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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2018	2017	**Increase**
	(Unaudited)	(Unaudited)	
Revenue *(HK$ million)*	**93,740.8**	82,737.6	13.3%
Profit for the period attributable to owners of the Company *(HK$ million)*	**2,249.6**	1,810.4	24.3%
Basic earnings per share	**HK$0.36**	HK$0.29	

	As at 30 June 2018	As at 31 December 2017	**Increase/ (decrease)**
	(Unaudited)	(Audited)	
Equity attributable to owners of the Company *(HK$ million)*	**41,923.1**	41,869.8	0.1%
Net debt *(HK$ million) (note 1)*	**34,062.0**	22,713.3	50.0%
Total equity *(HK$ million)*	**62,973.0**	63,137.2	(0.3%)
Net debt to total equity	**54.1%**	36.0%	
Net assets per share – book *(note 2)*	**HK$6.67**	HK$6.66	0.2%

Notes:

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

The board of directors (the "**Board**") of China Resources Pharmaceutical Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018 (the "**Reporting Period**"), together with the comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	NOTES	***HK$000***	*HK$000*
REVENUE	*3*	**93,740,803**	82,737,598
Cost of sales		**(76,859,425)**	(70,209,626)
Gross profit		**16,881,378**	12,527,972
Other income		**652,262**	468,353
Other gains and losses	*6*	**24,096**	(27,271)
Selling and distribution expenses		**(8,440,435)**	(5,511,144)
Administrative expenses		**(2,140,030)**	(1,778,100)
Other expenses		**(644,220)**	(341,038)
Finance costs	*7*	**(1,292,562)**	(954,800)
Share of profits and losses of associates and joint ventures		**69,973**	35,995
PROFIT BEFORE TAX	*8*	**5,110,462**	4,419,967
Income tax expense	*9*	**(1,047,679)**	(966,836)
PROFIT FOR THE PERIOD		**4,062,783**	3,453,131
Attributable to:			
Owners of the Company		**2,249,627**	1,810,447
Non-controlling interests		**1,813,156**	1,642,684
		4,062,783	3,453,131
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	*10*	**HK$0.36**	HK$0.29

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
PROFIT FOR THE PERIOD	**4,062,783**	3,453,131
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Share of changes in translation reserve of associates	**–**	59,619
Other comprehensive income to be reclassified to profit or loss in subsequent periods	**–**	59,619
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation to presentation currency	**(713,390)**	1,879,313
Gain on revaluation of property, plant and equipment	**4,675**	–
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods, net of tax	**(708,715)**	1,879,313
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**(708,715)**	1,938,932
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**3,354,068**	5,392,063
Attributable to:		
Owners of the Company	**1,895,880**	2,868,783
Non-controlling interests	**1,458,188**	2,523,280
	3,354,068	5,392,063

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		30 June 2018 (Unaudited)	31 December 2017 (Audited)
	NOTES	***HK$000***	*HK$000*
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**14,709,577**	14,737,651
Prepaid lease payments		**2,605,372**	2,673,260
Investment properties		**1,484,033**	1,413,085
Goodwill		**20,473,245**	20,544,612
Intangible assets		**4,897,787**	4,740,460
Interests in associates and joint ventures		**2,412,505**	2,200,770
Available-for-sale investments	*13*	**–**	334,472
Non-current financial assets	*13*	**202,168**	–
Deferred tax assets		**538,665**	573,516
Other non-current assets		**367,995**	337,799
Total non-current assets		**47,691,347**	47,555,625
CURRENT ASSETS			
Inventories		**22,703,672**	21,406,298
Trade and other receivables	*14*	**63,644,595**	67,127,969
Prepaid lease payments		**69,047**	76,300
Available-for-sale investments	*13*	**–**	6,556,642
Other current financial assets	*13*	**16,336,403**	–
Amounts due from related parties		**1,907,457**	115,364
Tax recoverable		**32,140**	40,572
Pledged bank deposits		**3,767,805**	2,566,981
Bank balances and cash		**11,242,882**	14,161,833
		119,704,001	112,051,959
Assets classified as held for sale		**1,136,788**	1,146,564
Total current assets		**120,840,789**	113,198,523

	NOTES	30 June 2018 (Unaudited) HK$000	31 December 2017 (Audited) HK$000
CURRENT LIABILITIES			
Trade and other payables	*15*	**54,318,408**	56,495,692
Contract liabilities		**1,499,484**	–
Amounts due to related parties		**1,536,158**	1,247,636
Bank borrowings		**40,258,423**	31,158,736
Bonds payable		**–**	2,272,782
Tax payable		**436,741**	559,549
Total current liabilities		**98,049,214**	91,734,395
NET CURRENT ASSETS		**22,791,575**	21,464,128
TOTAL ASSETS LESS CURRENT LIABILITIES		**70,482,922**	69,019,753
NON-CURRENT LIABILITIES			
Bank borrowings		**2,674,221**	1,051,052
Bonds payable		**2,372,200**	2,392,600
Deferred tax liabilities		**983,251**	964,443
Other non-current liabilities		**1,480,207**	1,474,488
Total non-current liabilities		**7,509,879**	5,882,583
NET ASSETS		**62,973,043**	63,137,170
CAPITAL AND RESERVES			
Share capital		**27,241,289**	27,241,289
Reserves		**14,681,776**	14,628,510
Equity attributable to owners of the Company		**41,923,065**	41,869,799
Non-controlling interests		**21,049,978**	21,267,371
Total equity		**62,973,043**	63,137,170

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

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

2.1. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

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

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*. As required by HKAS 34, the nature and effect of these changes are disclosed below.

(i) ***HKFRS 15 Revenue from Contracts with Customers***

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group applied HKFRS 15 to contracts that are initiated after the effective date and contracts that had remaining obligations as of the effective date. In respect of the prior periods, the Group retained prior period's figures as reported under the previous standards, recognising the cumulative effect of applying HKFRS 15 as an adjustment to the opening balance of equity as at 1 January 2018. The Group concluded that no transitional adjustment is acquired to be made on 1 January 2018 to retained earnings upon initial adoption of HKFRS 15. It is because the Group recognises revenue upon control and rewards, which coincides with the fulfilment of performance obligations.

