



華潤醫藥集團有限公司

China Resources Pharmaceutical Group Limited

2017 Annual Results

22 March 2018



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Solid and High-Quality Financial Performance



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China Resources Pharmaceutical

HK\$ mn	FY2016	FY2017	YoY Growth (HK\$)	YoY Growth (Rmb)
Revenue	156,705	172,532	10.1%	11.6%
Gross Profit	24,109	28,276	17.3%	18.8%
Operating Profit	9,001	10,404	15.6%	17.1%
Net Profit Attributable to Shareholders	2,821	3,483	23.5%	25.1%
EPS (HK\$)	0.57	0.55		

Number of shares: 4,629mn at the beginning of 2016 (pre-IPO) ; 6,285mn in FY2017

Stable Growth Across Segments

Manufacturing

Segment revenue: HK\$29.3bn
Segment gross profit: HK\$17.8bn

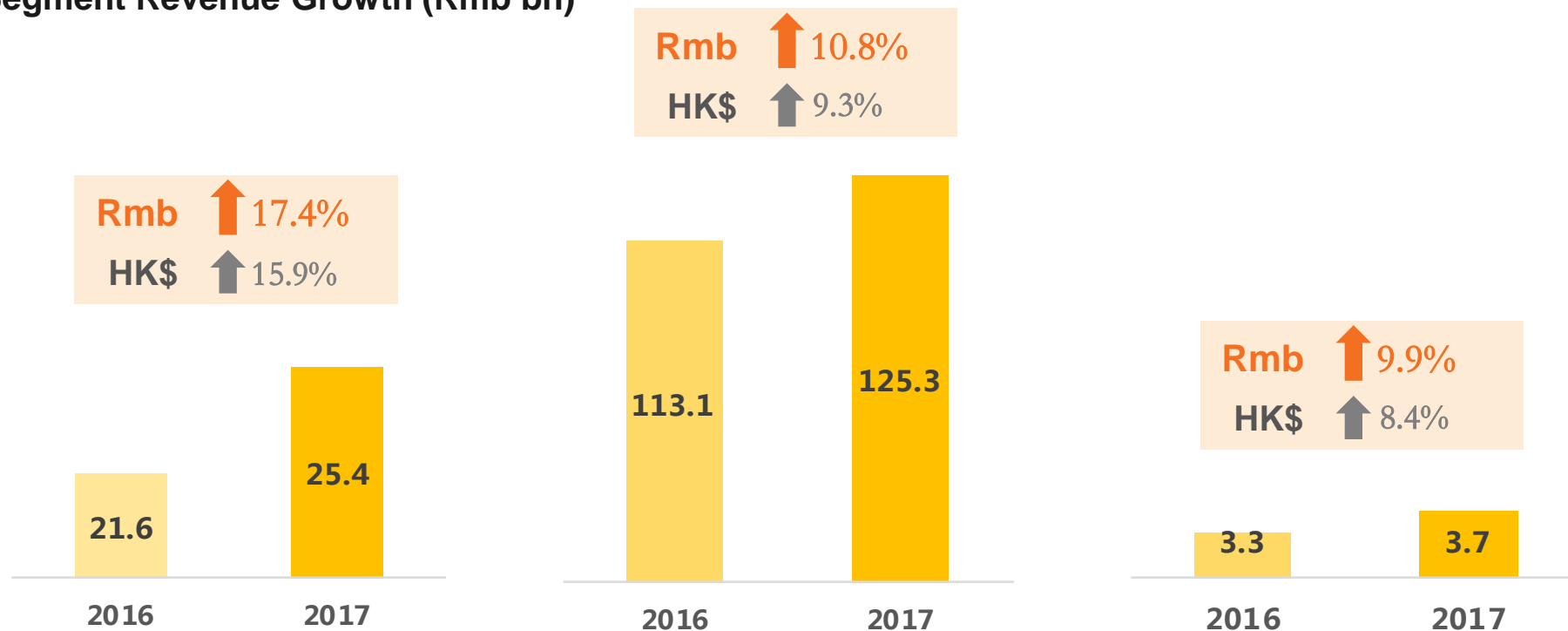
Distribution

Segment revenue: HK\$144.6bn
Segment gross profit: HK\$9.6bn

Retail

Segment revenue: HK\$4.2bn
Segment gross profit: HK\$0.7bn

Segment Revenue Growth (Rmb bn)



Enhance overall competitiveness through diversified external growth

Enrich manufacturing product portfolio

CR Sanjiu completed the acquisition of Jin Fu Kang and Shandong Shenghai Health Products, and CR Double-Crane completed the acquisition of Hainan Zhong Hua. Further enriched the product portfolio in the fields of oncology, digestive system and nutraceuticals, etc.

Improve distribution network

To facilitate national network coverage, expanded to four provinces, namely Jiangxi, Hainan, Qinghai and Xinjiang; Completed multiple M&A projects at municipal level to strengthen the competitive edge in regional market

Enter into finance leasing to promote finance-industry synergy

Completed the subscription of 40% of the enlarged equity interests in CR Leasing. In combination with our leading position in distribution business, own resources and branding advantages, further promoted integration synergy between industry and finance; strengthened the coverage of medical terminals

Acquire addition equity interest in Dong-E-E-Jiao

During Nov to Dec 2017 and in Feb 2018, further acquired 12.16mn shares of Dong-E-E-Jiao, that increased its direct equity interest in Dong-E-E-Jiao to 6.86%. The Group controls in aggregate 30% equity interest in Dong E-E-Jiao

Establish Industry Investment Fund for business expansion

Established CR Pharm Industry Investment fund LLP, principally engaged in equity investment in pharmaceutical industry in China. In the first phase, the size of the Fund was RMB 2.5bn. The Fund will build various portfolios of biopharma, chemical drugs, Chinese medicine and pharmaceutical distribution

2017 Highlights

Explore opportunities through collaboration

- Strategic cooperation with partners, including FUJIFILM, Takeda Pharmaco, Xbrane, Omron to promote R&D corporation and product introduction. Establish joint-lab with Tsinghua University and Nankai University
- CR Gosun entered into an agreement with Basilea to introduce fifth-generation cephalosporin antibiotic
- Corporation with Xbrane for the introduction of Spherotide, a long-acting microsphere-based injectable drug
- Smooth progress of strategic corporation between CR Sanjiu and Sanofi

