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 2019

The board (the "**Board**" or "**China Resources Pharmaceutical**") of directors (the "**Directors**") 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 2019 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2019*

| | *Notes* | **2019** **HK$'000** | 2018 HK$'000 (Restated) |
|---|---|---|---|
| REVENUE | *3* | **204,453,869** | 189,689,107 |
| Cost of sales | | **(170,436,179)** | (154,758,728) |
| GROSS PROFIT | | **34,017,690** | 34,930,379 |
| Other income | | **1,886,013** | 1,592,296 |
| Other gains and losses | *5* | **(39,234)** | 3,357 |
| Selling and distribution expenses | | **(19,188,523)** | (18,340,880) |
| Administrative expenses | | **(5,203,768)** | (4,793,429) |
| Other expenses | | **(1,260,626)** | (1,351,850) |
| Finance costs | *6* | **(3,712,401)** | (2,934,277) |
| Share of profits of associates and joint ventures | | **140,417** | 76,881 |
| PROFIT BEFORE TAX | *7* | **6,639,568** | 9,182,477 |
| Income tax expense | *8* | **(1,541,765)** | (1,610,153) |
| PROFIT FOR THE YEAR | | **5,097,803** | 7,572,324 |
| Attributable to: | | | |
| Owners of the Company | | **3,286,419** | 3,977,603 |
| Non-controlling interests | | **1,811,384** | 3,594,721 |
| | | **5,097,803** | 7,572,324 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | *10* | | |
| Basic and diluted *(HK$)* | | **0.52** | 0.63 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| PROFIT FOR THE YEAR | **5,097,803** | 7,572,324 |
| OTHER COMPREHENSIVE LOSS | | |
| *Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:* | | |
| Share of changes in translation reserve of associates | **(1,773)** | (39,094) |
| Exchange differences arising on translation of foreign operations | **(1,989,254)** | (3,096,384) |
| Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods | **(1,991,027)** | (3,135,478) |
| *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 upon transfer to investment properties, net of tax | **201,382** | 30,924 |
| Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods | **201,382** | (682,466) |
| OTHER COMPREHENSIVE LOSS, NET OF TAX | **(1,789,645)** | (3,817,944) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **3,308,158** | 3,754,380 |
| Attributable to: | | |
| Owners of the Company | **2,447,406** | 1,504,627 |
| Non-controlling interests | **860,752** | 2,249,753 |
| | **3,308,158** | 3,754,380 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **16,322,310** | 14,652,228 |
| Right-of-use assets | | **5,507,549** | – |
| Prepaid land lease payments | | **–** | 2,590,622 |
| Investment properties | | **1,724,234** | 1,541,437 |
| Goodwill | | **19,306,440** | 19,804,854 |
| Intangible assets | | **6,049,195** | 4,954,664 |
| Interests in joint ventures | | **96,602** | 44,290 |
| Interests in associates | | **4,735,488** | 3,267,362 |
| Other non-current financial assets | | **412,215** | 222,673 |
| Deferred tax assets | | **856,088** | 621,419 |
| Other non-current assets | | **2,072,276** | 1,218,427 |
| Total non-current assets | | **57,082,397** | 48,917,976 |
| **CURRENT ASSETS** | | | |
| Inventories | | **22,332,374** | 21,527,923 |
| Trade and other receivables | *11* | **63,772,489** | 54,847,015 |
| Prepaid land lease payments | | **–** | 123,128 |
| Other current financial assets | | **26,403,362** | 28,023,549 |
| Amounts due from related parties | | **3,230,581** | 2,402,557 |
| Tax recoverable | | **65,183** | 57,895 |
| Pledged deposits | | **4,614,611** | 3,428,676 |
| Cash and cash equivalents | | **12,524,016** | 16,633,301 |
| | | **132,942,616** | 127,044,044 |
| Assets classified as held for sale | | **–** | 222,180 |
| Total current assets | | **132,942,616** | 127,266,224 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

*As at 31 December 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 (Restated) |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 12 | **60,076,785** | 56,198,259 |
| Short-term debentures | | **–** | 3,423,868 |
| Contract liabilities | | **1,651,904** | 1,711,938 |
| Lease liabilities | | **614,389** | – |
| Amounts due to related parties | | **14,100,989** | 4,057,107 |
| Bank borrowings | | **27,486,200** | 37,362,593 |
| Bonds payable | | **2,288,443** | – |
| Tax payable | | **452,959** | 603,263 |
| | | **106,671,669** | 103,357,028 |
| Liabilities directly associated with the assets classified as held for sale | | **–** | 1,341 |
| Total current liabilities | | **106,671,669** | 103,358,369 |
| **NET CURRENT ASSETS** | | **26,270,947** | 23,907,855 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **83,353,344** | 72,825,831 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank borrowings | | **3,579,485** | 3,301,928 |
| Bonds payable | | **5,663,955** | 6,847,740 |
| Lease liabilities | | **1,632,967** | – |
| Deferred tax liabilities | | **1,506,573** | 881,272 |
| Other non-current liabilities | | **1,388,543** | 1,326,119 |
| Total non-current liabilities | | **13,771,523** | 12,357,059 |
| **NET ASSETS** | | **69,581,821** | 60,468,772 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **27,241,289** | 27,241,289 |
| Reserves | | **13,470,059** | 12,071,733 |
| | | **40,711,348** | 39,313,022 |
| Non-controlling interests | | **28,870,473** | 21,155,750 |
| **TOTAL EQUITY** | | **69,581,821** | 60,468,772 |

# 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**"), 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. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Company is an investment holding company.

The financial information relating to the years ended 31 December 2019 and 2018 included in this announcement of 2019 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 the statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) of the Laws of Hong Kong ("**Companies Ordinance**") is as follows:

The Company has delivered the consolidated 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 Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2019 in due course.

## 2.1 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 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 |

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual improvements to HKFRSs 2015-2017 Cycle*, which is not applicable to the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

**(a) HKFRS 16**

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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged under HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has 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 has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

***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.

***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 leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

*Impact on transition*

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

***As a lessee – Leases previously classified as finance leases***

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

***Financial impact at 1 January 2019***

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

| | **Increase/ (decrease)** *HK$000* |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 4,649,002 |
| Decrease in property, plant and equipment | (11,589) |
| Decrease in prepaid land lease payments | (2,713,750) |
| Increase in deferred tax assets | 23,477 |
| Increase in total assets | 1,947,140 |
| **Liabilities** | |
| Increase in lease liabilities and total liabilities | 2,016,387 |
| Decrease in retained earnings | (69,247) |

**(b) Amendments to HKAS 28**

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

**(c) HK(IFRIC)-Int 23**

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

## 2.2 RESTATEMENT OF COMPARATIVE AMOUNTS

On 21 November 2017, the directors of China Resources Bio-pharmaceutical (Shenzhen) Co., Ltd. ("**CR Biopharm**"), an indirectly 100%-owned subsidiary of the Company, approved to dispose of a 14.12% equity interest in Hefei Tianmai Biotechnology Development Co., Ltd. ("**Hefei Tianmai**") to the controlling shareholder of Hefei Tianmai. As stated in the share subscription agreement between CR Biopharm and the controlling shareholder under which CR Biopharm acquired a 20% equity interest in Hefei Tianmai in December 2016, if Hefei Tianmai did not obtain the GMP licence as at 31 December 2017, CR Biopharm can sell back the 14.12% equity interest in Hefei Tianmai to the controlling shareholder (the "**Sell-Back**") at an agreed consideration. As a result, the carrying amount of HK$1,146,564,000, representing the fair value of the 14.12% equity interest in Hefei Tianmai as at 31 December 2017, was reclassified from interests in associates to assets classified as held for sale.

As stated in the agreement between the controlling shareholder of Hefei Tianmai and CR Biopharm signed in August 2018, the payment will be arranged by instalments. As at 31 December 2018, CR Biopharm has not received payment from the controlling shareholder of Hefei Tianmai and thus the carrying amount of HK$1,093,841,000, representing the fair value of the 14.12% equity interest in Hefei Tianmai, remained as assets classified as held for sale.

The Group retained the remaining 5.88% equity interest in Hefei Tianmai as interests in an associate as at 31 December 2017 and 31 December 2018 due to the fact that CR Biopharm had two directors in the board of the directors of Hefei Tianmai, which is considered having significant influence over the entity.

During the current year, as agreed with the controlling shareholder of Hefei Tianmai, the Group terminated the Sell-Back transaction. Therefore, the financial statements for the periods since Hefei Tianmai classified as held for sale is amended accordingly. The amendments of corresponding comparative amounts included: (i) decrease in share of profits of associates and joint ventures and decrease in profit for the year attributable to Owners of the Company by HK$60,287,000 for the year ended 31 December 2018; (ii) increase in interests in associates and decrease in assets classified as held for sale by HK$1,033,554,000 and HK$1,093,841,000, respectively, as at 31 December 2018; and (iii) decrease in retained earnings and total equity by HK$60,287,000 as at 31 December 2018; and (iv) decrease in basic and diluted earnings per share attributable to ordinary equity holders of the Company by HK$0.01.

In addition, certain comparative amounts have been reclassified to conform with the current year's presentation and disclosures.

## 3. REVENUE

An analysis of revenue is as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Revenue from contracts with customers* | | |
| Sale of pharmaceutical products | **204,290,140** | 189,574,548 |
| *Revenue from other sources* | | |
| Gross rental income from investment property operating leases: | | |
| Lease payments, including fixed payments | **163,729** | 114,559 |
| | **204,453,869** | 189,689,107 |

## 4. SEGMENT INFORMATION

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

Specifically, the Group has four reportable segments 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, 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 results represent the profit earned by each segment without allocation of other income, other gains and losses, administrative expenses, other expenses, share of results of associates and joint ventures and non-lease-related finance costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets (including investments in subsidiaries and the amounts due from group entities within the Group) are allocated to reportable segment assets other than deferred tax assets and tax recoverable; and

- all liabilities (including the amounts due to group entities within the Group) are allocated to reportable segment liabilities other than certain other payables, tax payable, deferred tax liabilities, short-term debentures, bank borrowings, bonds payable and other non-current liabilities (other than lease liabilities).