Impact on the condensed consolidated statement of financial position (increase/(decrease)) as at 1 January 2018:

	31 December 2017 (Audited) Under HKAS 18	Reclassification*	1 January 2018 (Unaudited) Under HKFRS 15
	HK$000	*HK$000*	*HK$000*
Contract liabilities	–	1,639,949	1,639,949
Trade and other payables	56,495,692	(1,639,949)	54,855,743

* *The Group received short-term advances from customers and provided sales rebates to customers. Prior to the adoption of HKFRS 15, the Group presented these advances, provision for rebates in trade and other payables in the consolidated statement of financial position. Upon the adoption of HKFRS 15, the Group reclassified the advances and provision for rebates to "contract liabilities".*

The adoption of HKFRS 15 does not impact the condensed consolidated statement of profit or loss, statement of comprehensive income and statement of cash flows for the six months ended 30 June 2018.

The Group is in the business of providing the manufacturing, distribution and retail of pharmaceutical and healthcare products and related service in the Mainland China and principally derives revenue from sales of products.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of rebates, returns and value-added taxes. The Group recognises revenue when the specific criteria have been met for each of the Group's activities, as described below.

Revenue from the Group's contracts with customers for the sale of pharmaceutical and healthcare products is recognised at the point in time when control of the asset is transferred to the customer. Service revenue is recognised as a performance obligation satisfied over time based on the stage of completion.

(ii) HKFRS 9 Financial Instruments

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

The adoption of HKFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

The following adjustments were made to the condensed consolidated statement of financial position at the date of initial application, 1 January 2018. The impact on adopting HKFRS 9 is as follows:

	Notes	**31 December 2017 (Audited) Under HKAS 39** *HK$000*	**Reclassification*** *HK$000*	**Remeasurement**** *HK$000*	**1 January 2018 (Unaudited) Under HKFRS 9** *HK$000*
Trade and other receivables	*(a),(b)*	67,127,969	(11,293,678)	68,847	55,903,138
Non-current financial assets	*(a)*	–	334,472	(54,912)	279,560
Other current financial assets	*(a)*	–	17,850,320	–	17,850,320
Available-for-sale investments (non-current)	*(a)*	334,472	(334,472)	–	–
Available-for-sale investments (current)	*(a)*	6,556,642	(6,556,642)	–	–
Equity					
Retained earnings	*(a),(b),(c)*	18,650,557	–	(8,498)	18,642,059
Non-controlling interests	*(a),(b),(c)*	21,267,371	–	7,695	21,275,066

* *Available-for-sale investments under HKAS 39 was reclassified to financial assets under HKFRS 9.*

*Trade and other receivables that are held within a business model both to collect cash flows and to sell, upon transition, was reclassified to fair value through other comprehensive income ("**FVOCI**"), which is included in line item of non-current/ other current financial assets on the condensed consolidated statement of financial position.*

** *Equity investments measured at costs under HKAS 39 was remeasured at fair value under HKFRS 9, resulting in a decrease in financial assets and retained earnings.*

*Impairment allowances of trade and other receivables was remeasured based on a forward-looking expected credit loss (“**ECL**”) approach under HKFRS 9, resulting in increases in trade and other receivables and retained earnings.*

(a) Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (“**FVPL**”), amortised cost, or FVOCI. The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent “solely payments of principal and interest” on the principal amount outstanding (the “**SPPI criterion**”).

The new classification and measurement of the Group’s debt financial assets are as follows:

- *Debt instruments at amortised cost* for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group’s *trade and other receivables*.

- *Debt instruments at FVOCI*, with no gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group’s trade receivable that are held within a business model both to collect cash flows and to sell. Under HKAS 39, the debt instruments were included in trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- *Equity instruments at FVOCI*, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group’s unquoted equity instruments were classified as available-for-sale (“**AFS**”) investments.

- *Financial assets at FVPL* comprise equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's equity instruments were classified as AFS financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the consolidated statement of profit or loss.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking ECL approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 12 months past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in decrease in impairment allowances of the Group's debt financial assets. The decrease in allowance resulted in adjustment to retained earnings.

(c) ***Other adjustments***

In addition to the adjustments described above, upon adoption of HKFRS 9, other items of the primary financial statements such as retained earnings and non-controlling interests were adjusted as necessary.

Amendments to HKAS 40 *Transfers of Investment Property*, HKFRS 2 *Classification and Measurement of Share-based Payment Transactions*, HKFRS 4 *Applying* HKFRS 9 *Financial Instruments with* HKFRS 4 *Insurance Contracts*, HKAS 28 *Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*, HKFRS 1 *First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters* and HKFRIC *Interpretation 22 Foreign Currency Transactions and Advance Considerations* are applied for the first time in 2018, but do not have an impact on the condensed consolidated financial statements of the Group.

3. Revenue

The following is the disaggregation information of the Group's revenue:

	For six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Type of goods or service		
Sale of pharmaceutical and healthcare products and related services	**93,740,803**	82,737,598
Total revenue	**93,740,803**	82,737,598
Geographical markets		
Mainland China	**93,245,463**	82,271,055
Hong Kong	**495,340**	466,543
Total revenue	**93,740,803**	82,737,598
Timing of revenue recognition		
Goods transferred at a point in time	**93,547,340**	82,737,598
Services transferred over time	**193,463**	–
Total revenue	**93,740,803**	82,737,598

The Group recognised impairment losses on receivables arising from contracts with customers, which are included under *Other gains and losses* in the condensed consolidated statement of profit or loss, amounting to HK$133,719,000 and HK$89,905,000 for the six months ended 30 June 2018 and 2017, respectively.

4. Segment information

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

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

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

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

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

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

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

Inter-segment sales are conducted at prices and terms mutually agreed amongst those operating segments.