Inclusion in key capital market index

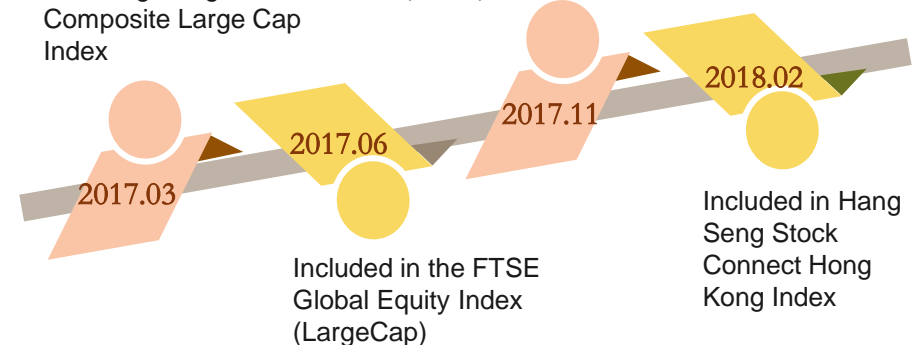
In 2017, the Group has been included into numerous key capital market index:

- FTSE Index Series: FTSE Global Equity Index (Large Cap)
- CR Pharm and two of its A-share listed subsidiaries (CR Sanjiu/ Dong-E-E-Jiao) have been included in MSCI China Index
- Hang Seng Index Series: Composite Large Cap Index
- Hang Seng Stock Connect Hong Kong Index Series



Included in the constituent stocks of the Hang Seng Composite Large Cap Index

Included in Morgan Stanley Capital International (MSCI) China Index





Facilitate transformation and upgrade of manufacturing business

Strengthen core business areas, expand and optimize product mix, and promote production upgrade

Solidify leading position in pharmaceutical distribution

Optimize distribution network, product portfolio and business structure. Innovate business model

Optimize R&D and innovation system

Enrich R&D innovation platform; raise R&D capabilities; accelerate product development & industrialization

Accelerate expansion through inorganic growth

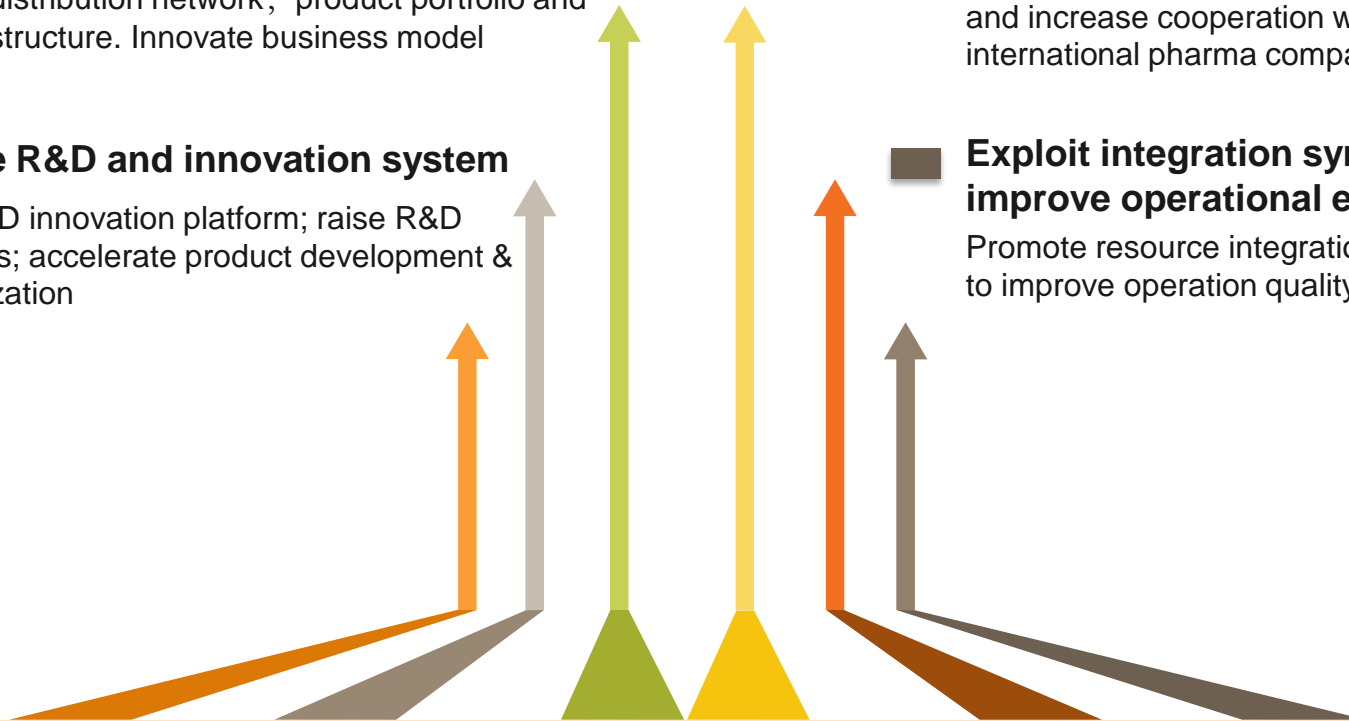
Accelerate inorganic growth through M&As, industry funds etc, to acquire quality resources

International collaboration

Strengthen international collaboration platform, and increase cooperation with leading international pharma companies