**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 2019 | Manufacturing segment *HK$'000* | Distribution segment *HK$'000* | Retail segment *HK$'000* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| External sales | **30,692,657** | **167,093,588** | **6,462,839** | **204,785** | **204,453,869** |
| Inter-segment sales | **3,113,038** | **3,597,698** | **–** | **–** | **6,710,736** |
| | **33,805,695** | **170,691,286** | **6,462,839** | **204,785** | **211,164,605** |
| *Elimination:* | | | | | |
| Elimination of inter-segment sales | | | | | **(6,710,736)** |
| Segment revenue | | | | | **204,453,869** |
| **Segment results** | **6,765,276** | **7,736,419** | **72,893** | **142,454** | **14,717,042** |
| Other income | | | | | **1,886,013** |
| Other gains and losses *(Note 5)* | | | | | **(39,234)** |
| Administrative expenses | | | | | **(5,203,768)** |
| Other expenses | | | | | **(1,260,626)** |
| Finance costs (other than interest on lease liabilities) | | | | | **(3,600,276)** |
| Share of profits of associates and joint ventures | | | | | **140,417** |
| Profit before tax | | | | | **6,639,568** |

| Year ended 31 December 2018 *(Restated)* | 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 inter-segment sales | | | | | (6,282,098) |
| Segment revenue | | | | | 189,689,107 |
| **Segment results** | 8,689,898 | 7,714,721 | 105,959 | 78,921 | 16,589,499 |
| Other income | | | | | 1,592,296 |
| Other gains and losses *(Note 5)* | | | | | 3,357 |
| Administrative expenses | | | | | (4,793,429) |
| Other expenses | | | | | (1,351,850) |
| Finance costs | | | | | (2,934,277) |
| Share of profits of associates and joint ventures | | | | | 76,881 |
| Profit before tax | | | | | 9,182,477 |

## 5. OTHER GAINS AND LOSSES

| | **2019** ***HK$'000*** | 2018 *HK$'000* |
|---|---|---|
| Gain on disposal of subsidiaries | **1,091,295** | – |
| Gain on disposal of associates | **–** | 550 |
| (Loss)/gain on disposal of intangible assets | **(1,588)** | 18,037 |
| Loss on disposal of property, plant and equipment | **(6,421)** | (7,048) |
| Impairment recognised on property, plant and equipment | **(37,318)** | (22,545) |
| Impairment recognised on trade receivables, net | **(446,927)** | (91,224) |
| Impairment recognised on other receivables, net | **(29,651)** | (8,270) |
| Impairment recognised on goodwill | **(722,587)** | (20,109) |
| Fair value changes on financial assets at fair value through profit or loss | **47,683** | 88,167 |
| Fair value changes on investment properties | **(14,433)** | 81,354 |
| Others | **80,713** | (35,555) |
| | **(39,234)** | 3,357 |

## 6. FINANCE COSTS

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest on bank borrowings | **3,167,939** | 2,714,277 |
| Interest on bonds payable | **388,495** | 219,883 |
| Interest on borrowings from an intermediate holding company | **48,629** | 4,931 |
| Interest on lease liabilities | **112,125** | – |
| Less: interest capitalised in property, plant and equipment *(Note)* | **(4,787)** | (4,814) |
| | **3,712,401** | 2,934,277 |

*Note:* Capitalised interest arose from funds borrowed specifically for the purpose of obtaining qualifying assets and from the general borrowing pool which is calculated by applying a capitalisation rate of 4.75% (2018: 4.69%) per annum to expenditure on qualifying assets.

## 7. PROFIT BEFORE TAX

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

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Directors' remuneration | **11,083** | 15,840 |
| Employee benefit expense (excluding directors' remuneration) | | |
| Wages and salaries | **8,073,331** | 7,352,368 |
| Retirement benefit scheme contribution | **770,352** | 734,386 |
| Total | **8,854,766** | 8,102,594 |
| Auditors' remuneration | **16,935** | 13,296 |
| Depreciation of property, plant and equipment | **1,432,208** | 1,311,302 |
| Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments) | **684,638** | 99,065 |
| Amortisation of intangible assets | **248,001** | 206,101 |
| Allowance for slow-moving and obsolete inventories | **67,099** | 44,359 |
| Cost of inventories recognised as cost of sales | **169,467,387** | 153,748,713 |
| Research and development expenditure (included in other expenses) | **1,154,293** | 1,015,244 |
| Foreign exchange loss, net | **30,191** | 257,388 |
| Dividend income | **(8,047)** | (2,216) |
| Interest income | **(636,181)** | (453,748) |
| Gross rental income from investment properties | **(163,729)** | (114,559) |
| Less: direct operating expenses arising from rental-earning investment properties | **39,307** | 36,414 |
| | **(124,422)** | (78,145) |

## 8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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 Mainland China 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 for a reduced 15% enterprise income tax rate.

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.

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | | |
| PRC Enterprise Income Tax ("**PRC EIT**") | **1,749,840** | 1,823,546 |
| Hong Kong Profits Tax | **136** | 3,555 |
| Under/(over) provisions in prior year | | |
| PRC EIT | **54,002** | (12,980) |
| Hong Kong profits tax | **(20)** | (847) |
| | **1,803,958** | 1,813,274 |
| Deferred | **(262,193)** | (203,121) |
| Total tax charge for the year | **1,541,765** | 1,610,153 |

## 9. DIVIDENDS

(i) As disclosed in the prospectus of the Company dated 17 October 2016, CRHP, BSCOMC Investment and Management Co., Limited ("**BSCOMC Investment**", formerly known as Beijing Pharmaceutical Investment Limited) and Beijing Equity Investment Development Fund (Cayman II) L.P., being the then shareholders of the Company prior to the listing of the Company, approved a Special Dividend of approximately of HK$2,227.8 million on 9 October 2016 (the "**Special Dividend Shareholders' Resolution**").

Pursuant to the Company's announcement dated 18 October 2018, the board of the directors announced that, taking into account the distributable profits attained by the Company, the board of the directors resolved to declare a special dividend in the amount of HK$1,559,479,408.50, of which HK$1,122,825,174.12 and HK$436,654,234.38 would be distributed to CRHP and BSCOMC Investment, respectively, pursuant to the Special Dividend Shareholders' Resolution. Up to 31 December 2018, the Special Dividend in an aggregate amount of HK$2,227.8 million, including of HK$1,559,479,408.50 declared in 2018, has been fully paid to CRHP and BSCOMC Investment.

(ii)

| | **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** | 691,297 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK$0.11 (2018: HK$0.13) per ordinary share, in an aggregate amount of HK$691 million (2018: HK$817 million), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

Subsequent to the end of the reporting period, a final dividend of subsidiaries for the year ended 31 December 2019 in respect of China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., Dong-E-E-Jiao, China Resources Double-Crane Pharmaceutical Co.,Ltd. and Jiangzhang Pharmaceutical Co., Ltd. of RMB43.0 cents, RMB20.0 cents, RMB30.4 cents and RMB30.0 cents per ordinary share, in aggregate amount of RMB420,927,000 (equivalent to HK$469,901,857), RMB130,804,307 (equivalent to HK$146,023,389), RMB317,144,264 (equivalent to HK$354,043,999) and RMB157,500,000 (equivalent to HK$175,825,125), respectively, has been proposed by the directors of the subsidiaries, and is subject to approval by the shareholders of the subsidiaries in the forthcoming general meeting of the respective subsidiaries.

## 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:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| **Earnings** | | |
| Profit attributable to owners of the Company used in the basic earnings per share calculation | **3,286,419** | 3,977,603 |
| **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 the basic earnings per share as there were no potentially dilutive ordinary shares in issue for the years ended 31 December 2019 and 2018.

## 11. TRADE AND OTHER RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bills receivable | **2,270,974** | 2,559,563 |
| Trade receivables | **52,680,136** | 44,797,057 |
| Impairment allowance | **(832,206)** | (436,084) |
| | **51,847,930** | 44,360,973 |
| Prepayments | **3,662,142** | 3,425,706 |
| Other receivables | **6,150,906** | 4,637,120 |
| Impairment allowance | **(159,463)** | (136,347) |
| | **5,991,443** | 4,500,773 |
| | **63,772,489** | 54,847,015 |

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 generally have maturity period ranging from 30 to 180 days.

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries, joint ventures, associates and associates of a fellow subsidiary of HK$41,991,000 (2018: HK$36,954,000), HK$253,000 (2018: HK$782,000), HK$43,365,000 (2018: HK$44,008,000) and HK$174,864,000 (2018: HK$256,536,000), 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 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **19,055,572** | 16,743,995 |
| 31 to 60 days | **7,556,805** | 6,757,515 |
| 61 to 90 days | **5,023,435** | 4,286,534 |
| 91 to 180 days | **10,795,980** | 10,084,492 |
| 181 to 365 days | **7,275,886** | 5,726,756 |
| Over 1 year | **2,140,252** | 761,681 |
| | **51,847,930** | 44,360,973 |

An ageing analysis of the Group's bills receivable, based on the issue date, at 31 December 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | **1,264,215** | 317,149 |
| 31 to 60 days | **233,886** | 393,062 |
| 61 to 90 days | **262,085** | 432,406 |
| 91 to 180 days | **510,788** | 1,416,946 |
| | **2,270,974** | 2,559,563 |

## 12. TRADE AND OTHER PAYABLES

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| | | *HK$'000* | *HK$'000* |
| Trade payable | *(a)* | **29,471,893** | 27,227,869 |
| Bills payable | *(a)* | **13,259,163** | 12,281,222 |
| Accrued salaries | | **1,912,778** | 1,600,012 |
| Interest payable | | **93,616** | 304,111 |
| Other tax payables | | **667,354** | 1,314,669 |
| Other payables | | **13,940,109** | 12,360,798 |
| Refund liabilities | | **24,884** | 17,086 |
| Payable for acquisitions of subsidiaries | | **706,988** | 1,092,492 |
| | | **60,076,785** | 56,198,259 |

*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 2019, the Group's bills payable of HK$6,210,204,000 (2018: HK$7,125,681,000) were secured by the Group's bills receivable with an aggregate carrying amount of HK$620,403,000 (2018: HK$1,189,792,000) and pledged bank deposits of HK$3,305,633,000 (2018: HK$3,193,308,000).

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

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | **19,549,147** | 16,405,519 |
| 31 to 60 days | **3,659,134** | 4,092,276 |
| 61 to 90 days | **1,589,073** | 1,971,968 |
| Over 90 days | **4,674,539** | 4,758,106 |
| | **29,471,893** | 27,227,869 |

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **11,473,614** | 9,581,425 |
| 31 to 60 days | **507,708** | 616,290 |
| 61 to 90 days | **440,988** | 852,340 |
| Over 90 days | **836,853** | 1,231,167 |
| | **13,259,163** | 12,281,222 |

## 13. BUSINESS COMBINATIONS

### (a) Acquisition of Jiangzhong Group

China Resources Pharmaceutical Holdings Company Limited ("**CR Pharmaceutical Holdings**"), a wholly-owned subsidiary of the Company, 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 share capital 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 to Jiangzhong Group, save for the amount of 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 Over-the-Counter medicines and healthcare products. As at 31 December 2019, the Group, through Jiangzhong Group, indirectly held a 43.03% equity interest in Jiangzhong Pharmaceutical. Goodwill recognised on this acquisition of Jiangzhong Group amounted to HK$718,487,000.

