business, strengthened development of import business and increased product introduction of high quality imported oncology drugs and innovative drugs. During the Reporting Period, revenue of imported drug business grow over 30% year-on-year in terms of RMB. The Group at the same time enhanced logistics capacity for imported drugs, obtained the exclusive distribution rights of various products from companies like Gilead, etc. The Group newly signed to provide the Patient Assistance Program (PAP) service for products from companies like Boehringer and Roche. By strengthening the business from group procurement products, total procurement via strategic collaboration exceeded HK$10 billion during the Reporting Period, representing a year-on-year increase of over 40% in terms of RMB.

The Group accelerated the specialized development of medical device distribution business. During the Reporting Period, revenue of the medical devices business grew over 50% year-on-year in terms of RMB. The Group has established independent medical devices companies in over ten provinces in mainland China, and carried out Supply Processing Distribution (SPD) business in Shandong, Guangdong, Jiangsu and other provinces. The Group introduced in five companies, including Terumo and Med-Zenith, to carry out centralized procurement and distribution businesses. The Group also actively optimized our e-commerce platform and accelerated the deployment of CR Pharma e-Store. As at the end of the Reporting Period, CR Pharma e-Store has gone live in 14 provinces with nearly HK$10 billion of transaction amount in the first half of 2019, and recorded over 20,000 cumulative active customers. The Group explored the model of CR Pharma Cloud Prescription to connect medical institutions to social drugstores and community healthcare services, thereby achieving the orderly and secure circulation and realizing two-way flow of prescription information. The Group introduced various innovative business models and enhanced capability in providing value-added services to downstream customers. As of 30 June 2019, the Group has provided hospital logistic intelligence (HLI) services to over 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$2,945.6 million, representing a year-on-year increase of 19.2% (representing a year-on-year increase of 26.9% in terms of RMB) while the gross profit margin of the retail business was 12.7%, representing a decrease of 3.6 percentage points when compared with the first half of 2018. The decrease in gross profit margin was mainly due to the rapid growth of direct-to-patient (DTP) business which has a relatively lower profit margin.

With the superior resources in distribution channels, the Group accelerated the development of pharmaceutical retail business through the synergies from the integration of wholesale and retail businesses. The Group paid high attention to the quality of development in the retail business, focused on key regions while expanding across the country, proactively deployed DTP pharmacies, and increased business value through innovative services. The Group is leading in the market in terms of the average sales per store.

As at 30 June 2019, the Group had 842 retail pharmacies in total. During the Reporting Period, the Group further strengthened its brand, optimized the layout in retail pharmacies and has completed the platform construction of the central procurement system, and realized the system connection and integration with Zhejiang Betta Pharmaceuticals, Junshi Biosciences and other manufacturers. The Group also proactively carried out a variety of novel business models such as DTP and chronic disease management, further developed e-commerce, TCM medical treatment and cross-border procurement of healthcare products, as well as carried out business cooperation with WeChat and JD.com. At the end of the Reporting Period, the Group had 150 DTP pharmacies in over 76 cities in mainland China.

Pursuing long-term growth through prudent business expansion

The Group has strong capability and extensive experience in merger and acquisition, and has a good track record to prove so. During the Reporting Period, the Group expanded steadily with merger and acquisition, explored new development opportunities within business segments and integrated resources in the acquired entities with advanced management philosophy and operation model, which stimulated continuous business growth.

China Resources Pharmaceutical Holdings Company Limited ("**CR Pharmaceutical Holdings**") entered into a share subscription agreement and a supplemental agreement thereto, respectively, with the then shareholders of Jiangxi Jiangzhong Pharmaceutical (Group) Co., Ltd (currently known as China Resources Jiangzhong Pharmaceutical Group Co., Ltd.) ("**CR Jiangzhong Group**") for the subscription of the shares of CR Jiangzhong Group. In January 2019, the supplemental share subscription agreement took effect. CR Jiangzhong Group increased their registered capital by approximately RMB129.6 million, and CR Pharmaceutical Holdings made a capital contribution of approximately RMB3,099.4 million by way of cash. In February 2019, change of business registration in relation to the acquisition was completed. CR Jiangzhong Group has become a non-wholly-owned subsidiary of the Group. As a result, CR Pharmaceutical Holdings indirectly hold over 30% interests in Jiangzhong Pharmaceutical, triggering the obligation to make a general offer to shareholders of Jiangzhong Pharmaceutical (excluding CR Pharmaceutical Group). In April 2019, the Group completed the general offer to acquire shares in Jiangzhong Pharmaceutical. Upon completion of the acquisition, CR Pharmaceutical Holdings indirectly owns 43.03% stake of Jiangzhong Pharmaceutical. Jiangzhong Pharmaceutical is a leading pharmaceutical manufacturer of OTC products in the PRC with strong brand influence and high market share in both Gastroenterology and oropharynx. It can collaborate with the Group in various aspects such as brand, product, manufacturing, R&D and sales channels to realize synergies with the Group's pharmaceutical manufacturing business, which will further strengthen and enhance the Group's core competitiveness in TCM self-diagnosis and treatment business, as well as in product development of herbal TCM, among others.