Exploit integration synergies, improve operational efficiency

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





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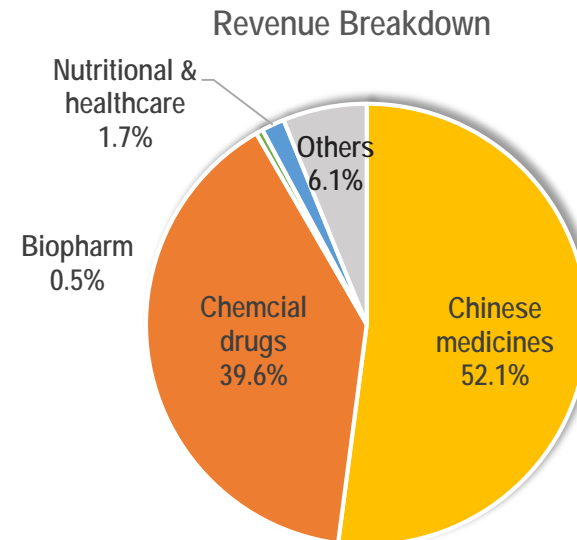
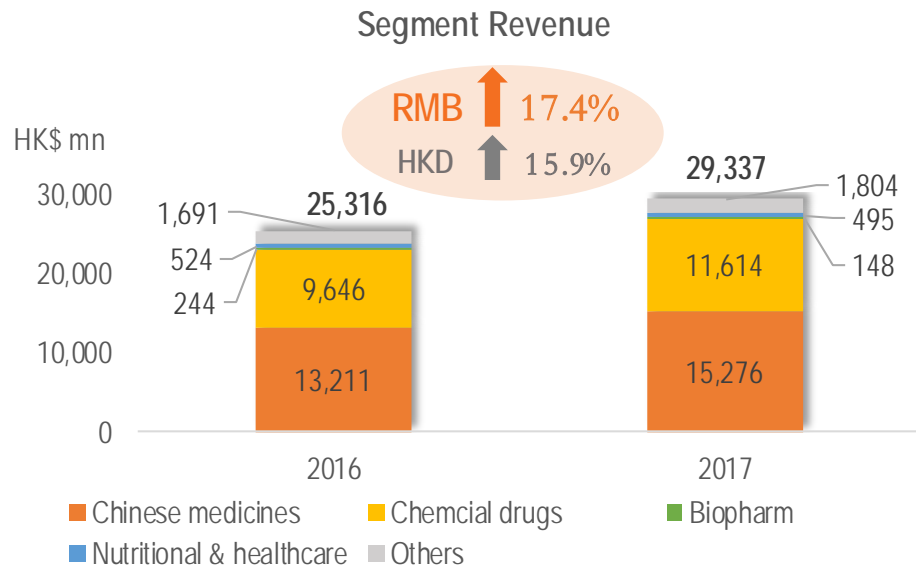
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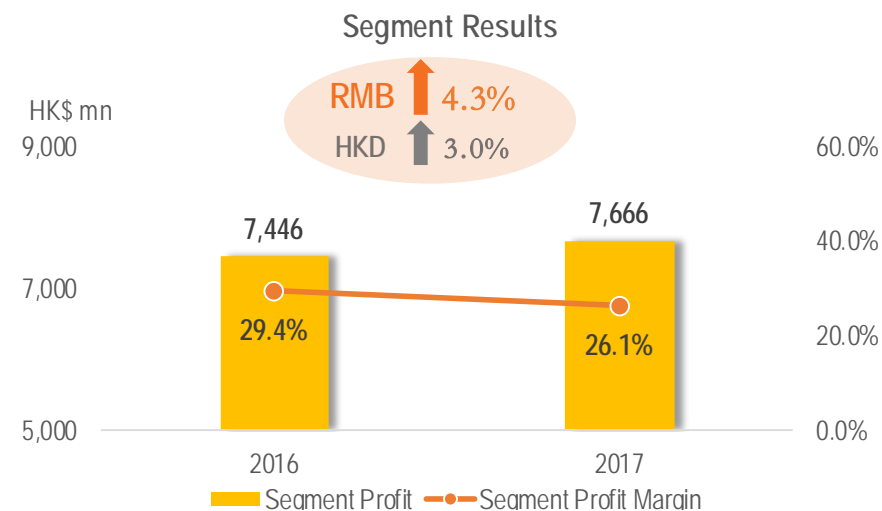
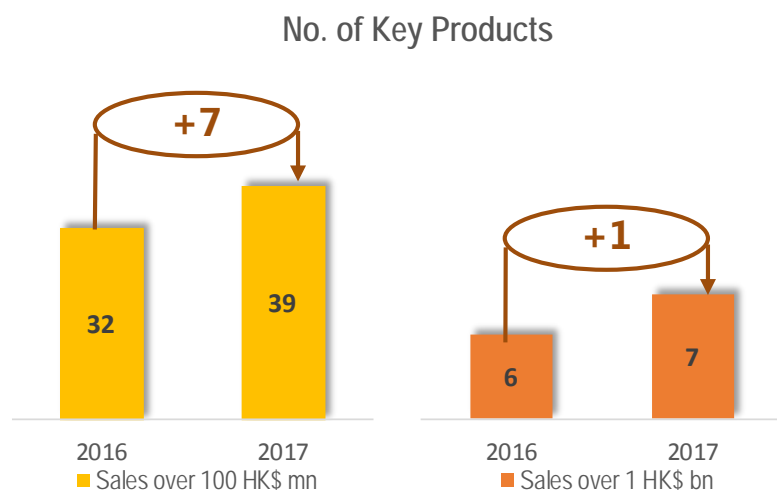
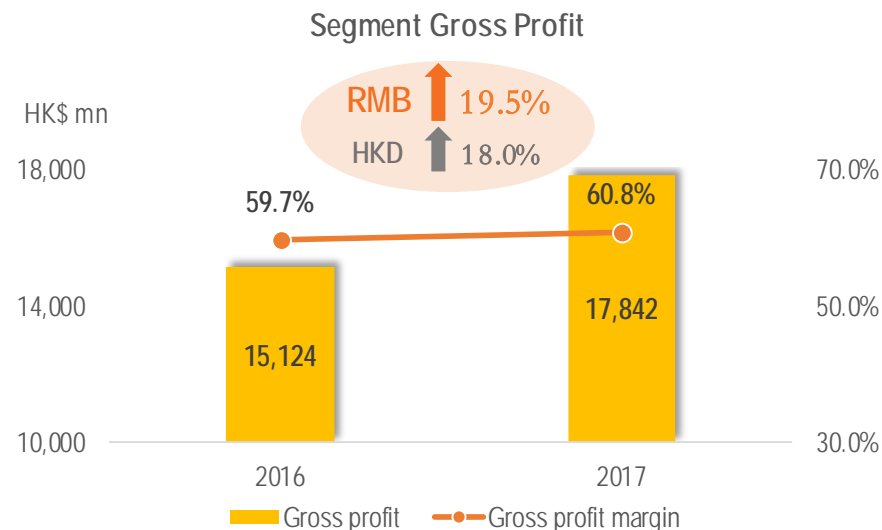
Manufacturing: Satisfactory Topline Growth