### (b) Acquisition of other subsidiaries and businesses

During the year ended 31 December 2019, the Group acquired the following companies or businesses which were engaged in the manufacture and sale of pharmaceutical products at an aggregated cash consideration of RMB101.6 million (equivalent to approximately HK$113.5 million). These subsidiaries were acquired as part of the Group's strategy to expand its market share in the pharmaceutical industry.

| **Name of acquirees** | **Date of acquisition** | **Percentage of interest acquired** |
|---|---|---|
| Sichuan Sanjiu Pharmaceutical Trade Co., Ltd. | 25 November 2019 | 100% |
| Tieling Spring Pharmaceutical Co., Ltd. | 23 May 2019 | 51% |
| China Resources Huaian Pharmaceutical Co., Ltd. | 26 March 2019 | 70% |
| China Resources Luzhou Pharmaceutical Co., Ltd. | 21 January 2019 | 70% |
| China Resources Nanchong Pharmaceutical Co., Ltd. | 21 January 2019 | 70% |

| Business acquired from the following companies | Date of acquisition |
|---|---|
| China Resources Chuzhou Pharmaceutical Co., Ltd. | 28 February 2019 |
| China Resources Weifang Yuandong Pharmaceutical Co., Ltd. | 30 April 2019 |

Goodwill recognised from the above acquisition amounted to HK$26,746,000.

## 14. DISPOSAL OF SUBSIDIARIES

### (a) Disposal of Shenzhen Sanjiu Hospital Co., Ltd. ("Shenzhen Sanjiu")

In January 2019, the Group disposed of a 100% equity interest of Shenzhen Sanjiu to Shenzhen Xinshen Hospital Management Co., Ltd. at a cash consideration of RMB1,116.9 million (equivalent to HK$1,246.8 million). The disposal of Shenzhen Sanjiu resulted in a gain on disposal of the subsidiary of HK$1,062,541,000.

### (b) Disposal of Pianzaihuang

In September 2019, the Group disposed of a 51% equity interest of China Resources Pianzaihuang Pharmaceutical Co., Ltd. ("**Pianzaihuang**") to Zhangzhou Pianzaihuang Pharmaceutical Co., Ltd. at a cash consideration of RMB165.8 million (equivalent to HK$183.9 million). The disposal of Pianzaihuang resulted in a gain on disposal of the subsidiary of HK$28,754,000.

## 15. EVENTS AFTER THE REPORTING PERIOD

1. On 28 November 2019, China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., a subsidiary of the Group, entered into an equity transfer agreement in relation to Aonuo (China) Pharmaceutical Co., Ltd. ("**Aonuo**"), with Harbin Gloria Pharmaceuticals Co., Ltd. to acquire a 100% equity of Aonuo. The total transaction price was RMB1,420 million (equivalent to HK$1,585 million). The acquisition of Aonuo was completed on 2 January 2020 upon the change in business registration.

2. The outbreak of novel coronavirus ("**COVID-19**") in January 2020 continues to spread throughout China and to countries across the world. The COVID-19 has certain temporary impact on the business operations of the Group, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. The Group will monitor the development of COVID-19 closely, assess and react actively to its impact on the financial position and operating results of the Group. Up to the date of this report, the assessment is still in progress.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

Since 2019, the international environment has become increasingly complex. Against the tough backdrop created by growing tensions over Sino-US trade disputes and the prolonged uncertainty over Brexit, global economic activity remained sluggish while the global economy growth rate remained low, according to "World Economic Situation and Prospects 2020 Guide" published by the United Nations, world gross product growth in 2019 was merely 2.3%, the lowest in 10 years, while a modest uptick in global growth to 2.5% is forecast for 2020. Under the complicated domestic and international circumstances where economic downward pressure remained and trade protectionism resurfaced, the resilience of China economy was demonstrated as it faced such external impact. China's Gross Domestic Product (GDP) approached nearly RMB100 trillion in 2019, an increase by 6.1% year-on-year, maintaining stable and progressive momentum. As the main theme of China's economic development, supply-side structural reform was continued to optimize economic structure constantly, drive economic development with entrepreneurship and innovation, accelerate industrial upgrade, unleash consumption potential and invigorate market vitality, in order to converge strong momentum for high-quality development.

In recent years, China's pharmaceutical industry is undergoing profound changes driven by domestic pharmaceutical policies. On one hand, pharmaceutical manufacturing companies which mainly produced generic drugs face greater price pressure under the impact of centralised procurement and cost control on the social medical insurance, industry restructuring and concentration will continue. On the other hand, with faster pace on new drug approval and dynamic changes on the National Drug Reimbursement List (NDRL), suitable external environment for innovation drug development will be gradually built up, and will lay the foundation for local pharmaceutical companies' transformation development. In short term, there is still increasing pressure for the industry to grow, but in long term, great development potential still lies in China's pharmaceutical and healthcare industry. Impacted by cumulated factors of the macroeconomic restructuring, and social medical system reform entering a deep-water zone, China's pharmaceutical market entered an adjustment period for slow growth, with the pharmaceutical end-market's growth rate predicted to be a mere 3% in 2020, forecast the National Medical Products Administration Southern Medicine Economic Research Institute (NMPA SMEI). According to statistics from the National Bureau of Statistics, the revenue of pharmaceutical manufacturing industries increased by about 7.4% in 2019, dropped 5.2 ppt year-on-year, while the NMPA SMEI forecast this revenue growth to further slowdown to about 7.0% in 2020. As of the third quarter of 2019, the pharmaceutical distribution industry's revenue increased by 8.8%. The revenue of retail pharmacies' growth rate increased 1.0 ppt to 9.85% in 2019. With increasing healthcare consciousness and consumption ability, demands for autonomous consumption of pharmaceutical products and services showed rapid upward trend.

As new technologies are constantly emerging, treatments are constantly upgrading, product renewals are accelerating, technologies such as "+ internet" and artificial intelligence are widely used in pharmaceutical and healthcare industry, business model was triggered to transform constantly, the industry will face a lot of opportunities and challenges.

**Achievements Since Listing**

In view of the current drastic industrial and market changes, by virtue of the 13th Five-year Plan-based strategic development objectives, the Group actively responded to the policy and market challenges, rapidly established a biopharmaceutical platform, strived to enrich the research and development (R&D) pipelines, efficiently completed the integration and reviewed development strategy of CR Jiangzhong Group, reformed the Group's R&D system, proactively promoted business model innovation, forwardly explored and coordinated the synergetic development among business sectors and constantly improved operational quality. Since our listing on the Main Board of the Hong Kong Exchange in October 2016, the Group has achieved remarkable results during the '13th Five-year Plan', and has developed a solid foundation for a leading industrial position and long-term business development.

- By the end of 2019, the Group's business scale and total assets growth rates were both higher than the strategic targets set in the '13th Five-year Plan', ranking third in the industry, despite external challenges.

- The Group spun off CR Biopharm (established in 2016) and directly holds shares of China Resources Angde Biotech Pharma Co., Ltd. ("**CR Angde Biotech Pharma**") (華潤昂德生物) and Beijing Protgen Pharmaceutical Co., Ltd. ("**Protgen Ltd**") (普羅吉醫藥) to optimise its layout in pharmaceutical manufacturing sector. The Group established an organisational structure featuring innovative R&D. The Group has 14 R&D projects in the pipeline and 3 products launched on the market.

- The Group restructured its innovative R&D system, setting up a R&D platform with substantial investment gradually increased year-on-year. Strategic alliances were formed with more than 20 leading R&D institutions.

- The Group actively progressed with mergers and acquisitions, completed multiple equity investment projects, including those on Jiangzhong Group, Kunming Shenghuo, Aonuo and others.

- The Group formed a Pharmaceutical Industry Investment Fund, completed the signing of multiple projects such as Fusen Pharmaceutical Company Limited ("**Fusen Pharmaceutical**"), and successfully exited some of these projects with an internal rate of return (IRR) over 30%.

- There were 56 products from the manufacturing segment achieved over HK$100 million in sales, including 5 products achieved over HK$1 billion in sales. Seven major products passed their consistency evaluations. The Group ranked fifth in the PRC pharmaceutical manufacturing business, and was in a leading position in nutrition and healthcare, cold, antihypertensive and other therapeutic areas.

- The Group accelerated distribution business development, its sales network covers 28 provinces in the PRC and ranked among the top three in more than 10 provinces.

- The Group proactively promoted international cooperation by establishing a specific department and setting up an international collaborative platform. The Group formed strategic partnerships with multiple multinational pharmaceutical corporations, such as Sanofi, Takeda, Novo Nordisk and Gilead. The China Resources Pharmaceutical Commercial Group Company Limited (華潤醫藥商業集團有限公司) ("**CR Pharmaceutical Commercial**")'s import business achieved sales of over RMB10 billion. The results of collaboration between China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. ("**CR Sanjiu**") and Sanofi, Gosun Pharmaceutical and Roche were better than expected.

- The Group continued to introduce innovative business models. CR Pharmaceutical Commercial's e-commerce platform, CR Pharma e-Store, has gone live in 20 provinces. In 2019, the B2B online business transaction value reached over RMB20 billion and the number of online active users reached over 30,000.

- The Group actively promoted intelligent manufacturing upgrade. Our subsidiary CR Sanju explored intelligent manufacturing of Chinese medicine and has gained phased achievements from its pilot projects at its Guanlan and Ya'an production bases.

Despite the drastic reforms and myriad of challenges, China's pharmaceutical industry has enjoyed a number of unprecedented opportunities. The cumulative effect of government policies has accelerated the industry's pace of transformation and upgrade. Overall, the industry has experienced steady growth, enhanced centralisation and a further penetration of channels. Meanwhile, frequent large-scale implementation of new industrial policies reshaped the industry landscape and structure. The Group believes that the competitive edge of China's pharmaceutical industry lies in scale, networks, efficiency and compliance. Those with better compliance and larger scale are always stronger, and market share has been largely concentrated towards the leading enterprises. The trend toward centralisation will eliminate 'straggling' enterprises and sharpen competition among fewer dominant enterprises. Technological innovation and cost control will be the key factors determining an enterprise's prospects.

To China Resources Pharmaceutical, one of the industry's dominant enterprises with aspirations to become the industry leader in China, opportunities always outweigh challenges. With appropriate measures taken, an emphasis on innovative transformation, quality development, and adjustments to the product structure, the advantages of our dominant market position will be accentuated. Having endured the pain of environmental change, the Group now looks forward to a better future. As a large-scale industry-leading pharmaceutical group with a full industrial chain, the Group will continue to explore and achieve synergies from our integrated business, strengthen and speed up R&D, as well as accelerate and expand international cooperation. Through our diversified business, product portfolio, quality superiority, innovation capability, integrated business model and compliant operation, the Group continued to strengthen our market position, in order to become a leading integrator and innovator in China's pharmaceutical manufacturing and distribution industries, and to deliver better value in the new era of pharmaceutical industry.