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

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively:

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

Six months ended 30 June 2017	Manufacturing (Unaudited) *HK$000*	Distribution (Unaudited) *HK$000*	Retail (Unaudited) *HK$000*	Others (Unaudited) *HK$000*	Eliminations (Unaudited) *HK$000*	Total (Unaudited) *HK$000*
Segment revenue						
External sales	11,479,975	69,069,668	2,117,495	70,460	–	82,737,598
Inter-segment sales	1,212,470	1,343,166	–	–	(2,555,636)	–
	12,692,445	70,412,834	2,117,495	70,460	(2,555,636)	82,737,598
Segment results	3,793,859	3,103,014	69,945	50,010	–	7,016,828
Other income						468,353
Other gains and losses						(27,271)
Administrative expenses						(1,778,100)
Other expenses						(341,038)
Share of profits and losses of associates						35,995
Finance costs						(954,800)
Profit before tax						4,419,967

Segment results represent the profit earned by each segment without allocation of other income, other gains and losses, administrative expenses, other expenses, share of profits and losses of associates and joint ventures and finance costs.

The Group did not allocate certain depreciation of property, plant and equipment, amortisation of intangible assets, amortisation of prepaid lease payments and interest income to reportable segments.

5. Business combinations

During the six months ended 30 June 2018, the Group acquired four companies ("**Four Companies**") which were engaged in the sale of pharmaceutical products from independent third parties at an aggregate consideration of RMB135,660,000 (equivalent to HK$165,321,000). These acquisitions were made as part of the Group's strategy to expand its market share in pharmaceutical industry in China and to provide human resources, economies of scale and synergy to the Group's existing operation. Goodwill arising from acquisitions of the below entities amounting to HK$106,510,000 is based on the provisional amounts of fair values of the identifiable assets and liabilities of these Four Companies and the fair value estimation is subject to the finalisation.

Name of entity	**Date of acquisition**	**Percent of interest acquired**
Shanghai Guobang Pharmaceutical Limited	1 January 2018	51%
Jiangsu Nanshan Pharmaceutical Limited	31 March 2018	70%
Lianyungang Dezhong Pharmaceutical Limited	31 March 2018	70%
Guoyao Guang'an Pharmaceutical Limited	10 May 2018	70%

6. Other gains and losses

	For six months ended 30 June	
	2018	2017
	HK$000	*HK$000*
	(Unaudited)	(Unaudited)
Gain on disposal of available-for-sale investments	**–**	45
Gain on disposal of intangible assets	**17,616**	5,092
Loss on disposal of items of property, plant and equipment	**(16,802)**	(1,214)
Impairment loss recognised on trade receivables, net	**(133,719)**	(89,905)
Impairment loss reversed/(recognised) on other receivables, net	**2,123**	(12,436)
Gain on change in fair value of financial assets through profit or loss	**74,045**	–
Gain on change in fair value of investment properties	**63,961**	–
Investment income on available-for-sale investments	**–**	71,285
Investment income on financial assets	**14,540**	–
Others	**2,332**	(138)
	24,096	(27,271)

7. Finance costs

	For six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Interest on bank borrowings	**1,212,517**	790,035
Interest on bonds payable	**81,484**	186,583
Interest on borrowings from an intermediate holding company	**208**	6,336
Less: Interest capitalised in property, plant and equipment *(Note)*	**(1,647)**	(28,154)
	1,292,562	954,800

Note: Capitalised interest arose on funds borrowed specifically for the purpose of obtaining qualifying assets and on the general borrowing pool which are calculated by applying a capitalisation rate of 4.8% (six months ended 30 June 2017: 5.3%) per annum to expenditure on qualifying assets.

8. Profit before tax

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	**666,624**	688,196
Amortisation of intangible assets	**111,362**	100,483
Amortisation of prepaid lease payments	**39,390**	31,682
Allowance for slow-moving and obsolete inventories	**29,963**	2,251
Cost of inventories recognised as cost of sales	**76,330,975**	69,876,763
Research and development expenditure (included in other expenses)	**390,566**	303,924
Operating lease payments in respect of leased premises	**316,256**	284,915
Foreign exchange loss, net	**214,704**	12,157
And after crediting:		
Dividend income	**1,867**	10,557
Government grants	**120,821**	103,957
Interest income	**151,250**	111,453

9. Income tax expense

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total period earnings. The major components of income tax expense in the condensed consolidated statement of profit or loss are:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Current tax		
PRC Enterprise Income Tax ("**PRC EIT**")	**1,008,380**	833,708
Hong Kong Profits Tax	**1,105**	1,237
Under provisions of PRC EIT in previous period	**5,178**	27,403
	1,014,663	862,348
Deferred tax	**33,016**	104,488
Tax charge for the period	**1,047,679**	966,836

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:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$000	*HK$000*
Earnings		
Profit for the period attributable to ordinary equity holders of the Company	**2,249,627**	1,810,447
Numbers of shares		
Weighted average number of ordinary shares in issue during the period	**6,284,506,461**	6,284,506,461

Diluted earnings per share equals to basic earnings per share as there were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2018 and 2017.

11. Dividends

The directors of the Company resolved not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

A final dividend of HK$691,296,000 (HK11 cents per share) in respect of the year ended 31 December 2017 was approved at the annual general meeting of the Company in 2018. The aggregate amount of the final dividends paid to the shareholders of the Company in the current period amounted to HK$691,286,000.

12. Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired property, plant and equipment amounting to HK$866,669,000 (the six months ended 30 June 2017: HK$1,696,814,000), excluding property, plant and equipment acquired through a business combination and property under construction.

Assets (other than those classified as held for sale) with a net book value of HK$61,103,000 were disposed of by the Group during the six months ended 30 June 2018 (the six months ended 30 June 2017: HK$35,338,000), resulting in a net loss on disposal of HK$16,802,000 (the six months ended 30 June 2017: HK$1,214,000).