- In 2017, we carried out exploration of product value and innovation of sales model to capture greater market share, segment revenue in manufacturing business increased by 15.9% YoY to HK\$29.3bn
- Chinese medicines, chemical drugs, biopharmaceutical and nutritional & healthcare products represented 52%, 40%, 1% and 2% of our manufacturing revenue respectively in 2017
- Manufactured a comprehensive product portfolio covering key therapeutic areas: cardiovascular, cold remedies, anti-infection, track & metabolism, dermatology, pediatrics
- Manufactured more than 460 products, of which ~300 drugs are included on NRDL as of 31 Dec 2017. Product brands widely recognized in China



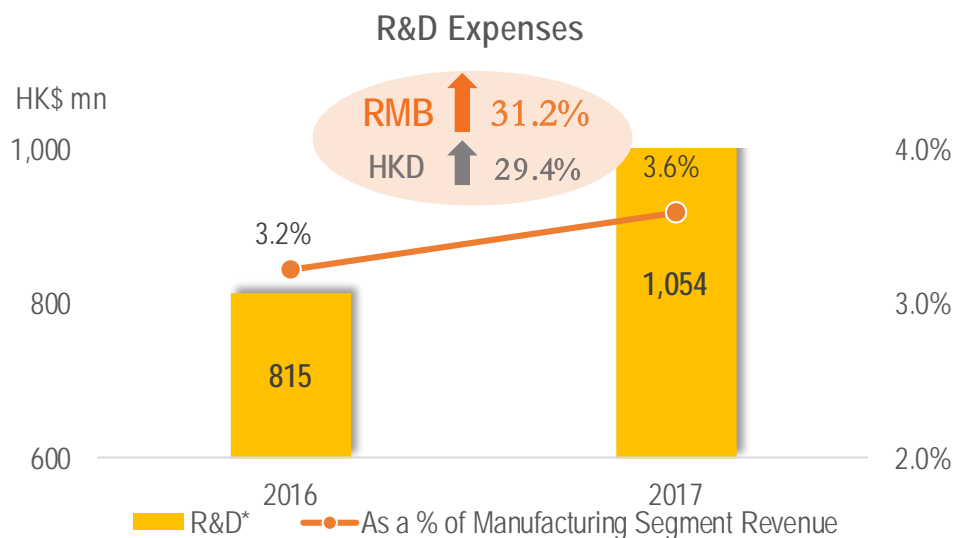
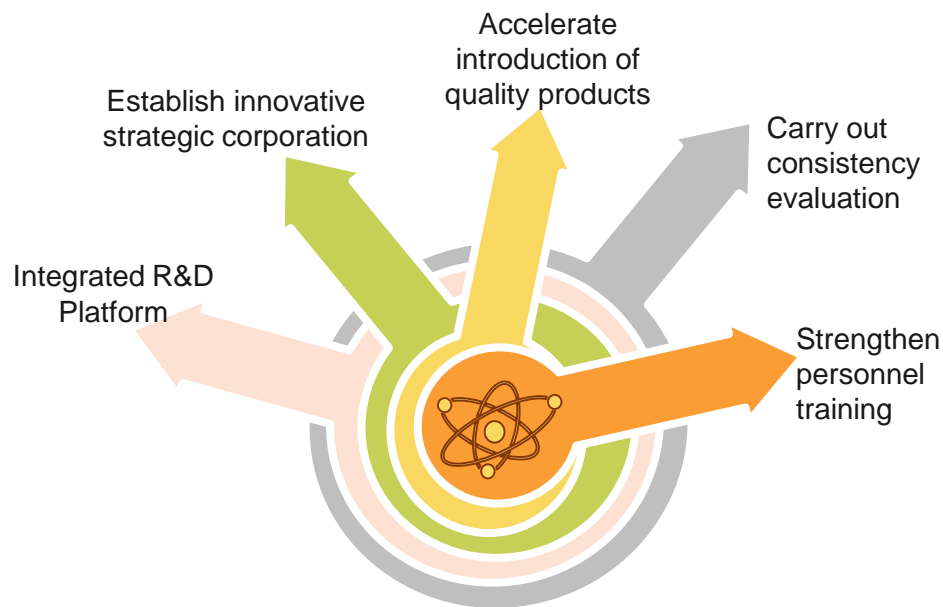
Focus on Core Products, Rise in GP Margin

- Manufacturing business in 2017:
 - Gross Profit increased 18.0% to HK\$17.8bn. GP Margin was 60.8%, 1.1ppt higher YoY
 - Recognized segment results HK\$7.7bn
- 39 products with an annual revenue of over HK\$100mn, among which 7 products achieved an annual revenue of over HK\$1bn
- Continued to transform business, upgrade product portfolio, and improve production techniques



Integrated and Innovative R&D System

- R&D expenses amounted to HK\$1.1bn in 2017 , representing 3.6% of manufacturing segment revenue
- As of 31 Dec 2017, 223 projects under our R&D programs, of which 19 pending for CFDA's registration approval. Facilitate over 40 consistency evaluation projects for generic drugs. In 2017, obtained 20 patents and had 2 products approved by CFDA for clinical trials and had 4 products approved by CFDA for production
- Formed strategic co-operations with strategic partners including National Center for Nanoscience and Technology of Chinese Academy of Sciences (中国科学院国家纳米科学中心), Union Institute of Materia Medica (协和药物所) , FUJIFILM, Xbrane, Tsinghua University, Nankai University etc., speeding up the acquisition of quality products