**GROUP RESULTS**

In 2019, the Group proactively responded to policy changes and market challenges while motivating the implementation of the Group's strategy to steadily continue its merger and acquisition activities and improve business development across the industry. The Group upgraded its R&D system, boosted its business structures and product portfolios, and enhanced operational management. Against the backdrop of increased challenges, the Group's total revenue was HK$204,453.9 million, representing a 7.8% increase from the HK$189,689.1 million recorded for 2018 (representing a year-on-year increase of 12.6% in terms of RMB), achieving steady growth. In 2019, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses, accounted for 15.0%, 81.7% and 3.2% of the total revenue, respectively.

During the Reporting Period, the Group recorded a gross profit of HK$34,017.7 million, representing a 2.6% decrease from the HK$34,930.4 million in 2018 (representing a year-on-year increase of 1.7% in terms of RMB). The overall gross profit margin was 16.6%, representing a decrease of 1.8 ppt over the 18.4% in 2018. This was mainly due to a faster growth rate in the pharmaceutical distribution business, which features a lower gross profit compared to that of the pharmaceutical manufacturing business, and lower average gross profit margin in pharmaceutical manufacturing and distribution businesses, which were impacted by industry policies.

During the Reporting Period, the Group recorded a net profit of HK$5,097.8 million, representing a 32.7% decrease over the HK$7,572.3 million in 2018 (representing a year-on-year decrease of 29.7% in terms of RMB). The overall net profit ratio was 2.5%, representing a decrease of 1.5 ppt compared with the 4.0% of 2018. This was mainly due to a significant decline of results caused by the channel inventory reduction of Dong-E-E-Jiao Company Limited（東阿阿膠股份有限公司）("**Dong-E-E-Jiao**") of the Group, which turned loss (net profit attributable to shareholders of the listed company turned from a profit of RMB2,084.9 million in 2018 to a loss of RMB443.9 million in 2019), and the impairment of goodwill of HK$722.6 million during the reporting period. Excluding the impact from the impairment of goodwill, the Group recorded a net profit of HK$5,820.4 million.

In 2019, the Group recorded profit attributable to owners of the Company of HK$3,286.4 million, representing a decrease of 17.4% (representing a year-on-year decrease of 13.7% in terms of RMB) when compared with that of HK$3,977.6 million in 2018. Basic earnings per share was HK$0.52 in 2019 (HK$0.63 in 2018). The Board recommended the payment of a final dividend of HK$0.11 per share for the year ended 31 December 2019.

**1. Pharmaceutical Manufacturing**

The Group's pharmaceutical manufacturing business focused on core therapeutic areas and products by consistently diversified and optimized its product portfolio, strengthened its capability of academic-based marketing and sales promotion, and facilitated the industrial transformation and upgrade, and forged advantages in product quality and cost. At the same time, the Group innovated its marketing model, enhanced brand influence and control over the distribution channels, thereby continuously consolidating and increasing its market share. During the Reporting Period, revenue in the Group's pharmaceutical manufacturing business segment amounted to HK$33,805.7 million, representing a 3.5% decrease as compared with 2018 (representing a year-on-year increase of 0.8% in terms of RMB), mainly due to the impact of a significant decline in the annual results of Dong-E-E-Jiao following the channel inventory reduction (revenue of Dong-E-E-Jiao in 2019 decrease by RMB4,379.7 million year-on-year).

The Group's leading position as China's leading pharmaceutical manufacturer was unaffected, even though its segment revenue growth from pharmaceutical manufacturing business slowed down due to Dong-E-E-Jiao's falling sales. The Group owns the widest coverage of pharmaceutical products and therapeutic areas, including chemical drugs (prescription and OTC drugs), biopharmaceutical drugs, Traditional Chinese Medicines ("**TCM**") (prescription and OTC drugs) and nutritional and healthcare products. These fully cover all major therapeutic and disease areas, including where great growth potential of business lies in, including cardiovascular and cerebrovascular, alimentary tract, metabolism and endocrine, respiratory, orthopedics, hematology, oncology, medical nutrition, gastroenterology, pediatrics, genitourinary system, cough and cold, anti-infection, dermatology, and therapeutic infusion solutions, etc. In 2019, the Group manufactured over 540 products, of which 300 entered the National Reimbursement Drug List and 148 were included in the National Essential Drug List. In 2019, there were 56 products achieving over HK$100 million of sales, including 5 products achieving more than HK$1 billion of sales. Over the years, all Group's pharmaceutical manufacturing subsidiaries have formed professional sales and marketing teams with personnel numbering in the thousands, and established deep long-term business relationships with approximately 7,000 Class II & Class III hospitals and more than 110,000 primary medical institutions.

In terms of product categories, in 2019, the revenue from sales of chemical drugs was HK$16,494.3 million (of which sales from chemical OTC drugs was HK$2,600.9 million, accounting for 15.8%), which is 5.8% higher as compared with that of last year. The increase was mainly driven by the increasing sales from anti-infection drugs, infusion products, and chronic and specialty drugs. The revenue from sales of TCM was HK$13,937.2 million (of which OTC drugs contributed HK$9,424.2 million, accounting for 67.7%), out of that, E-Jiao series products' revenue decreased year-on-year. Even so, the Group still recorded increasing sales from TCM OTC products for colds, gastrointestinal diseases, orthopedics, and cardiovascular diseases and formula granules of TCM. The revenue from sales of biopharmaceutical drugs was HK$217.3 million, representing a year-on-year increase of 27.6%, largely caused by sales model optimisation. The revenue from sales of nutritional and healthcare products was HK$944.0 million, representing a year-on-year increase of 20.4%, benefiting from the acquisition of Jiangzhong Group. During the reporting period, sales from TCM, chemical drugs, biopharmaceutical drugs, and nutritional and healthcare products accounted for 48.7%, 41.2%, 0.6% and 2.8%, respectively, to total revenue. Among, OTC products (including OTC products from TCM and chemical drugs) recorded HK$12,025.0 million of revenue, contributing 35.5% of sales revenues for the Group's pharmaceutical manufacturing business.

During the Reporting Period, the gross profit margin of the Group's pharmaceutical manufacturing business was 63.2%, which was 1.6 ppt lower than that of 2018, mainly due to the declining results for Dong-E-E-Jiao and its reduced contribution to gross profit. This led to a lower average gross profit margin for the pharmaceutical manufacturing segment.

Subsidiary Dong-E-E-Jiao's business result showed a downward in 2019, with its annual revenue decreased by approximately 59.7% year-on-year to RMB2,958.6 million. Gross profit decreased by 70.9%, while the gross profit margin decreased 18.3 ppt to 47.7%. The net profit attributable to shareholders of the listed company turned from a profit of RMB2,084.9 million in 2018 to a loss of RMB443.9 million. The change in Dong-E-E-Jiao's results has made a relatively heavy impact on the Group's overall results for the year. In recent years, there has been a continuous overstock in the distribution channels of Dong-E-E-Jiao, mainly due to various factors such as the general macro-environment and gradually receding market expectations for product Dong-E-E-Jiao's price increase. During 2019, Dong-E-E-Jiao mainly focused on destocking in distribution channels. It imposed strict controls over the dispatch of goods and the reduction of distribution channel inventory in order to safeguard the long-term corporate health from adverse impact. Particular efforts were devoted to destocking distribution channels in the second half of the year, which made a greater impact on operating results. With its focus on long-term positive development after a period of consolidation, Dong-E-E-Jiao has optimised its development strategies and enhanced clinical and academic marketing while enriching its product portfolio. It has launched the "E-Jiao+" and "+E-Jiao" product series with marketing of 'instantly edible E-Jiao' to integrate with the new consumption model and transform into digital marketing with a new customer base and more product variety. Efforts were made to effect a transformation of marketing model, with the focus shifted from the E-Jiao business to the nutrition business. With the transformed business model, organisational change of accelerating the adaptation to the digitized environment, positive and healthy development of the Company can be attained. In Ali Health's 11.11 Product Sales Ranking of 11 November 2019, E-Jiao blocks presented by Dong-E-E-Jiao once again took first place, reflecting its high brand recognition among consumers as well as strong market demand for E-Jiao products. The Group believes the work of reducing channel inventories was progressing and that Dong-E-E-Jiao's results will be back on track with its continued product line diversification. Led by experienced, young and energetic management, Dong-E-E-Jiao will stride confidently into another decade of rapid development.

The Group recognises great business development potential for branded OTC drug in the PRC market. The current market scale for OTC drug is approximately RMB220 billion, which has increased year-on-year by more than 10% and accounts for 15% of the pharmaceutical market terminal. Future demand for chronic disease and universal health products from an ageing population will drive the expansion of OTC drug market beyond its current scale. As China's largest OTC drug manufacturer and an industry leader, the Group possesses strong brand bargaining power and clearly understands the great commercial value of such. Under circumstances in which establishing a new brand is exceeding difficult, owning an existing outstanding brand has become an OTC enterprise's greatest asset. After completing the acquisition and merger of Jiangzhong Group, the Group's leading position in the CHC ("**Consumer Healthcare**") area (including OTC products and nutritional and healthcare products) was further strengthened, and our brands like "999", "Dong-E-E-Jiao" and "Tianhe" are widely recognised in the market. The Group has been continuously forging advantages of quality brand clustering in the CHC area, or self-care field, becoming a 'collector' of brands and increasing and supplementing its heterogeneous and professional OTC products. According to the 2019 China OTC Manufacturers Annual Ranking, The Group's CR Sanjiu, Dong-E-E-Jiao, CR Jiangzhong and CR Zizhu subsidiaries ranked 1st, 4th, 17th and 67th, respectively. CR Sanjiu is a leading OTC manufacturer in China, which has maintained its first position for eight consecutive years and has been listed as a 'Most Valuable Chinese Brand' by Millward Brown Optimor, a renowned consulting company, for six consecutive years. Six Group products – Dong-E-E-Jiao, 999 Ganmaoling, Jiangzhong Jianwei Xiaoshipian, 999 Xiaoer Ganmaoling, Piyanping, and Jinyuting – appeared as '2019 Top 50 Pharmaceutical Brands' announced at the 2019 CPEO Summit. Among these, Dong-E-E-Jiao won first place for five consecutive years. And within the ranking of '2018 China OTC Market Sales', four out of the top ten are the Group's products, and the 999 Ganmaoling granule/capsule manufactured by CR Sanjiu was named as the best anti-influenza product in the PCM category (proprietary Chinese medicines) for eight consecutive years. The Group's leading advantage in the CHC industry became more distinctive by cultivating the brand of cluster, as well as achieving synergies between product, marketing and sales channels. During the Reporting Period, revenue for the Group's CHC business accounted for 39.1% of the revenue from from the pharmaceutical manufacturing business. Revenue from CHC business reached HK$13,264 million (representing RMB11,670 million). CR Sanjiu seized market opportunities and explored quality resources, accelerated mergers within the PRC, and drew on its collaboration business experience with multinational companies to participate in bidding of multinational pharmaceutical companies' premium products' commercialisation and distribution right, thereby enhancing the capability of its products. During the Reporting Period, CR Sanjiu reached collaboration with enterprises such as Takeda Pharmaceutical (Japan), Nature's Care (Australia) and Ryukakusan Co. (Japan), concerning multinational cooperation. The sales growth rate for the Group's CHC business has surpassed industry benchmarks, further consolidating the Group's leading position. Through continuously innovating its consumer communication channels and expert endorsements, the Group continued to rejuvenate and professionalise its OTC brands and enhance the development of its core OTC businesses.