13. Non-current financial assets/Other current financial assets/Available-for-sale investments

	30 June 2018 (Unaudited)
	HK$000
Financial assets at amortised cost:	
Financial products with guarantee principle and interest*	**180,427**
Financial assets at fair value through profit or loss	
Financial products*	**3,275,551**
Unquoted equity shares*	**39,475**
Unquoted debt securities*	**408,967**
	3,723,993
Financial assets at fair value through other comprehensive income	
Unquoted equity shares*	**2,569**
Trade receivable held both to collect cash flows and to sell	**12,631,582**
	12,634,151
Total	**16,538,571**
Total current	**16,336,403**
Total non-current	**202,168**

* *The Group's available-for-sale investments of HK$6,891,114,000 as at 31 December 2017 were reclassified to financial assets at amortised cost, financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income, where appropriate, upon adoption of HKFRS 9.*

14. Trade and other receivables

	30 June 2018 (Unaudited) *HK$000*	31 December 2017 (Audited) *HK$000*
Trade receivable	**46,468,431**	50,558,374
Bills receivable	**8,412,568**	8,790,247
Less: Impairment	**(523,090)**	(477,858)
	54,357,909	58,870,763
Prepayments	**3,219,890**	2,829,939
Other receivables	**6,220,692**	5,586,257
Less: Impairment	**(153,896)**	(158,990)
	9,286,686	8,257,206
	63,644,595	67,127,969

The Group generally allows credit periods ranging from 30 to 120 days to its trade customers, which may be extended to 240 days for selected customers depending on their trade volume and settlement terms. The bills receivable have maturity period ranging from 30 to 180 days as at 30 June 2018 (31 December 2017: 30 to 180 days).

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

	30 June 2018 (Unaudited) *HK$000*	31 December 2017 (Audited) *HK$000*
0-30 days	**14,512,954**	18,332,642
31-60 days	**7,609,467**	7,929,138
61-90 days	**4,974,414**	5,127,912
91-180 days	**11,842,095**	10,728,104
181-365 days	**6,118,278**	7,483,440
Over 1 year	**888,133**	479,280
	45,945,341	50,080,516

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

	30 June 2018 (Unaudited) *HK$000*	31 December 2017 (Audited) *HK$000*
0-30 days	**3,766,640**	3,463,726
31-60 days	**1,096,838**	1,231,698
61-90 days	**1,240,651**	1,249,963
91-180 days	**2,308,439**	2,844,860
	8,412,568	8,790,247

15. Trade and other payables

	30 June 2018 (Unaudited) *HK$000*	31 December 2017 (Audited) *HK$000*
Trade payables	**30,476,486**	30,310,063
Bills payable	**10,212,295**	11,881,483
Receipts in advance	**–**	1,458,105
Accrued salaries	**980,105**	1,365,439
Interest payable	**226,798**	216,742
Other tax payables	**742,673**	867,029
Other payables	**10,282,044**	9,468,912
Payable for acquisitions of subsidiaries	**1,398,007**	927,919
	54,318,408	56,495,692

The average credit period on purchases of goods ranging from 30 to 360 days. The bills payable have maturity period ranging from 30 to 360 days. As at 30 June 2018, the Group's bills payable of HK$5,768,111,000 (31 December 2017: HK$1,920,463,000) were secured by the Group's bills receivable with an aggregate carrying amount of HK$966,558,000 (31 December 2017: HK$294,428,000) and pledged bank deposits of HK$3,118,994,000 (31 December 2017: HK$2,554,080,000).

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

	30 June 2018 (Unaudited) *HK$000*	31 December 2017 (Audited) *HK$000*
0-30 days	**18,719,227**	18,208,037
31-60 days	**3,630,615**	5,108,347
61-90 days	**2,939,345**	2,059,560
91-180 days	**2,981,773**	2,890,492
181-360 days	**1,679,851**	1,579,161
Over 360 days	**525,675**	464,466
	30,476,486	30,310,063

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

	30 June 2018 (Unaudited) *HK$000*	31 December 2017 (Audited) *HK$000*
0-30 days	**8,418,272**	9,523,518
31-60 days	**234,795**	723,160
61-90 days	**670,111**	622,845
91-180 days	**770,507**	1,011,369
181-360 days	**118,610**	591
	10,212,295	11,881,483

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In the first half of 2018, in facing the complicated and changing domestic and global environment, China's economy maintained the momentum of sound development, with its GDP recording a year-on-year growth of 6.8%. As supply-side structural reform continued, the de-capacity process offered momentum for the country's pursuit of high-quality development by replacing traditional drivers with new ones.

Following the introduction of the "Healthy China" strategy, the reform of China's pharmaceutical and healthcare system continued to be deepened, where more emphasis was put on public health and the improvement of people's wellbeing by optimization of industrial structure, acceleration of medical reform progress, standardization of the industrial market, rational control on medical costs, and promotion of the domestic pharmaceutical industry development. The industry growth continues to be better than the macro economy.

2018 marks a key year for the policy reform of China's pharmaceutical industry. The industry is undergoing an intensive structural adjustment and reconstruction. Regarding the supply side, certain major reform results including the consistency evaluation and the acceleration of evaluation and approval of innovative drugs are bearing fruits. State Drug Administration ("**SDA**") was elected as a member of the International Council for Harmonization (ICH) Management Committee. Meanwhile, the industry supervision has aligned with the international standards, and R&D innovation and quality improvement were promoted. Regarding the distribution side, with the gradual implementation of the "Two-Invoice System", the framework of pharmaceutical distribution was comprehensively reconstructed, and the pharmaceutical indirect distribution business was squeezed. Regarding medical institutions, the full enforcement of "zero-markup" enhanced the hierarchical diagnosis and treatment, and the medial reform has now entered the critical stage where many hurdles need to be overcome. Regarding the payment side, the new version of Medical Insurance Drugs Catalogs and the negotiation results of drugs covered by medical insurance have been released. The budget management of the medical insurance fund has been further strengthened, and more effective payment modes have been promoted based on DRGs (Diagnosis-Related Groups). Regarding the supervision side, the whole supervision process of R&D, production and distribution has been strengthened with stricter market regulation. The reform of the supervision authorities in the first half of this year will significantly influence the future development of medical reform.