Including capitalized R&D expenditure

Continuously Enhance Distribution Coverage



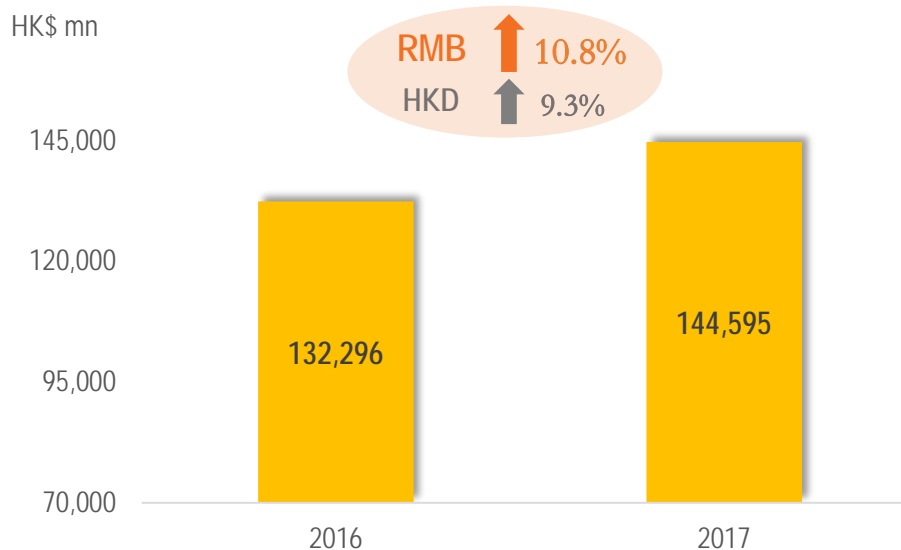
- Seized the opportunities arising from Two-Invoice Policy, continued to expand the breath and depth of network coverage: tap into 4 provinces, i.e. Jiangxi, Hainan, Qinghai and Xinjiang, to 27 provinces; continued to extended into municipal cities to strengthen regional coverage. Distribution revenue in 2017 grew 9.3% YoY to HK\$144.6bn
- As of 31 Dec 2017, we had over 80,000 downstream customers, including 5,475 Class II&III hospitals (increased about 28%) , 37,941 primary medical institutions
- Promoted the establishment of an integrated and professional logistics system to enhance logistics management efficiency. As of 31 Dec 2017, we had 153 logistics centers for distribution business



Number of Class II&III Hospital Customers **+28%**



Segment Revenue



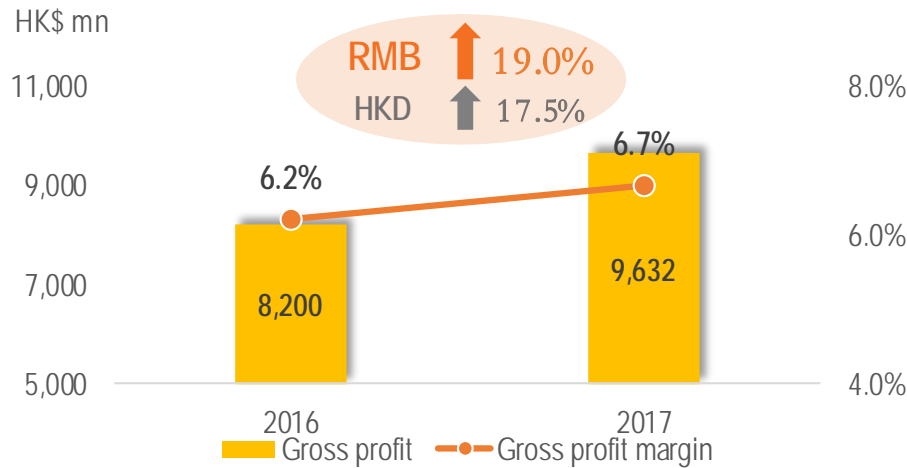
Optimize Business Structure, Innovate Business Model



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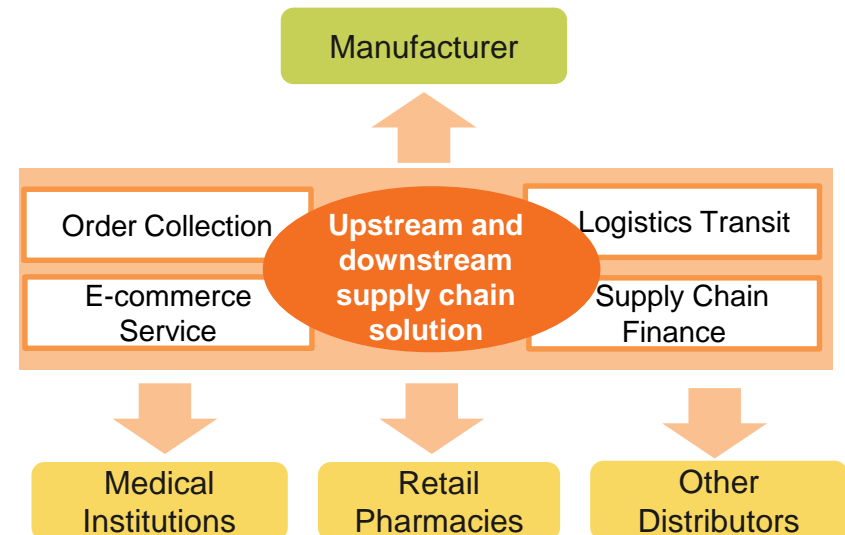
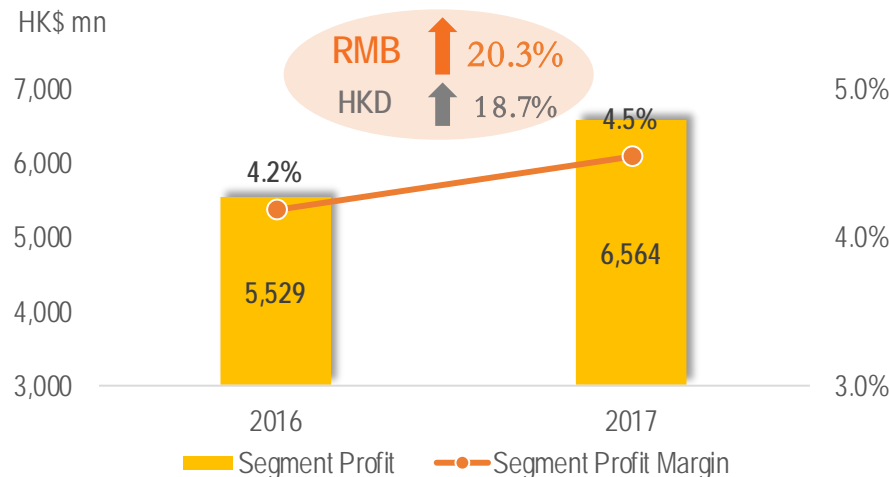
China Resources Pharmaceutical