The Group regards TCM business as a key source of future revenue growth for the pharmaceutical manufacturing business. During the 19th National Congress, general secretary Xi Jinping advocated "··· striking a balance between Chinese and Western medicine, inherit and develop the Chinese medicine business". According to statistics from the Ministry of Industry and Information

Technology, the 2018 market scale of TCM decoction pieces in PRC was approximately RMB220 billion, of which TCM granules contributed RMB18.5 billion or 8.4% of the total. During the Reporting Period, the Group strengthened its TCM business through subsidiaries CR Sanjiu and CR Jiangzhong, and leveraged its leading-edge to accelerate the transformation of prescription TCM and exert a greater effort to promote the development of TCM granules and specialised TCM. Both revenue and profit of the Group's TCM granule business grew rapidly, increased by around 30% year-on-year and greatly exceeded the average industry growth rate. During the period, the Group accelerated the expansion of TCM granule business, developed exquisite decoction pieces and clinical preparations for TCM, TCM supplements, etc. Due to the new decoction piece business and the establishment of TCM quality standards, the Group gradually refined its TCM production chain, including completion of planning of raw material sourcing at provinces and cities such as Yunnan, Chongqing, Heilongjiang, etc. Sanjiu Jinchan and Ya'an served as the Group's core extraction base and the purchase of herbal TCM was unified to enhance operational efficiency. The Group also expanded channel coverage to thousands of Class II, Class III and primary hospitals, driving growth in sales. The Group built a strategic platform from which it can cooperate with government, universities and medical institutions. This facilitated the transformation of the results of cooperation between schools and enterprises and helped realise the expansion of affiliated hospitals, which enhanced the Group's brand influence and further accelerated its development. In the meantime, the Group has been leveraging its core competitive edge to expedite the transformation and innovation, including the construction of Smart Pharmacy with the cooperation of government and enterprises and assistance from qualified medical institutions. The three parties are responsible for Smart Pharmacy's management and operation. Currently, the startup of Smart Pharmacy in Guangzhou, Wuhan, Chengdu and Zhengzhou cities has been completed. The Group based on 'industrial automation + informatization' to upgrade its 'Smart TCM manufacturing framework' and improve controllability of the manufacturing process from the perspectives of process automation, information development of manufacturing process management, and interconnection.

The Group was also dedicated to establishing China's premier platform for chronic disease management. In view of the ageing population and increasing medical insurance pressures, China has attached a great importance to drug usage for chronic diseases. According to statistics from the Qianzhan Intelligence Co., the PRC's monthly expenses on chronic diseases in 2016 were RMB3.24 trillion, or approximately 70% of total health expenditure. This number is expected to reach RMB5.5 trillion in 2020. The World Health Organisation (WHO) also estimated that China's expenditures on chronic disease drugs will exceed US$250 billion by 2025. Control of chronic diseases in the PRC still has much room for improvement, bring in an enormous chronic disease drug market. There are 9 major chronic disease products owned by the Group reached more than RMB100 million in sales, consisting mainly of cardiovascular and endocrine cures. During the Reporting Period, subsidiary China Resources Double-Crane Pharmaceutical Company Limited（華潤雙鶴藥業股份有限公司）("**CR Double-Crane**") leveraged its extensive operational experiences in the chronic disease drug market and its wide channel coverage to accelerate the penetration of distribution channels and strengthen patient management in respect to chronic disease drugs and specialty drug usage. The total revenue for 2019 was approximately RMB9.4 billion with an annual growth rate of 14.1%, faster than the industry's average growth rate, and out of which, revenue of chronic disease drugs and specialty drug usage grew 15% and 47%, respectively. During the Reporting Period, CR Double-Crane ranked 14 among the top 100 PRC chemical pharmaceutical manufacturing company, actively promoted the professional management of chronic diseases and the integration and synergy of business resources. CR Double-Crane established a chronic disease department, created highly efficient chronic disease management platforms, and forged a unified brand specialising in chronic disease cures, in order to gradually elevate its brand influence and improve competitive position in the chronic disease industry. During the Reporting Period, the Group established expert network and academic platform to enhance influence of our chronic disease drug brands, and further penetrated into the primary market after the hierarchical diagnosis and the integrated health care system were implemented. The Group also focused on development in county level and leveraged on our core hospitals to strengthen communication from county-level hospitals to primary end-users. The Group further optimized sales models and expanded sales channels for our chronic disease drugs. Sales volume was boosted with sophisticated management of agents.

The Group assigns a high priority to consistency evaluation on the quality and effectiveness of generic drugs. At the end of the Reporting Period, more than 64 key consistency evaluation projects had been commenced, including for 44 oral solid dosages and 20 injection dosages. During the Reporting Period, 10 projects had commenced bioequivalence clinical trials, with 8 products completing trials. Of the latter, 7 drugs such as 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 (蒙脫石散) 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) were filed for reference drug qualification, 6 products (7 specifications) passed or were regarded as passing the consistency evaluation. In January 2019, Mifepristone Tablets (10mg and 25mg) passed the consistency evaluation and obtained national reference drug qualification. In March 2019, Hydrotalcite Chewable Tablets (碳酸鎂咀嚼片) were approved by the National Medical Products Administration (NMPA) for production and were regarded as passing the consistency evaluation. In May 2019, Metformin Sustained-Release Tablets (二甲雙胍緩釋片) passed the consistency evaluation. In September 2019, Finasteride Tablets (非那雄胺片) (5mg) were approved by the NMPA as the first product of its kind to pass consistency evaluations on generic quality and effectiveness. In October 2019, Levetiracetam (左乙拉西坦) active pharmaceutical ingredients passed the technical evaluation of the NMPA Center for Drug Evaluation. Levetiracetam Tablets (左乙拉西坦片) (0.5g) were granted drug registration approval by the NMPA, which is regarded as passing the consistency evaluation according to relevant regulations of the PRC. In December 2019, Azithromycin Tablets (阿奇霉素片) obtained approval of drug supplementary application from the NMPA. The drug passed consistency evaluations on generic drug quality and efficacy. The Group was the second enterprise to pass the consistency evaluation for this drug.

## 2. Pharmaceutical Distribution

In 2019, multiple policies induced changes in the pharmaceutical market. The Group responded by performing detailed policy study and actively preparing and participating in the centralised procurement of drug campaign. The Group also expanded upstream resources in multiple dimensions, adjusted product portfolio, developed premium product pipeline, and nurtured self-owned products. By seizing the market opportunities arising from enhanced industry concentration brought by the 'two-invoice' policy, the Group expedited national network development, enhanced terminal coverage, penetrated into primary medical institutions and premium private hospitals. The Group also drove innovative transformation by accelerating the development of emerging businesses such as medical devices and TCM distribution, each of which have great market potential. The logistics system was optimised and financing through multiple channels. In 2019, the Group's distribution business recorded double digit compound annual growth in revenue, operational profit and total assets, achieving its '13th Five-year' Plan goals a year early. During the Reporting Period, the Group's pharmaceutical distribution business recorded a segmental revenue of HK$170,691.3 million, representing a 9.9% increase over that of 2018 (representing an increase of 14.8% in terms of RMB). This was higher than the average growth rate for the pharmaceutical distribution industry. The gross profit margin of the pharmaceutical distribution segment was 6.9%, a decrease by 0.4 ppt year-on-year comparing with that of 2018.

During 2019, the Group ramped up efforts in premium products introduction, acitvely engaged in the distribution of centralised procurement drugs, and entered into cooperation with approximately 100 pharmaceutical enterprises whose products have passed consistency evaluation. The Group also explored upstream resources, exerted efforts to strengthen and consolidate strategic partnerships with upstream enterprises, and developed new strategic cooperation businesses. The Group sped up the introductions of premium oncology and innovative medicines, during the year, 4 drugs included in the NDRL through negotiations were included in the Group's product portfolio, respectively resourced from AstraZeneca plc, Novartis, Jiangsu Hengrui Medicine, and Merk Sharp & Dohme, Inc. Meanwhile in the period, 16 distribution rights for newly launched Class I innovative drugs were added.

At the same time, CR Pharmaceutical Commercial has made progress in adjusting its business model from mainly distribution to service cooperation. The Group officially set up an international business subsidiary call "CR International Trading Limited" and established a multilevel import system, strengthening its import business development to forge import capability. During the Reporting Period, the revenue of the Group's import drug distribution was more than RMB10 billion, representing an approximate 40% increase and met expectation. The Group strengthened port business construction and the introduction of imported drugs. During the year, 8 imported drugs with exclusive distribution rights (mainly from major multinational enterprises such as CASI Pharmaceutical Inc., Gilead Sciences Inc. and Taiho Pharmaceutical Co., Ltd) were newly added, of which 5 were innovative drugs. The Group has also made progress in promoting business innovation for import services, adding 6 Patient Assistance Programs with Boehringer Ingelheim and Hoffmann-La Roche in the oncology field. The Group's annual revenue from import innovation services increased year-on-year.

The Group continuously optimised its product portfolio, contributing to an increasing proportion of distribution businesses of medical device and TCM Herbal Medicine in its total sales revenue. CR Pharmaceutical Commercial pursued the specialised development of medical device distribution and accelerated construction of its medical devices headquarter. The independent provincial medical device companies with separate online ERP function were established in 15 provinces. During the Reporting Period, the Group's medical device distribution business recorded an annual revenue of RMB13.7 billion, a year-on-year increase of more than 50%. Supply Processing Distribution projects were newly introduced during the year in 11 provincial cities.

Meanwhile, following the trend of market structure adjustment, the Group's distribution business expedited the expansion of medical terminals and the construction of city-scale platforms, expanded network channels and further penetrated into the primary market. These facilitated diversified business developments within advantage regions and increased the end-user market share. Through continuous business structure optimisation, revenue from direct distribution to medical institutions maintained a solid growth, increasing its contribution to total distribution business revenue to about 78%. As of 31 December 2019, CR Pharmaceutical Commercial's distribution network covers 28 provinces, municipalities and autonomous administrative regions. The Group's clients included approximately 7,000 Class II and Class III hospitals (of which 418 were newly introduced), over 47,000 primary medical institutions and about 55,000 retail pharmacies. The Group will continue seizing the historic opportunities arising from increased market concentration created by the 'two-invoice' policy, and continuously expand and strengthen our distribution network within China.