Subject to the effects from various factors including policy guidance, development of healthcare industry and demographic change, the pharmaceutical industry in the PRC will enter a new development cycle after industrial restructuring. The Company will face price pressure exerted form the stringent control of medical insurance expenditure, reduction in tender price and second-round price negotiation in the short term. With challenges in all aspects, including more stringent supervision, structural adjustment, industry upgrading and pressure from payment collection, competition within the industry becomes fiercer. In the long run, amid the acceleration of aging population and consumption upgrading, the industry demands remain stable. Along with the progress of medical reform, the structural adjustment of the industry would be strengthened. The integration of new technologies to pharmaceutical industry will lead to the emergence of new business models. It is expected that China's pharmaceutical industry will maintain stable growth in the future. We believe that, as a leading integrated pharmaceutical enterprise in the PRC, the Group, by leveraging on the advantages of its diversified business network and product portfolio, product quality and innovation capabilities, integrated business model and structured operations, will create higher value in the new era of the pharmaceutical industry.

Group Results

In the first half of 2018, the Group effectively implemented its key strategies under the "13th Five-Year Plan" in line with the direction of industry policies and market demands. The Group further improved its business layout, expanded its distribution landscape, promoted innovation and transformation, optimized its business structure, and improved the standard of operation and management. As a result, the Group achieved a solid growth in its operating results and a continuous improvement in the efficiency of operation and its profitability.

During the Reporting Period, the Group recorded a total revenue of HK$93,740.8 million, representing an increase of 13.3% when compared with that of HK$82,737.6 million in the first half of 2017 (an increase of 4.1% in terms of RMB). In the first half of 2018, the revenue of the three major business segments, namely pharmaceutical manufacturing, pharmaceutical distribution and pharmaceutical retail businesses accounted for 16.1%, 81.2% and 2.6% of the total revenue, respectively.

During the Reporting Period, the Group recorded a gross profit of HK$16,881.4 million, representing an increase of 34.7% when compared with that of HK$12,528.0 million in the first half of 2017. The overall gross profit margin was 18.0%, representing an increase of 2.9 percentage points as compared with the gross profit margin of 15.1% in the first half of 2017, mainly driven by the significant increase in the gross profit margin of the pharmaceutical manufacturing business and the pharmaceutical distribution business as a result of the continuous improvement of product mix and business structure.

In the first half of 2018, the Group recorded profit attributable to owners of the Company of HK$2,249.6 million, representing a significant increase of 24.3% (an increase of 14.2% in terms of RMB) when compared with that of HK$1,810.4 million in the first half of 2017. Basic earnings per share was HK$0.36 in the first half of 2018 (HK$0.29 in the first half of 2017).

Results Review

1. Pharmaceutical Manufacturing Business

The pharmaceutical manufacturing business of the Group focused on core products, expanded the business deployment, and enriched its product portfolio. In addition, the Group also sped up the acquisition of products by innovating R&D capabilities and expanding business cooperation on international level. Meanwhile, the Group promoted the product mix optimization and industrial technology upgrading, integrated marketing resources, aiming to improve the brand influence and capture greater market share. During the Reporting Period, the segment revenue in pharmaceutical manufacturing business of the Group recorded HK$16,874.5 million, representing an increase of 32.9% when compared with the first half of 2017.

In the first half of 2018, by product categories, the revenue from sale of chemical drugs was HK$8,039.1 million, representing a year-on-year increase of 50.9% when compared with the same period of last year, which was mainly due to the revenue increase in anti-infective drugs, infusion products as well as chronic diseases drugs and specialty drugs. The revenue from sale of Chinese medicines was HK$7,496.5 million, representing a year-on-year increase of 19.9%, which was mainly due to the revenue increase in Chinese medicines OTC products of various categories, Chinese prescription drugs for therapeutic areas including cardiovascular, and formula granules of Chinese medicine. The revenue from sale of biopharmaceutical drugs was HK$88.5 million, representing a year-on-year increase of 39.1% due to adjustments of sales model. The revenue from sale of nutritional and healthcare products was HK$306.9 million, representing a year-on-year increase of 93.6%, mainly due to the enriched variety of healthcare products.

During the Reporting Period, the gross profit margin of pharmaceutical manufacturing business of the Group was 63.7%, representing an increase of 3.6 percentage points when compared with the first half of 2017, which was mainly due to restructuring and upgrade of the pharmaceutical manufacturing business, continuous optimization of the product mix and improvement in the manufacturing process.

The Group continues to increase its investments in research and development since it regards the research and development innovation as an important driver for the long-term success. During the Reporting Period, the research and development expenditure were HK$649.0 million. The Group follows the government policies, industrial technology development trends and market demands, with a view to improving its core competitiveness by integrating research and development capabilities on generics and innovative drugs, remaining its focus on cardiovascular system, oncology, alimentary tract and metabolism, the central nervous system as well as the immune system. As at the end of the Reporting Period, the Group operated two nationally certified engineering and technological centers, two nationally certified enterprise technical centers and 15 provincially or municipally certified research centers. It also put in place post-doctoral research stations and had over 600 research and development personnel.

As of 30 June 2018, the Group had 197 research and development projects, including 37 projects regarding innovative drugs, mainly focusing on immune system, oncology and respiratory system. Among which, one oncology drug is in phase II clinical research, while for one respiratory system drug, clinical trial applications will be filed in the PRC and United States. At the end of the Reporting Period, 19 projects were pending for registration approval by SDA. During the Reporting Period, the Group obtained 23 patents, had four products (such as the pegylated injectable recombinant human erythropoietin（聚乙二醇重組人促紅素注射液）) approved by SDA for clinical trials and three products (such as busulfan injection（白消安注射液）) approved by SDA for production, which further enhanced its product line for the pharmaceutical manufacturing business. Moreover, the Group's Levetiracetam tablet（左乙拉西坦片）was included in the published list for priority review and approval published by Center for Drug Evaluation（藥品審評中心）in July 2018.

The Group collaborates with domestic and overseas research and development institutes by means of technology licensing, service outsourcing and the establishment of joint laboratories. During the Reporting Period, regarding to therapeutic areas including oncology, immune diseases, anti-infection and respiratory system, the Group conducted multi-directional strategic cooperation with National Center for Nanoscience and Technology of Chinese Academy of Sciences（中國科學院國家納米科學中心）, Union Institute of Materia Medica（協和藥物所）, Nankai University, WuXi AppTec, Fujifilm Corporation in Japan and Pharmaron. During the Reporting Period, the Group introduced a product – Spherotide – a long-acting microsphere-based injectable drug of clinical and market values being developed by Swedish company Xbrane. This product is used in the treatment of prostate cancer, uterine fibroids and endometriosis.