Segment Gross Profit



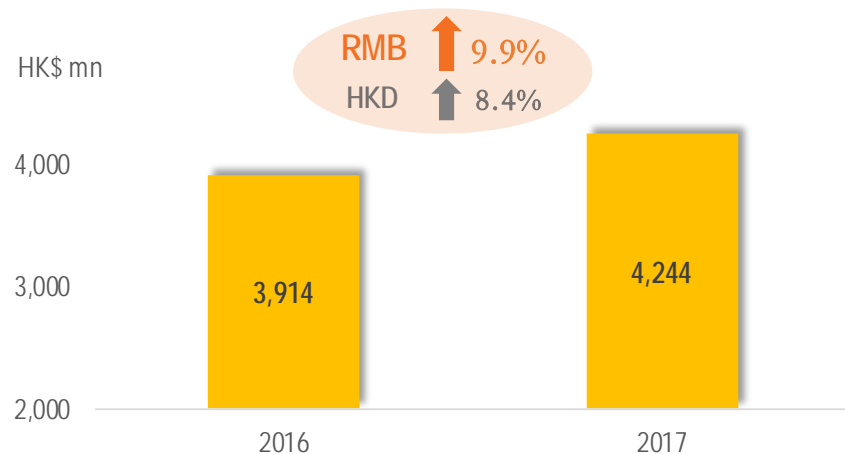
- In 2017, Distribution business's gross profit and segment profit were HK\$9.6bn and HK\$6.6bn respectively
- GP Margin was 6.7%, increase of 0.5 ppt YoY, as the proportion of the revenue from direct sales to medical institutions in the total revenue from distribution business continued to increase
- Continued to optimize product portfolio and business structure; offered innovative value-added services; pursue integrated operational model

Segment Results



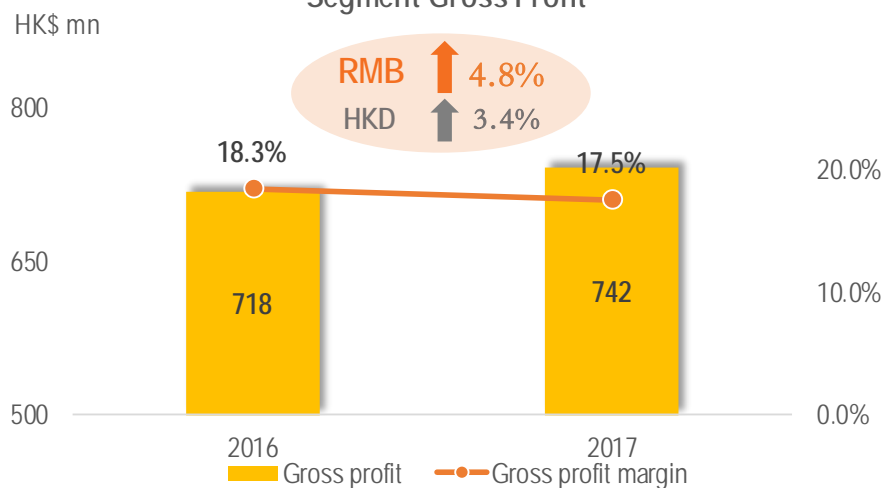


Segment Revenue

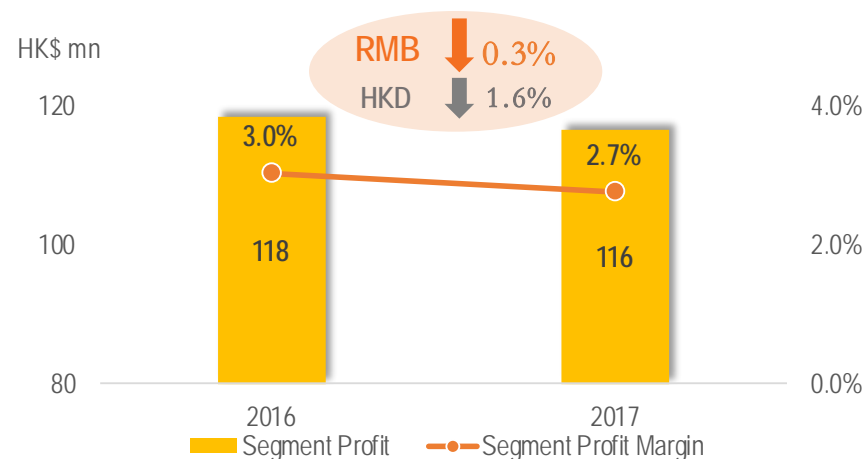


- Retail business in 2017:
 - Revenue increased 8.4% YoY to HK\$4.2bn, mainly driven by satisfactory growth of DTP business
 - Gross margin was 17.5%, lowered by 0.8ppt YoY, mainly due to the faster growth of lower-margin DTP business
- By the end of 2017, operated 786 retail pharmacies, including 88 DTP pharmacies across more than 50 cities