The Group continued to develop modernised logistics supply chains featuring the competitive edge of integration, professionalisation, scaling and standardisation. At the end of the Reporting Period, the Group's distribution business operated 178 logistical centres. Logistics warehouses were established in Beijing and Shanghai. The Group's logistical warehouse in Guangzhou is the only own-bonded warehouse with construction approved by Guangzhou Customs with a leading cold chain logistics management system and was licensed to do modern third-party logistics for distribution of drug and medical device. During the Reporting Period, the third-party logistics business revenue increased over 90% year-on-year.

At the same time, CR Pharmaceutical Commercial exerted great effort to develop e-commerce. By leveraging its industrial advantages from the supply chain, it optimised its pharmaceutical e-commerce platforms and accelerated development of its B2B platform CR Pharma e-Store (潤藥商城) and the B2C business. At the end of the Reporting Period, CR Pharma e-Store has gone live in 20 provinces with an annual transaction value of over RMB20 billion, exceeding its target. During the year, the aggregate number of active clients was over 30,000. There were multiple live pre-ordering fairs synchronising with CR Pharma e-Store during the year. By nurturing end-user consumption habits through the internet marketing, the number of active users and returning buyers on CR Pharma e-Store increased. To undertake future business from the prescription outflow from hospital, CR Pharmaceutical Commercial also explored its CR Pharma Cloud Prescription (潤藥雲方) model, which connects medical institutions and community pharmacies or primary medical center, thereby achieving an orderly and secure circulation and realizing two-way flow of prescription information. The Group will continue to promote and implement innovative business models to further enhance the quality of value-added services to downstream clients and achieve continuous growth in corporate value.

**3. Pharmaceutical Retail**

The Group has always followed a strategy of integrating distribution and retail businesses, developing and improving direct-to-patient (DTP) professional stores, prescription stores near hospitals, and healthcare shops with distinctive themes, and following the government policy via standardizing, differentiating and specializing our services to fully construct comprehensive retail operation system.

During the Reporting Period, the pharmaceutical retail business of the group recorded revenue of HK$6,462.8 million, representing a 18.5% year-on-year increase, or 23.8% in terms of RMB, which was higher than the industry's average growth rate, and ranked 10th in the industry. Gross profit margin was 12.5%, which was 2.1 ppt lower compared to 2018. The decrease was mainly due to the rapid growth of DTP business which deliver high-value drugs but with relatively lower profit margin. The Group's DTP specialty pharmacies recorded a total revenue of about HK$3.5 billion in 2019, representing a year-on-year growth over 45%.

Under the background when retail pharmacies was transitioning toward standardisation and professionalisation in reaction to policy, designated medical insurance resources was tending to lean toward Class I pharmacies, retail market concentration was accelerating and prescription was outflowing, the Group further enhanced the quality of its software and hardware, and operation standard of its pharmacy stores with full coverage of the retail ERP system, set up a centralised procurement platform, and integrated with manufacturers such as Zhejiang Betta Pharmaceuticals, Junshi Biosciences and others. The Group expanded development of its DTP specialty pharmacies, successfully introduced 10 innovative drugs such as Daboshu (Sintilimab), and further enriched nutritional and healthcare products. The Group improved its development of prescription stores near hospitals and cooperated with the Chinese Academy of Sciences, Fuzheng, Huiyinbi Group and Japan's Pitta Mask to create new income streams. As of 31 December 2019, the Group operated 852 retail pharmacies in total, of which 175 were DTP specialty pharmacies located in 89 cities in the PRC.

The Group worked to implement brand unification as well as building the Teck Soon Hong professional retail pharmacy brand. And on this basis, the Group built a system which integrate online prescription dispensing, the direct delivery of drugs, medication consultation, health management services and drug delivery from prescription outflow and value-added services. On the basis of its existing drug delivery capability and fundamental resources, the Group participated in the distribution business of medical device, equipment and consumable for medium- and large-scale hospitals.

Concurrently, following the market trend of innovation, the Group began trial operations for new businesses, expanded its models for integrating new retail, medicine consultation and treatment, and developed innovative business models such as 'combination of healthcare and medicine', 'pharmacy + diagnosis and treatment', and 'internet + pharmacy'. The Group also extended its Chinese medical treatment, e-commerce and cross-border businesses via collatoration with WeChat and JD, etc.

## 4. Product Research & Development

R&D and product innovation are important drivers of the Group's long-term growth, and the Group is accordingly continuing to increase investment in R&D activities. During the Reporting Period, total R&D expenditures were HK$1,435.7 million. The Group adhered to government policy, development trend of industry technology, and market demand, continuously improved company's core competitiveness via integration of its R&D capability for generic and innovative drugs on therapeutic areas such as cardiovascular, respiratory, oncology, gastroenterology and metabolism, central nervous system, immune system, anti-infection, hematology and genitourinary. At the end of the Reporting Period, the Group operated 3 nationally certified engineering and technological centres, 3 nationally certified enterprise technical centres, and 17 provincially or municipally certified research centres. The Group also established postdoctoral research stations with more than 800 R&D employees.

As of 31 December 2016, there are 150 products in the Group's R&D pipeline, including 67 R&D stage innovative drugs, mainly focusing on therapeutic areas such as anti-cancer, metabolism and endocrine, cardiovascular, and classical TCM prescriptions. During the Reporting Period, the Group obtained 101 patents, filed 91 patent applications, and received 11 awards and project funds from various levels of government offices. During the Reporting Period, 6 products such as Moxifloxacin Hydrochloride Eyedrops (鹽酸莫西沙星滴眼液) and Linezolid Tablets (利奈唑胺片) filed with NMPA for manufacturing and registration application, while 4 products such as Hydrotalcite Chewable Tablets (碳酸鋁鎂咀嚼片), Paracetamol Oral Solution (對乙酰氨基酚口服液), Levetiracetam Tablets (左乙拉西坦片) were approved for production, further diversifying the pharmaceutical manufacturing business's product lines. On 3 October 2019, the Group's newly developed innovative drug NIP292 was approved by the U.S. Food and Drug Administration (FDA) for phase one clinical trials, and was granted the Orphan Drug Designation (ODD) in the U.S. The drug is mainly used to cure idiopathic pulmonary fibrosis (IPF). The FDA approval for an Investigational New Drug (IND) was not only an important milestone for the NIP292 project, but also a breakthrough for the Group in the development of international new drugs. It also marks the Group's breakthrough in the development of innovative drugs to cure orphan diseases and will further enhance CR Pharmaceutical's reputation for innovation.

During the Reporting Period, the Group completed the integration of its biomedical platform by spinning-off CR Biopharm (founded in 2016) and directly holds shares in CR Angde Biotech Pharma, Protgen Pharmaceutical and Vector Gene Technology. CR Biopharm pursued the multi-dimensional development of original biopharmaceutical drugs, improved innovative drugs and biosimilar drugs, in order to balance between the long-term R&D risks and value within projects in the pipeline. In line with the vision to provide patients with quality drugs at a low price, the Group mainly focused on drugs for digestive and metabolic diseases, and biosimilar drugs where larger market opportunity lies in, so that to balance R&D risk and return. The Group also raised its product differentiation and brand influence by expanding indications of its existing products. Currently, there are three products in the market – Bai Jie Yi, Rui Tong Li and Jia Lin Hao – of which Rui Tong Li has undergone evaluation for inclusion in the 2019 NRDL with assessment of a high pharmacoeconomics value resulting in inclusion within the Catalogue. The drug was also approved for indications of acute stroke and acute pulmonary embolism, both are now undergoing phase II clinical research. There are 14 biological R&D stage products in the pipeline, out of which, 8 are innovative drugs and 6 are biosimilar drugs, which mainly focused on different therapeutic areas, including tumour, immunity and endocrine.

***Actively Pursuing Long-term Growth through External Expansion***

The Group has strong capability and extensive experience in mergers and acquisitions, as well as a proven track record. During the Reporting Period, the Group steadily implemented high-quality acquisitions, expanded its business footprint and seize opportunities arising from the mixed ownership reform of state-owned enterprises, promoted acquisitions in innovation businesses, applied advanced management concepts and business models to acquired entities, enabled the integration of resources, and facilitated continuous business growth.

For the pharmaceutical manufacturing business, China Resources Pharmaceutical completed its acquisition of Jiangzhong Group in 2019. A reorganisation plan for the Jiangzhong Group obtained final approval from the SASAC under the State Council in January 2019, and the supplemental share subscription agreement has taken effect. Jiangxi Jiangzhong Pharmaceutical (Group) Co., Ltd. (currently CR Jiangzhong Pharmaceutical Group Co., Ltd.) has increased their registered capital by approximately RMB129.6 million, while China Resources Pharmaceutical Holdings Company Limited has made a capital contribution of approximately RMB3,099.4 million (equivalent to approximately HK$3,636.5 million) in cash. The relevant change of business registration in relation to the acquisition was completed in February 2019, with the general offer to acquire Jiangzhong Pharmaceutical Co., Ltd. completed in April 2019. Since completing the acquisition, China Resources Pharmaceutical Holdings Company Limited indirectly holds 43.03% equity of Jiangzhong Pharmaceutical Co., Ltd. Jiangzhong Pharmaceutical is a leading manufacturer of OTC products in the PRC and has strong brand 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 order to further strengthen the Group's market leader position in the OTC business segment.

The Group will continue to seek opportunities to rapidly increase and optimise its product pipeline via international strategic collaboration, product introductions and joint ventures. During the Reporting Period, the Group's business segments entered into 15 international cooperation projects, in areas of branded generic drugs, generic drugs, OTC, healthcare, etc. Among them, in May 2019, CR Sanjiu signed an exclusive agreement in Mainland China with Takeda Pharmaceutical (Japan) in relation to Alinamin, Japan's number one OTC brand. In August 2019, CR Sanjiu obtained exclusive distribution rights in China for Nature's Care's (Australia) products from the "Nature's Care pro" series. During the same month, CR Sanjiu obtained exclusive distribution rights in China from Ryukakusan, an Japanese pharmaceutical enterprise well-known for its throat product. In November 2019, CR Sanjiu invested RMB1.42 billion to acquire 100% equity in Aonuo Pharmaceuticals, which owns Aonuo Calcium, a well-known calcium supplement brand for children with good market size and growth potential. The acquisition of Aonuo Pharmaceutical will improve the Group's product mix in the CHC business and help to build a leading children's healthcare brand.

In respect to the pharmaceutical distribution business, the Group completed several high-quality acquisitions at the municipal level during the Reporting Period to further optimise the depth and quality of its distribution network. In June and July 2019, CR Pharmaceutical Commercial acquired and subscribed shares of Zhejiang Int'L Group Co., Ltd. at RMB11.26 per share, with a total consideration of RMB560.6 million (approximately HK$637.3 million). Upon completing the transaction, CR Pharmaceutical Commercial holds 20% of equity of Zhejiang Int'L Group Co., Ltd. As a leading pharmaceutical distributor in Zhejiang province 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 alliance with complimentary advantages, helping China Resources Pharmaceutical to further expand sales and distribution channels, strengthen its business coverage and boost its competitiveness in eastern China. During the Reporting Period, CR Pharmaceutical Commercial also completed the acquisition of equity shares in several municipal-level distribution companies in Sichuan and Jiangsu provinces.