With the Group's strong emphasis, priority was given to facilitate consistency evaluation projects for generic drugs. As at the end of the Reporting Period, over 40 consistency evaluation projects have commenced (of which, over 20 projects are not in the 289 catalog). Various projects have commenced bioequivalence clinical trials, and Terazosin Hydrochloride Tablets（鹽酸特拉唑嗪片）, Amlodipine Besylate tablets（苯磺酸氨氯地平片）and Metformin Sustained Release Tablets（二甲雙胍緩釋片）have completed application filing. In July 2018, the Group received the "Approval Document for Supplementary Application of Drugs" issued by SDA on Amlodipine Besylate tablets (5mg) which passed the consistency evaluation.

2. Pharmaceutical Distribution Business

Leveraging the implementation of "Two-Invoice System" policy, the Group made sustained efforts to expand the distribution network in terms of width and depth, with a view to enhancing the customer coverage in distribution business. The Company continues optimizing product portfolios and upgrading business structure, promoting innovative service and lean management. In the first half of 2018, the Group's pharmaceutical distribution business achieved a segment revenue of HK$77,601.0 million, representing an increase of 10.2% when compared with the first half of 2017.

During the Reporting Period, the Group expedited distribution network in western provinces. The Group also enhanced construction of provincial platforms and penetrated into grassroots markets to further strengthen the competitive edge of the Group's pharmaceutical distribution business in regional markets, aiming to further strengthen the control over downstream terminals. As of 30 June 2018, the pharmaceutical distribution network of the Group covered 27 provinces, municipalities and autonomous regions nationwide, with customers including 5,857 Class II and Class III hospitals, 38,954 primary medical institutions and 28,916 retail pharmacies.

In recent years, the Group has optimized its business structure on an on-going basis. The proportion of the revenue from direct distribution business to medical institutions in the total revenue from distribution business has been increasing continuously. As a result, the Group's pharmaceutical distribution business recorded a gross profit margin of 7.4% during the Reporting Period, representing an increase of 1.0 percentage point when compared with the first half of 2017.

During the Reporting Period, by following the direction of policies and customer demands, the Group proactively encouraged the transformation of distribution business, explored and implemented value-added services along the supply chain, aiming to build up its core competitive advantages. The Group continued to improve its efficiency by the establishment of an integrated and modernized intelligent logistics system. As at the end of the Reporting Period, the Group's distribution business had 160 logistics centers. The Group continued to expand its upstream resources, increased introduction of quality products for chronic diseases and major diseases, explored value-added services for imported drugs, and optimized product structure in the long run. Efforts were also made to promote the development of professional medical equipment distribution business. Meanwhile, the Group promoted various innovative distribution business models and engaged in the e-commerce business proactively to provide more value-added services to its downstream customers. As of 30 June 2018, the Group provided hospital logistic intelligence ("**HLI**") services to approximately 300 hospitals cumulatively, and commenced dozens of network hospital logistics intelligence (NHLI) projects.

3. *Pharmaceutical Retail Business*

During the Reporting Period, the pharmaceutical retail business of the Group recorded revenue of HK$2,470.4 million, representing a year-on-year increase of 16.7% while the gross profit margin of the retail business was 16.3%, representing a decrease of 0.9 percentage point when compared with the first half of 2017. This was mainly due to the rapid growth of direct-to-patient ("**DTP**") business which has a relatively lower profit margin.

During the Reporting Period, the Group further integrated the pharmaceutical retail resources in terms of brand, product and information system, aiming to enrich and optimize the variety of products. The Group also actively built up centralized procurement platforms, and carried out a variety of novel business models such as DTP and chronic disease management. As of 30 June 2018, the Group had 812 retail pharmacies and 94 DTP pharmacies covering more than 50 cities in the PRC.

Speed up Business Expansion via M&A, Underpin Long Term Growth

For pharmaceutical manufacturing business, the Group has successfully implemented several external acquisitions in relation to Chinese medicine and chemical drugs during the Reporting Period, further improved its business layout and expanded its product portfolio. In May 2018, the Company and the People's Government of Jiangxi Province ("**Jiangxi Government**") entered into a strategic cooperation framework agreement, pursuant to which, both parties agreed to utilize their relevant strengths, consolidate resources and establish long-term strategic cooperation relationship. As part of the strategic cooperation, Jiangxi Government agreed to restructure the Jiangxi Jiangzhong Pharmaceutical (Group) Co. Ltd.（江西江中製藥（集團）有限責任公司）("**Jiangzhong Group**") whereby the Company will acquire or subscribe 51% or above equity interest in Jiangzhong Group by way of cash or assets. Jiangzhong Group controls 43.03% shareholding interest in Jiangzhong Pharmaceutical Co, Ltd.（江中藥業股份有限公司）("**Jiangzhong Pharmaceutical**"), a leading pharmaceutical manufacturer of OTC products in the PRC. Jiangzhong Pharmaceutical has strong brand influence and high market share in both alimentary tract and oropharynx areas. In the future, it shall cooperate 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 enhance the Group's core competitiveness in respect of Chinese medicine self-diagnosis and treatment and the development of herbal Chinese medicines, among others. China Resources Pharmaceutical Holdings Company Limited（華潤醫藥控股有限公司）("**CR Pharmaceutical Holdings**") has entered into a share subscription agreement with existing shareholders of Jiangzhong Group for the subscription of the shares of Jiangzhong Group.