In respect of pharmaceutical distribution business, the Group has completed multiple high-quality acquisitions at municipal level during the Reporting Period to further optimize the depth and quality of our distribution network. In June and July 2019, China Resources Pharmaceutical Commercial Group Company Limited ("**China Resources Pharmaceutical Commercial**") acquired and subscribed shares of Zhejiang Int'L Group Co., Ltd. ("**Int'L Group**") at RMB11.26 per share, with a total consideration of RMB560.6 million (approximately HK$637.3 million). Upon completion of the transaction, China Resources Pharmaceutical Commercial Group Company Limited holds 20% of increased total equity of Zhejiang Int'L Group Co., Ltd. As a leading pharmaceutical distributor in Zhejiang and an A share-listed company, Zhejiang Int'L Group Co., Ltd. has solid business fundamentals and cooperation platforms. The partnership will thus enable The Group and Zhejiang Int'L Group Co., Ltd. to form a win-win ally with respective advantages complimentary to each other, which will help the Group further expand sales and distribution channels, strengthen business layout and particularly boost its competitiveness in East China.

In the first quarter of 2019, the Group acquired 25% of the equity interest in Tycoon Group Holdings Limited (hereinafter referred to as "**Tycoon Group**") through China Resources Pharmaceutical Retail Group Co., Ltd. Tycoon Group is a supplier of a wide range of proprietary Chinese medicines as well as health, personal care, skin care and other healthcare products, covering markets in Hong Kong, Macau, Singapore and mainland China. Its 2018 revenue was ranked third in the proprietary Chinese medicine distribution market in Hong Kong and its market share was approximately 8.1%. Tycoon Group submitted listing application to the The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in July 2019. The transaction will further enrich and optimize the Group's retail product portfolio, achieve synergies with the Group's retail business, and strengthen the Group's competitive advantage in the distribution and retail business in the Hong Kong market.

Multiple A share-listed Subsidiaries were included in FTSE Russell Global Index

On 24 June 2019, three A-share listed subsidiaries, including China Resources Sanjiu Medical & Pharmaceutical Company Limited, China Resources Double-Crane Pharmaceutical Company Limited and Dong-E-E-Jiao Company Limited, were included in FTSE Russell Global Index.

As the world-leading equity indexes, FTSE indexes are mainly used as performance benchmarks and the basis for derivative tools and other index-linked products, extensively used by North American, European and Asian investors. The inclusion of the three A share-listed subsidiaries of the Company into FTSE indicates that international investors are paying attention to and recognizing the operating quality, development prospects and share liquidity of the three companies.

OUTLOOK AND FUTURE STRATEGY

China's pharmaceutical industry has entered an era of accelerating reform with great growth potential in the market, continuous consolidation trend, and growing industry concentration. As an industry-leading integrated pharmaceutical group, the Group will continue to be guided by the needs of customers and industry policies, seize the opportunities of development and reform in China's pharmaceutical and healthcare industry, continously promote the steady implementation of the six development strategies, and actively plan for the core areas and core segments in the industrial chain. Also, as driven by merger and acquisition as well as R&D, the Group will optimize resource allocation, promote business modification and industrial elevation, and continuously enhance core competitiveness to accomplish long-term steady and sustainable development, becoming the leader in China's pharmaceutical and healthcare industry.

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

   The Group will proactively respond to the impact of policies regarding centralized bulk procurement, expenditure control of medical insurance and drug consistency evaluation in line with policy changes and trends of market structure adjustments. Also, the Group will continue to focus on key strategic products and core therapeutic areas, further optimize product structures, 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 relating to its pharmaceutical manufacturing business. It will always keep abreast of changes to the disease spectrum and develop the areas of cardiovascular and cerebrovascular diseases, anti-tumor treatment, central nervous systems, and respiratory systems. It will further improve the proper concoction of drugs for chronic disease, specialized and infusion businesses. The Group will seize opportunities of government support to develop in the TCM industry, explore classic and famous prescriptions, promote the layout of the entire TCM industrial chain, integrate the advantageous resources of Jiangzhong Pharmaceutical and accelerate the development of its healthcare business. It will accelerate the process of quality consistency evaluation work for generic drugs and injections. The Group will improve its manufacturing capacity and product quality by improving and optimizing processes associated with production capacity layout, and promote sustainable and steady development for its pharmaceutical manufacturing business.