In the pharmaceutical retail business, the Group acquired 25% equity interest in Tycoon Group Holdings Limited (hereinafter referred to as '**Tycoon Group**') through China Resources Pharmaceutical Retail Group Co., Ltd. Tycoon Group supplies a wide range of proprietary Chinese medicines as well as health, personal care, skin care and other healthcare products in Hong Kong, Macau, Singapore and China, and its 2018 revenue was ranked third in the proprietary Chinese medicine distribution market in Hong Kong with a market share of approximately 8.1%. The transaction will further enrich and optimise the Group's retail product portfolio, create synergies with CR Care, and strengthen the Group's competitive advantage in distribution and retail in the Hong Kong market.

As a diversified investment portfolio of the Group, China Resources Pharmaceutical Industrial Investment Fund LLP signed 6 projects involving businesses such as POCT, IVD, machine intensive delivery, API, heparin products during the Reporting Period. The Fund successfully exited after a global offering of Fusen Pharmaceutical in Hong Kong, with the internal rate of return achieving more than 30%. At the same time, in order to strengthen internal collaboration within the Group, the Fund started to work with other business units of the Group and invested jointly with CR Sanjiu on an investment projects.

During the Reporting Period, CR Pharmaceutical Investment acquired approximately 4.85 million shares of Dong-E-E-Jiao, meanwhile, Dong-E-E-Jiao repurchased approximately 6.174 million shares from open market. As at the end of the Reporting Period, the CR Pharmaceutical Investment directly holds 8.94% equity interest in Dong-E-E-Jiao and indirectly holds 23.36% equity interest in Dong-E-E-Jiao through China Resources Dong-E-E-Jiao Company Limited (華潤東阿阿膠有限公司), a non-wholly-owned subsidiary of the Company. The Group now controls 32.3% equity interests in Dong-E-E-Jiao. The acquisition further strengthens the overall advantages and synergy of the Group's pharmaceutical manufacturing business.

***Realising Integrated Layout Synergies and Improving Operational Quality***

One of the Group's primary competitive advantages is the business coverage which encompasses the comprehensive industrial chain and the synergistic opportunities lied in its integrated business. The Group is a leading enterprise in the production and sale of OTC drugs in China and owns several well-known Chinese OTC brands. To maintain and strengthen its leading position and competitive advantages in the OTC pharmaceutical business in China, in November 2019, the Group established China Resources Pharmaceutical OTC Strategic Synergy Committee. The CEO of CR Sanjiu serves as committee chairman, while the CEOs of each main business company (including CR Jiangzhong, Dong-E-E-Jiao, CR Pharmaceutical Commercial and CR Double-Crane, etc.) serve as deputy chairmen. Key committee members include each profit centre's head of business department. The committee's main objectives and missions are to leverage the resource advantages of each brand to achieve mutual empowerment, to jointly enhance control over downstream customers, to provide positive opinions and suggestions to the direction and trend of industry policies, to participate in OTC industry integration, and to seize opportunities for industry integration and drive product and industry upgrades.

After completing the acquisition and integration of CR Jiangzhong, during the second half of 2019, CR Sanjiu and CR Jiangzhong made good progress in the TCM formula granules collaborative project by signing a strategic cooperation agreement and establishing a sales joint venture (CR Jiangzhong holds 51%, CR Sanjiu holds 49%). This focuses on synergistic development in Jiangxi Province by leveraging the local resource advantage of CR Jiangzhong and the technical capabilities of CR Sanjiu in the production of TCM formula granules.

The Group has made great efforts in creating synergy between the manufacturing and distribution business segments to further deepen the synergy in aspects of market development, price maintenance and agent management. In 2019, the Group achieved synergies between manufacturing and distribution businesses in some key areas.

The Group also actively explored and realised opportunities for synergistic development with subsidiaries in other industries within the China Resources Group. For example, CR Pharmaceutical Commercial's retail segment and China Resources Land Limited ("**CR Land**") jointly promoted synergetic development in senior home business. At the end of September 2019, Liaoning Teck Soon Hong Pharmacy of CR Pharmaceutical Commercial reached agreement with Shenyang Runxinhui of CR Land to provide Runxinhui residents with resident practicing pharmacist services such as prescription undertakes and medicine deliveries. In view of the business opportunities created by new community-centric pharmaceutical retail developments serving the ageing population in China, in the near future, the Group will actively explore areas of synergy between CR Pharmaceutical Retail, CR Land and companies in other industries, and bring new growth to pharmaceutical retail business development.

The Group fosters synergistic development between industries through the reasonable allocation of financing and implementation of domestic and foreign fund linkages. During the Reporting Period, approximately HK$13,300 million of offshore loans were obtained, while approximately HK$243 million in finance costs were saved as compared to domestic financing. During the year, the Group issued HK$1,116 million worth of corporate bonds, HK$2,231 million worth of perpetual bonds and HK$3,349 million worth of super and short-term commercial paper, with a minimum nominal annual interest rate of 2.7%. These effectively reduced finance costs for the year, optimised the Group's resource allocations, successfully achieved annual de-leveraging targets (ie, reduced interest-bearing liabilities) and controlling funds appropriated to accounts receivable and inventories.

***A Number of A share-listed Subsidiaries Included in the FTSE Russell Global Index***

On 24 June 2019, the A-share listed subsidiaries CR Sanjiu, CR Double-Crane and Dong-E-E-Jiao were included in the FTSE Russell Global Index.

As the world's 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 into FTSE indicates that international investors are paying attention to and recognising 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 market growth potential, continuous consolidation trend, and growing industry concentration. Encircling the development objective of '13th Five-year Plan', the Group will adopt 'Reform and innovate, quality and development' as its working theme for the year while it accelerates the pace of innovation transformation and leverages the core edge of each business segment. By actively plan for the core areas and core segments in the industrial chain, the Group will increase investment in R&D, and strive to breakthrough in innovation. The Group will accelerate its pace of introducing new products and will strengthen international cooperation on the basis of compliance. It will strengthen external acquisition efforts, pay close attention to investment opportunities in innovative fields, and explore breakthroughs in investment methods. The Group will continuously optimise its resources allocation, seek and implement synergies between business segments. The Group will accelerate improvements to intelligent manufacturing and industrial upgrade, adjust its business structure and push forward business transformation. By reinforcing management fundamentals, encouraging innovative models and improving development quality, it aims to foster steady, sustainable long-term development, lay a solid foundation for the '13th Five-year Plan' strategy, and continuously enhance its core competitiveness.

In response to the outbreak of the novel coronavirus epidemic at the beginning of the year of 2020, the central government promptly adopted a series of proactive, efficient and pragmatic measures to curb the spread of the epidemic within the shortest time. The Group's business segments, facing the impact of the epidemic, proactively adjusted their marketing strategies, expedited innovation of marketing models, and organized online sales promotion activities. They also proactively seized the short- to-mid-term market opportunities to accelerate the development of new products while lowered the impact of the epidemic by fully utilizing preferential policies from the central government. Production and supply are ensured to the greatest extent on the premise that the epidemic is controlled and prevented with stringent standards. The Group will adopt various response measures in pursuit of achieving each operational goal for the year.

The Group believes, as we seize the development and reform opportunities in China's pharmaceutical and healthcare industry, utilise the window period of industry consolidation, and effectively implement the '13th Five-year Plan' strategy, the Group is poised to become the leader in China's pharmaceutical and healthcare industry and continue to create and improve investment value and return for shareholders.

### 1. Commencing the strategic planning of '14th Five-year Plan'

The year 2020 is the final year of deploying the '13th Five-year Plan', and a key year for the pharmaceutical industry to transform, reform and reconstruct its competition landscape. In response to the industrial competition, market challenge and development objectives, management of the Group conducted comprehensive discussions on the Group's strategic direction, business selection, competition strategy and development initiatives via multiple methods, including experts interview, external research, internal seminar and case study. The Group compared itself with benchmarking companies after looking into the latter's development strategy and initiatives, and systematically review its core capabilities. The Group interpreted industry policies and intended to accurately judge industry trends and explore development opportunities in new areas of business areas. These actions will lead to the formulation of the strategic '14th Five-year Plan'. At the same time, the Group will pursue development opportunities to integrate into the Greater Bay Area construction from the aspects of massive health, technology innovation and international cooperation.

2. **Strengthening R&D Innovation, optimising the innovative R&D system, building an innovative and technological platform for biopharmaceutical drugs, and accelerating the acquisition of high-quality products**

The Group will seize on good opportunities for national pharmaceutical innovation and development to increase R&D investment and innovation to achieve the 'four breakthroughs' of R&D innovation and investment, R&D talent team building, assessment and incentive mechanisms, and innovation models. These include, but are not limited to:

- Increasing the proportion of the Group's total R&D investment to revenue;

- Focusing on high-quality R&D projects such as chemical innovative drugs, classic TCM prescriptions and biological drugs. Actively expanding product acquisition channels and continuing to enrich R&D pipelines in anti-tumour, immunotherapy, cardiovascular, central nervous and respiratory systems;

- Speeding up the introduction of R&D professionals, strengthening construction of R&D teams, enhancing R&D capabilities, accelerating the transition to independent innovation strategies;

- Speeding up the establishment of the biopharmaceutical segment, aiming on innovative drugs as long-term development aim, integrating advantage resources, continuously forging platforms of research, manufacture and marketing, with an eye on the clinical demands that haven't been satisfied, focusing on recombinant protein and monoclonal antibody products, and leveraging on the Group's mature capabilities in the industrial chain and commercial industry;

- Developing high-end drug technologies, products with advance synthesis technology and special packaging, and establishing differentiated technological platforms such as oral sustained-release drugs, inhalants and injection emulsion drugs;

- Promoting the construction of TCM innovation and generic drug differentiation technology platforms (TCM, Innovative Medicine and Health Medicine Research Institute); Enhancing the efficacy and clinical forensic medical research of the Group's TCM and famous and classic prescriptions (including formula granules and Dong-E-E-Jiao), and consolidating the application basis of TCM products.