In May 2018, China Resources Double-Crane Pharmaceutical Company Limited（華潤雙鶴藥業股份有限公司）("**CR Double-Crane**") announced the acquisition of 45% equity interests in Xiangzhong Pharmaceutical Co., Ltd.（湘中製藥有限公司）("**Xiangzhong Pharmaceutical**"), with an aim to enhance the product line of psychiatric and neurological specialty drugs, and strengthen the marketing and sales capability of psychiatric speciality drugs to hospitals. In August 2018, CR Double-Crane announced the further acquisition of 40.65% equity interests in Xiangzhong Pharmaceutical. Upon the completion of this transaction, CR Double-Crane holds a total of 85.65% equity interests in Xiangzhong Pharmaceutical. In addition, in June 2018, CR Double-Crane announced the further acquisition of 40% equity interests in China Resources Double-Crane Limin Pharmaceutical (Jinan) Company Limited（華潤雙鶴利民藥業（濟南）有限公司）("**Double-Crane Limin**"), one of its subsidiaries, with its own funds. Upon the acquisition, CR Double-Crane holds 100% equity interests in Double-Crane Limin, which helps to unify the business layout and integrate relevant resources, and also further strengthen the management of Double-Crane Limin.

For pharmaceutical distribution business, the Group continued to implement the external merger and acquisition strategy of "establishing platforms at provincial level and building distribution networks at municipal level" and optimized its network layout in both width and depth. During the Reporting Period, the Group has sped up its layout in western provinces, such as Guizhou, Gansu and Qinghai. It also promoted market penetration and strengthened its competitive edge in regional markets through several prefecture-level acquisitions in Fujian, Shandong and Jiangsu.

As at the end of the Reporting Period, China Resources Pharmaceutical Industrial Investment Fund LLP (the "**Fund**") has completed a number of investments in the fields of Chinese medicine, medical devices, biopharmaceuticals, etc., among which Fusen Pharmaceutical Company Limited, in which the Fund invested strategically during Pre-IPO, successfully completed the global offering in Hong Kong in July 2018. The investment projects of the Fund have achieved business synergies with the Group in terms of research and development, pharmaceutical manufacturing and distribution. As one of the diversified investing platforms of the Group, the Fund will continue to build various portfolios of biopharmaceuticals, chemical drugs, Chinese medicine and pharmaceutical distribution at different stages based on the strategic development directions of the Group, and enable the Group to improve its business layout and to consolidate and strengthen the Group's leading position in the industry.

Systematical Integration of Resources to Enhance the Overall Strength of Biopharmaceutical Sector

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

Angde Biotech was established in 2001 and originally wholly-owned by Dong-E-E-Jiao Company Limited（東阿阿膠股份有限公司）. Leveraging on years of development, it has laid a solid foundation in the R&D and production of recombinant protein biopharmaceutical drugs. After the capital increase, CR Pharmaceutical Holdings and CR Biomedical jointly hold 51% equity interests in Angde Biotech, thus, the Group's control over Angde Biotech was further consolidated.

By virtue of the restructuring, the Group further integrated its R&D, production and marketing resources related to the biopharmaceutical business. The two products introduced are recombinant protein products for the treatment of diabetes, which have huge market potential and can form an advanced product portfolio with Angde Biotech's own R&D product, insulin detemir. Meanwhile, taking advantage of the Group's capital and technology edges, we shall develop Angde Biotech into a production and operation platform for the Group's recombinant protein biopharmaceutical drugs by riding on the marketing and terminal resources of the Group's pharmaceutical business.

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

Inclusion in Hang Seng Corporate Sustainability Benchmark Index

In August 2018, the Company was selected as a constituent of the Hang Seng Corporate Sustainability Benchmark Index (the "**Index**"), with effect from 10 September 2018.

The Index includes Hong Kong-listed companies that perform well on achieving sustainable development in areas such as corporate governance, human rights, labour practices, environment, fair operating practices, consumer issues, community involvement and development. The Index is objective, reliable and of high investment value. The criteria and procedures for selection of constituent stocks are stringent and the sustainability assessment is conducted by an independent professional assessment organization, thus the Index can serve as an excellent benchmark for corporate sustainability-themed index funds.

Being included in the Index is evidence of the Company's outstanding performance in environmental protection, social responsibility and corporate governance, and the recognition of the capital market for its ability of sustainable development.

OUTLOOK AND FUTURE STRATEGIES

With the continuous deepening of healthcare and pharmaceutical reform in the PRC, the pharmaceutical industry of China, being at the adjustment and reform stage, has entered into a new era featuring with structure optimization, quality upgrading, increasingly stringent regulations and expedite industrial transformation. Furthermore, there is still huge space for integration in the pharmaceutical market where opportunities and challenges coexist. Following the direction of policies and the market demand, by making use of its own advantages, the Group will strive to gain quality resources through external mergers and acquisitions, international collaboration and industrial funds. Meanwhile, it will improve its organic development through product mix optimization, business model innovation, research and development capacity enhancement and sustainable growth in the major segments, while continuing to reinforce and elevate the Group's leading position in the pharmaceutical industry in the PRC.

1. *Focusing on core business, enhancing brand advantages and optimizing product portfolio to facilitate transformation and upgrade of pharmaceutical manufacturing business*

By leveraging on the existing brand superiority, production and marketing resources of pharmaceutical manufacturing business, and through M&A as well as brand extension, the Group will focus on therapeutic areas in cardiovascular, anti-tumor and central nervous system after taking into account the changes in the disease spectrum, to develop products with excellent clinical efficacy and market value. Furthermore, it will improve product mix of chemical drugs which combines the treatment in chronic disease, specialty therapies and intravenous therapies. Under the context of consumption upgrade and increasing demand in healthcare, the Group will also explore the classic and famous prescriptions of traditional Chinese medicine, in order to facilitate the layout of the whole industrial chain of traditional Chinese medicine and speed up the development of the healthcare related business. Meanwhile the Group will fully promote the consistency evaluation of generic drugs, and will improve its production standard and quality through measures such as production technique improvement and production capacity optimization, with a view to promoting the industrial upgrade and achieving sustainable development for the pharmaceutical manufacturing business.