Segment Gross Profit



Segment Results





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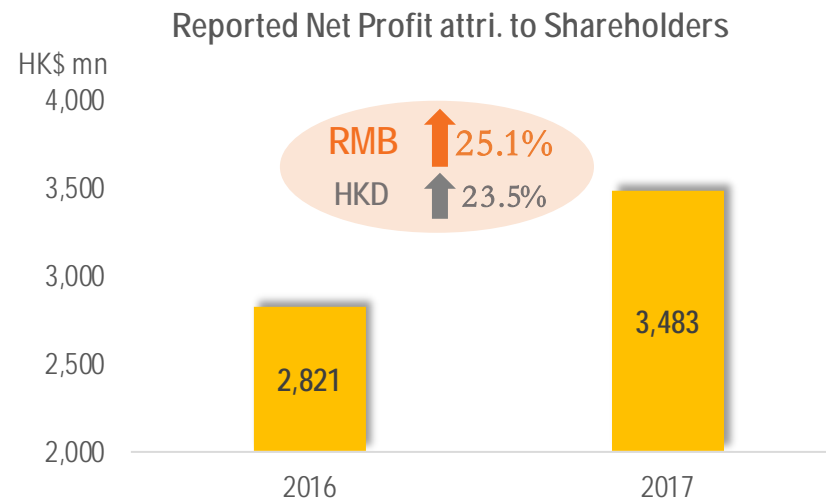
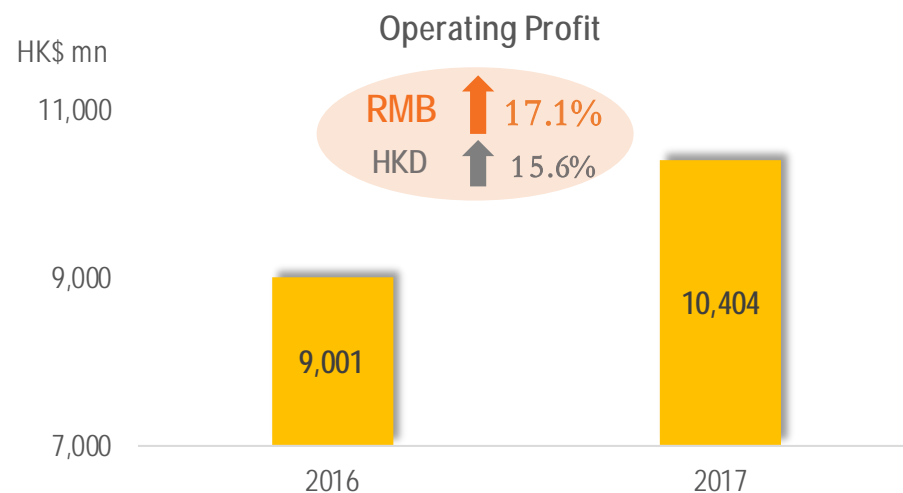
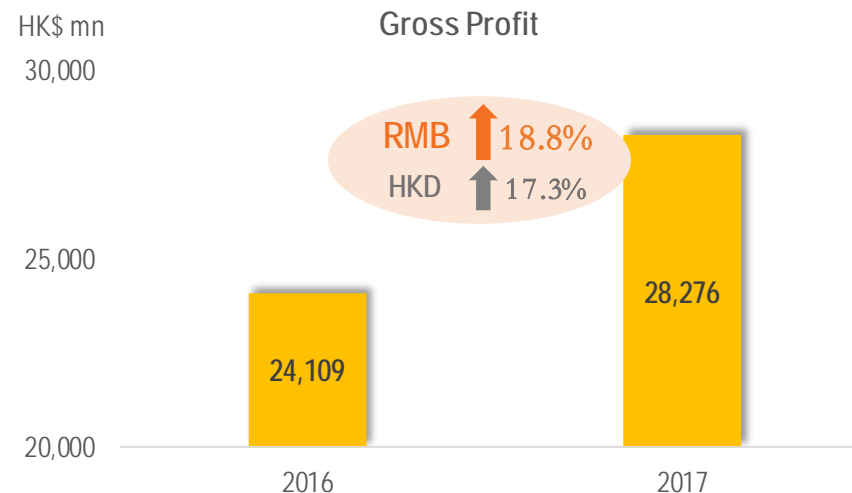
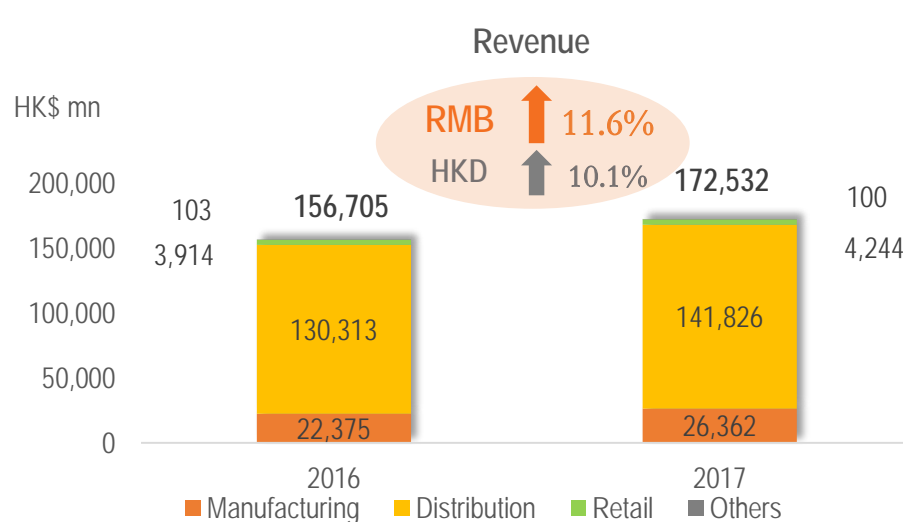
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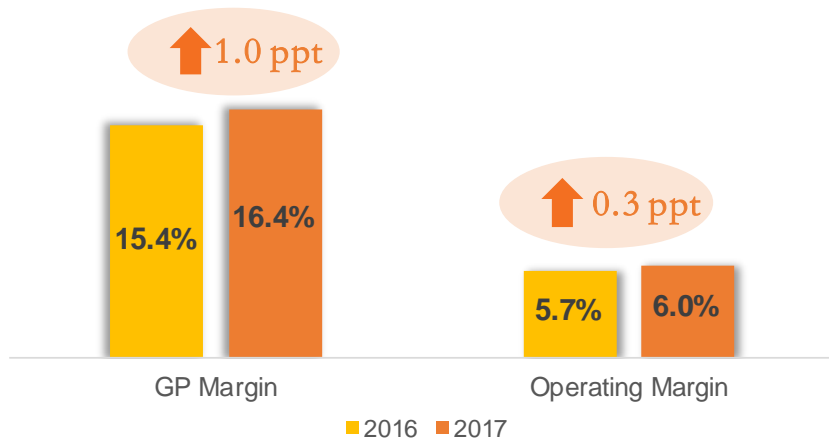
Solid Growth in Key Financial Indicators