3. **Focusing on core areas, strengthening brand advantages, enriching product portfolios, and promoting the transformation and upgrading of pharmaceutical manufacturing business**

The Group will adapt to policy changes and structural market adjustments by coping with the impacts of such factors as centralised procurement, health insurance cost control and consistency evaluations, and promote the transformation and upgrading of the pharmaceutical manufacturing business. These include, but are not limited to:

- R&D will focus on a combination of generic and innovative drugs, gradually leaping into improved new and innovative drugs. Upgrading R&D support facilities, exploring diversified incentive mechanisms and building laboratories in compliance with national standards;

- Paying continuous attention to changes in the disease spectrum, focusing on areas such as chronic disease, specialty, cardiovascular, anti-tumour, central nervous system and respiratory system, and enriching the product portfolios for chronic disease, specialty and infusion businesses;

- Transforming production to low-cost, large-scale and high-quality, creating cost advantages through the entire industrial chain, and quickly promoting the integration and automation of production bases;

- Utilising and enhancing the Group's brand advantages in the CHC sector, strengthening brand-building and product line expansion in core categories, accelerating and strengthening international cooperation with foreign high-quality OTC products and original generic drug pharmaceutical manufacturers, accelerating the upgrading of products and promoting the continuous growth of core businesses;

- Marketing complies with the huge changes in the industry, deepens the integration of resources in the chronic disease sector, promotes product participation in centralised procurement, produces drugs in mass quantity at more affordable pricing, actively plans for the retail market and cultivates marketing capabilities that adapt to industry changes;

- Grasping the development opportunities of the state to support the TCM industry, exploring famous and classical Chinese medicine prescriptions, promoting the distribution of the entire TCM industrial chain, integrating the advantages of the TCM industry while accelerating development of the healthcare business.

4. **Sharpening the competitive edge, optimising the business structure, forging a smart pharmaceutical supply chain service provider, and realising the transition from traditional distribution business to an intelligent and professional integrated service provider**

On the basis of extending its geographical presence across the nation, the Group will continue to deepen its business development, accelerate its penetration into primary medical and retail terminals, sharpen the competitive edge, and promote the transition of the Group's pharmaceutical distribution business away from the traditional distribution business to an intelligent and professional integrated service provider. This will enhance the Group's comprehensive service capabilities, including:

- Actively assisting upstream manufacturers in providing differentiated services such as tendering, market access and terminal development to enhance their adhesiveness;

- Providing products and services for medical terminals, assist designing integrated solutions for intelligent supply chain management and hospital logistics through information and professional services;

- Establishing a new channel business division, providing end-users with diverse low-cost specialist medical services such as remote diagnosis and home delivery of medicines through the internet, increasing the convenience and accessibility of services.

Meanwhile, the Group will further optimise the product variety and business structure, make progress in the professional distribution of medical equipment, and build an import business platform for innovative port-to-terminal services. It will strengthen operation efficiency and quality, accelerate logistics construction, and seek for opportunity to establish strategic partnerships with professional logistics companies such as SF Express. Speeding up the development of third-party logistics business, vigorously promoting innovative business models such as DTP, CR Pharma e-Store and CR Pharma Cloud Prescription while consolidating the market leading position as a comprehensive solution provider in the pharmaceutical supply chain, will also be the Group's focus of work in future.

5. **Expediting mergers and acquisitions, consolidating competitive advantages and business growth**

Mergers and acquisitions have always been one of the key engines of the Group's rapid development. In 2020, the Group will take advantage of opportunities for integration and concentration in the Chinese pharmaceutical industry by accelerating its mergers and acquisitions. We will leverage on the advantages of the Group's resources integration by actively taking advantage of the mixed reform opportunities of premium state-owned enterprises, especially large-scale integrated projects. Meanwhile, by expanding the scope of mergers and acquisitions, we can explore new ways of product and service innovation. Based on the characteristics of innovative enterprises in the industry, the Group will strive to obtain the distribution rights of their products through various methods of strategic equity investment, internal and external capital cooperation and others. This will further expand the Group's business scale and improve business growth.

The Group is keenly aware of the opportunities arising from increasing market concentration in medical device distribution and will achieve external growth through strategic mergers and acquisitions. It will accelerate the acquisition of quality resources and achieve forward-looking business deployment and stimulate business growth by leveraging its pharmaceutical industrial fund in biopharmaceutical and innovative drugs and other areas. For the pharmaceutical manufacturing business, the Group will target companies with exclusive drugs or drug variants with high technical barriers during its strategic investment in high-growth therapeutic areas such as highly recognised and professional OTC brands, and differentiated traditional TCM products such as innovative, biopharmaceutical, imported and specialised generic drugs in professional areas. For pharmaceutical distribution and retail businesses, the Group will focus on distribution companies with regional advantages, professional machinery circulation enterprises with adequate scale and premium pharmaceutical retail enterprises.

6. **Promoting business synergies and resource integration, optimising resource allocations and operational efficiency**

The Group will explore further synergies in its integrated business, expand the scope of business synergy, develop innovative synergistic models, and foster synergies among the pharmaceutical manufacturing, distribution and retail businesses as well as subsectors of each business segment in aspects such as market entry, bidding, terminal expansion and product introductions. These include:

- By applying a multi-brand clustering strategy in the CHC segment, establish the OTC strategic committee to form work models for facilitate synergy;

- Reinforce the coordination planning from headquarter to scale up synergies inside the Group's manufacturing and distribution businesses, facilitate the launch of the Group's manufacturing products on the CR Pharma e-Store and secure online and offline sales channels;

- Enable synergy with CR Land's senior home business, explore resource introductions in respect to chronic diseases, healthcare and third-party services, optimise synergistic business model to enhance profitability, and push ahead with the construction of CR Mall (華潤匯);

- Enable synergy between pharmaceutical business and financing, continue to seek opportunities for cooperation with CR Group's financing and energy segments to form a market joint force;

- Support business development in the Greater Bay Area, leverage the link between funding and capital to drive collaborative development of the Group's different business segments in the Greater Bay Area;

- Improve the shared information platform, strengthen corporate governance and internal control management system, plan more in-depth for the construction of integrated EHSQ management platform, step up in management innovation, enhance management and operational efficiency to effectively control operating risk.

**7. Expand and diversify international cooperation, accelerate acquisitions of high-quality resources and cutting-edge technologies to comprehensively enhance competitiveness**

The Group will continue to develop and improve international cooperation platforms and diversify its channels for international cooperation. Based on its existing business and competitive advantages and through various means of cooperation including import of products, distribution agency, entrusted production, establishment of joint ventures and cooperative development, the Group will focus on OTC drugs, TCM and high premium prescription drugs. It will actively negotiate with Japanese, Australian, European and American pharmaceutical manufacturers with premium brands to implement international cooperation projects, establish win-win cooperation in the expansion of the Chinese pharmaceutical market, and further enhance the optimisation and upgrading of product portfolios and business models. The Group will focus on seeking international cooperative opportunities with foreign pharmaceutical manufacturers which own cutting-edge technology, advanced business administration, premium brand, cost advantage and have rich experience in dosage improvement technology. At the same time, the Group continue its in-depth analysis and research for China's pharmaceutical market, and expects to achieve breakthroughs in planning for overseas businesses.

## CONCLUSION

The year 2020 is crucial for China's economic transformation and is also an important period for the changing pharmaceutical industry landscape. In response to these challenges, the Group will uphold CR Group's theme of 'Reform and innovate, quality and development', respond to material changes in the market, and make effective progress in its various projects. While formulating for the strategic '14th Five-year Plan', the Group will conscientiously pursue its future development by increasing investment in innovative transformation, accelerating the development of new businesses, and consolidating and enhancing its leading industry position. At the same time, the Group will strictly manage compliance risk, strive for high quality development, and create good long-term investment value for shareholders.

**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 2019, the Group had bank balances and cash of HK$12,524.0 million (2018: HK$16,633.3 million), which were primarily in RMB and HKD.

As at 31 December 2019, the RMB-denominated, and HKD-denominated bank borrowings accounted for approximately 95.8% (2018: 77.0%) and 4.2% (2018: 23.0%), respectively, of the Group's total bank borrowings. Among the Group's total bank borrowings as at 31 December 2019, a substantial portion of approximately 88.5% (2018: 91.9%) 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 2019 (2018: 1.2:1).

As at 31 December 2019, the Group's gearing ratio (being the ratio of net debt divided by total equity) was 38.1% (2018: 56.7%).

In 2019, the Group's net cash from operating activities remained solid at HK$8,140.9 million (2018: HK$8,247.0 million). The Group's net cash from investment activities in 2019 and net cash used in investment activities in 2018 amounted to HK$1,008.8 million and HK$9,801.0 million, respectively. The Group's net cash used in financing activities in 2019 and net cash from financing activities in 2018 amounted to HK$13,009.9 million and HK$4,667.4 million, respectively.

**Pledge of Assets**

As at 31 December 2019, the Group's total bank borrowings amounted to HK$31,065.7 million (31 December 2018: HK$40,664.5 million), of which HK$161.1 million (31 December 2018: HK$408.8 million) were secured and accounted for 0.5% (31 December 2018: 1.0%) of the total borrowings.

Certain of the Group's trade and bills receivables with an aggregate net book value of HK$94.0 million (31 December 2018: HK$153.1 million) have been pledged as security.

**Contingent Liabilities**

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: 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 right-of-use assets (2018: prepaid land lease payment), but excluding additions resulting from acquisitions through business combination. The Group's capital expenditure in 2019 amounted to HK$3,402.0 million (2018: HK$2,614.1 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 2019, the Group employed around 67,000 staff (31 December 2018: 62,000 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.

## DIVIDEND

The Board recommended the payment of a final dividend of HK$0.11 per share for the year ended 31 December 2019 (2018: HK$0.13). 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 2020 (the "**AGM**") and the final dividend will be distributed on or about 23 June 2020 to the Shareholders whose names appear on the register of members of the Company on 5 June 2020.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 May 2020 to 28 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 21 May 2020.

The register of members of the Company will also be closed on 5 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 4 June 2020.

## 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 (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") 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 two separate positions 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 believed 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, the interests of the Shareholders will be adequately and fairly represented. In order to devote more time and attention to approve and monitor the Group's strategies and policies, Mr. WANG Chuncheng ceased to be the chief executive officer of the Company and has been re-designated from an executive Director to a non-executive Director and continued to serve as the chairman of the Board on 22 October 2019, Mr. HAN Yuewei has been appointed as the chief executive office of the Company on the same day. Since 22 October 2019, the Company had fully complied with the requirements under code provision A.2.1. 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 enquiries of all 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 2019 and 2018 included in this preliminary announcement of annual results 2019 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 2018 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 2019 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 2019 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 2019 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor.

## PUBLICATION OF THE ANNUAL RESULTS AND 2019 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 2019 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, 30 March 2020

*As of the date of this announcement, the Board comprises Mr. WANG Chuncheng as chairman and non-executive Director, Mr. HAN Yuewei, Mr. LI Xiangming and Mdm. WENG Jingwen as executive Directors, Mr. YU Zhongliang, Mdm. GUO Wei, Mr. WANG Shouye and Mr. LYU Ruizhi as non-executive Directors and Mdm. SHING Mo Han Yvonne, Mr. KWOK Kin Fun, Mr. FU Tingmei and Mr. ZHANG Kejian as independent non-executive Directors.*