2. Optimizing distribution network, and consolidating regional competitiveness, and innovating business models to turn into an intelligent service provider on the pharmaceutical supply chain

Capitalizing on opportunities arising from the implementation of policies such as "Two-Invoice System" as well as "Hierarchical Diagnosis and Treatment", the Group will complete the nationwide distribution network as soon as possible and continue to consolidate competitive advantages in well-established regions by further penetrating the grassroot market, and strengthen the coverage of medical terminals. The Group will also make constant efforts to optimize its product mix and business structure, enhance operation efficiency and accelerate the development of medical equipment distribution business. Meanwhile, leveraging on the technological innovation and professional logistics system, it will establish the "Logistics + Pharmaceutical Services + Internet" platform which connects quality resources in upstream and downstream, and will promote innovative business models including HLI, DTP and e-commerce business so as to consolidate its market leading position as a pharmaceutical distribution solution provider, with a proactive approach in promoting the consolidation of the pharmaceutical distribution industry in the PRC.

3. Optimizing R&D and innovation system and accelerating the acquisition of quality products to meet clinical needs

Prioritizing technological innovation, improvement of products and clinical needs, the Group will increase its investment in R&D, improve the R&D mechanism and further optimize the integrated R&D platform. It will continue to enhance its R&D capability by building the leading R&D team in the industry and expanding new product acquisition channels through in-depth cooperation with external research and development institutions as well as building medical innovation alliance. The Group will optimize the pharmaceutical research and development chain in areas of anti-tumor, autoimmune, cardiovascular, central nervous system and respiratory system, among others, while accelerating the development of biopharmaceutical drugs as well as obtaining and industrialization of new products in unserved therapeutic areas. Through innovation of dosage forms, further optimization and consistency evaluation, the Group will strengthen its competitive edge of the existing core products.

4. ***Accelerating inorganic development in various ways and consolidating the competitive advantages***

Taking on the opportunities arising from consolidation across the pharmaceutical industry in the PRC, the Group will strive to achieve inorganic growth through accelerating the acquisition of quality resources by strategic mergers and acquisitions. Meanwhile, it will establish forward-looking business layout in areas such as biopharmaceutical drugs and innovative drugs by leveraging on the Fund, in order to foster new stimulations for business growth. With regard to pharmaceutical manufacturing business, the Group will acquire diversified product portfolio or products complementing the existing ones through strategic investment in high-growth therapeutic areas including cardiovascular, anti-tumor, pediatrics, biopharmaceutical and nutrition sectors. For pharmaceutical distribution and retail businesses, the Group will further consolidate its leading position in the industry by investing in or acquiring distribution enterprises with high-quality medical institution coverage and product resources, as well as pharmaceutical retail chains with growth potential.

5. ***Expanding international cooperation, accessing quality resources and technologies to enhance overall competitiveness***

The Group will continue to expand its multinational cooperation platforms. The Group will cooperate with sizable international pharmaceutical manufacturers, international medical equipment manufacturers and pharmaceutical distributors through various means, such as import of products, exclusive distribution and collaborative development, to introduce quality products, advanced technologies and management mechanism. By leveraging on its domestic business platform and competitive advantages, the Group will build a mutually beneficial cooperation model to explore the pharmaceutical market in the PRC with international business partners, achieving the optimization and upgrade of the product portfolio and business model. Meanwhile, the Group will conduct in-depth analysis and research on international pharmaceutical market, with a view to making breakthrough of its overseas business.

6. *Promoting business synergy and resources integration, and optimizing resource allocation and operation efficiency*

The Group will further release the synergies in its integrated business deployment, and foster the industry-financing integration, in order to promote the synergies among the pharmaceutical manufacturing, distribution and retail businesses as well as the subsectors of each business segment in those aspects such as market entry, customer coverage and introduction of products. The Group will also take China Resources Leasing Co., Ltd (華潤租賃有限公司) as quasi-financial platform, to explore new growth arena by unlocking the strengths in both industry and financing. Meanwhile, it will improve the information system, enhance fund supervision and control, and strengthen the integrated management of internal resources, in order to promote the integration of existing and new resources, constantly enhance overall supervision and control as well as operation efficiency, thereby controlling the operational risks effectively.

USE OF NET PROCEEDS FROM LISTING

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 28 October 2016 by way of a global offering, under which a total of 1,655,082,000 shares (including shares issued upon partial exercise of the over-allotment option) were issued at an offer price HK$9.10 per share, raising total net proceeds of HK$14,767.4 million after deducting professional fees, underwriting commissions and other related listing expenses (the "**IPO proceeds**").

As stated in the prospectus of the Company dated 17 October 2016 (the "**Prospectus**"), the Company had plans to use the IPO proceeds. As of 30 June 2018, the Company had used approximately HK$1,476.7 million for repayment of bonds; approximately HK$6,088.5 million for partial payment of strategic acquisitions; approximately HK$244.9 million for establishment of more advanced logistics centers and warehouses; approximately HK$166.5 million for HLI solutions; approximately HK$1,457.5 million for development of its research and development platform, and approximately HK$1,476.7 million for working capital for its pharmaceutical distribution business.

The Company does not have any intention to change the purposes of the IPO proceeds as set out in the Prospectus, and will gradually utilize the residual amount of the IPO proceeds in accordance with the intended purposes.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code during the Reporting Period, save and except the following:

In respect of code provision A.4.1 of the CG Code, the non-executive directors of the Company 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 of the Company (the "**Directors**"). Since all Directors are subject to re-election by the Shareholders at the annual general meeting of the Company and at least about once every three years on a rotation basis in accordance with the articles of association of the Company, there are sufficient measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code. In respect of code provision E.1.2 of the CG Code, the chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2018 due to other business commitment.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2018.

PUBLICATION OF THE INTERIM RESULTS AND 2018 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.crpharm.com), and the 2018 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 24 August 2018

As of the date of this announcement, the Board of the Company comprises Mr. FU Yuning as chairman and non-executive Director, Mr. WANG Chuncheng and Mr. LI Guohui as executive Directors, Mr. CHEN Rong, Mr. YU Zhongliang, Mr. WANG Shouye and Mr. LU Ruizhi as non-executive Directors, Mdm. SHING Mo Han Yvonne, Mr. KWOK Kin Fun, Mr. FU Tingmei and Mr. ZHANG Kejian as independent non-executive Directors.