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

After the comprehensive implementation of the "Two-Invoice System" and the policies for hierarchical diagnosis and treatment, separation of medical and pharmaceutical services and centralized bulk procurement, the Group will continue to develop businesses at the municipal level, which is based on continuous nationwide expansion. The Group will accelerate its expansion and coverage on primary medical terminals and retail terminals and further penetrate into regions where it has the most advantageous position. At the same time, the Group will optimize product and business structures, strengthen operational efficiency and quality, and improve the development of medical equipment distribution, retail and importation. The Group will optimize the logistical structure, enhance the management and control efficiency of logistics operations, 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, CR Pharma e-Store and CR Pharma Cloud Prescription (潤藥雲方), in order to consolidate its leading position as a pharmaceutical supply chain solution provider, and proactively promote consolidation of China's pharmaceutical distribution industry.

3. ***Continuously optimize and innovate the R&D system, build an innovation and technological platform for biopharmaceutical drugs, and accelerate access to high-quality products***

The Group will seize favorable opportunities of national pharmaceutical innovation and development, continue to innovate its R&D system and optimize its incentive mechanisms. It will increase R&D investments, proactively attract specialized talents, continuously improve R&D capabilities, and accelerate strategic transformation for independent innovation. Focusing on new chemical drugs, classic TCM prescriptions, biopharmaceutical drugs and other quality projects in the pipeline, the Group will proactively expand access to new products and enrich R&D pipelines in areas like oncology, autoimmunity, cardiovascular disease, nerves centralis, respiration and others. At the same time, the Group will leverage its matured industrial chain and commercial capability to build innovative and technological platform for biopharmaceutical drugs like monoclonal antibody, recombinant protein, among others, thereby accelerating the development of the biopharmaceutical drug business.

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

The Group will fully utilize all the opportunities that integrates China's pharmaceutical industry in the PRC, particularly those arising from foreign companies' divestiture of their Chinese genetic drug businesses and those increasing market concentration in medical device distribution industry. It will accelerate garnering access to high-quality resources through strategic mergers and acquisitions, and achieve external development. Meanwhile, it will leverage on pharmaceutical industry funds to accomplish a forward-looking layout and foster new business growth drivers in the fields of biopharmaceutical drugs and innovative drugs. In terms of its pharmaceutical manufacturing business, the Group will focus on target companies with exclusive drugs or drugs variants with higher technical barriers during its strategic investment in high-growth therapeutic areas such as cardiovascular, oncology, and biopharmaceutical drugs. In terms of pharmaceutical distribution and retail businesses, the Group will focus on distribution companies with regional advantage 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 expansion and construction of international cooperation platforms. Based on existing domestic business and competitive advantages, the Group will conduct international cooperation with multinational pharmaceutical manufacturers and medical device companies, overseas pharmaceutical distributors and R&D institutions. Through various means of cooperation including import of products, distribution agency, entrusted production, establishment of joint ventures, and cooperative development, the Group will introduce in high-quality products, cutting-edge technologies and management philosophy, in order to build a mutually beneficial and win-win cooperation model, jointly expand the Chinese pharmaceutical market, and further promote the optimization of product portfolios and upgrade of 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. ***Improve 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 models, strengthen the synergies in between the segments of pharmaceutical manufacturing, distribution and retail businesses. It will also improve the synergies among subsectors of each business segment in the aspect of market access, sales network expansion and new product introduction to forge advantage of brand clustering of the consumer healthcare segment. The Group will seek opportunities to generate synergy with the financial and energy businesses within China Resources Group, so as to boost joint competitiveness in the market. At the same time, the Group will enhance its information system, strengthen corporate governance and internal control, promote the integration between existing and additional resources, improve its overall management and operational efficiency, and effectively control operational risks.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. 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.2.1 of the CG Code, during the period from 1 January 2019 to 21 March 2019, the Chairman of the Board and the Chief Executive Officer of the Company were held by Mr. FU Yuning and Mr. WANG Chuncheng, respectively. After 21 March 2019, both the Chairman of the Board and the Chief Executive Officer of the Company were held by Mr. WANG Chuncheng. The Board believes that with the support of the management, vesting the roles of both the Chairman and Chief Executive Officer on the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which now consists of four executive Directors, four non-executive Directors, and four independent non-executive Directors, the interests of the Shareholders will be adequately and fairly represented. 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.

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 enquiry of all 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 its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF RESULTS BY ERNST & YOUNG

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have not been audited, but have been reviewed by Ernst & Young, the Company's external auditors, whose review report is contained in the Company's interim report for the six months ended 30 June 2019 to be despatched to shareholders.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019.

PUBLICATION OF THE INTERIM RESULTS AND 2019 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www. hkexnews.hk) and the Company (www.crpharm.com), and the 2019 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 26 August 2019

As of the date of this announcement, executive Directors are Mr. WANG Chuncheng, Mr. LI Xiangming, Mr. QIU Huawei and Mdm. WENG Jingwen; the non-executive Directors are Mr. YU Zhongliang, Mdm. GUO Wei, 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.