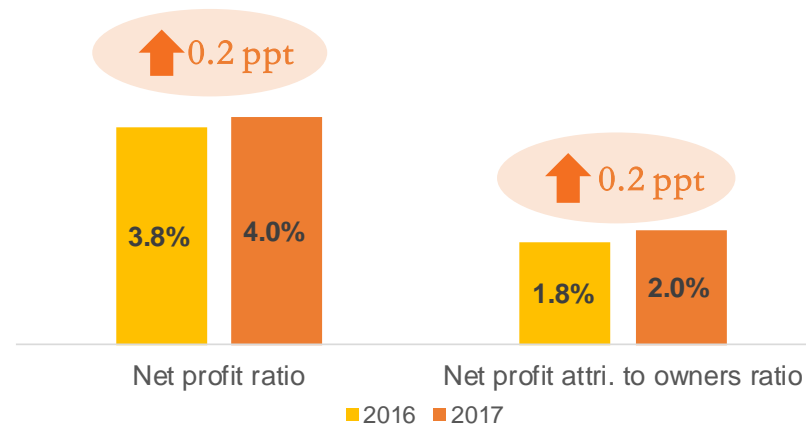
Operating Efficiency and Operating Cash Flow Improved



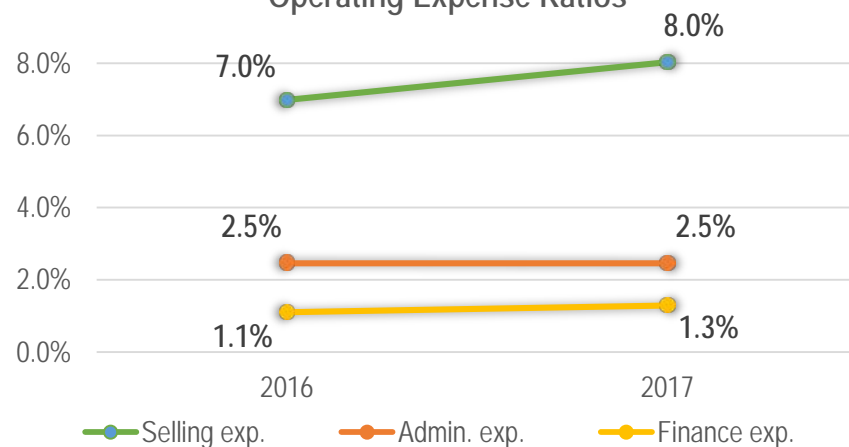
GP Margin & Operatin Margin



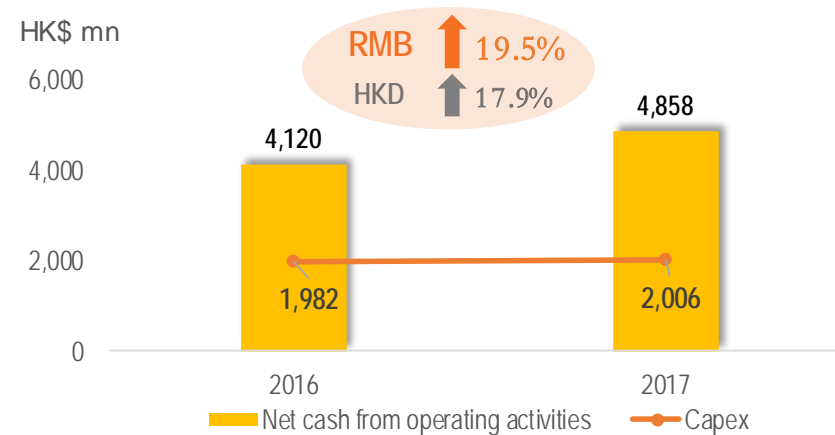
Net Profit Ratio



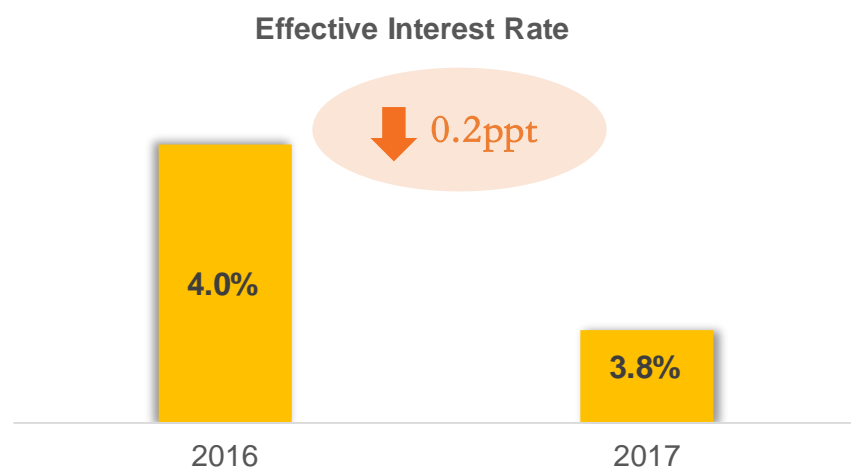
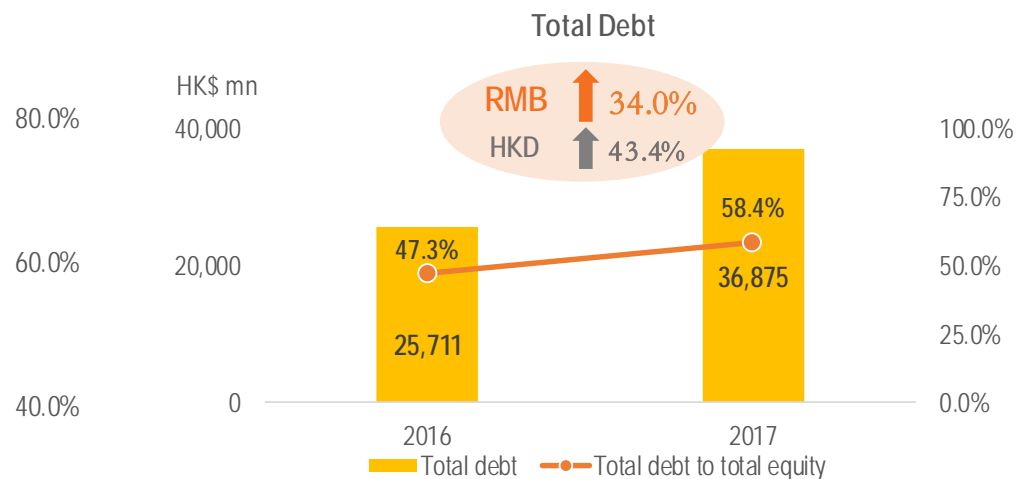
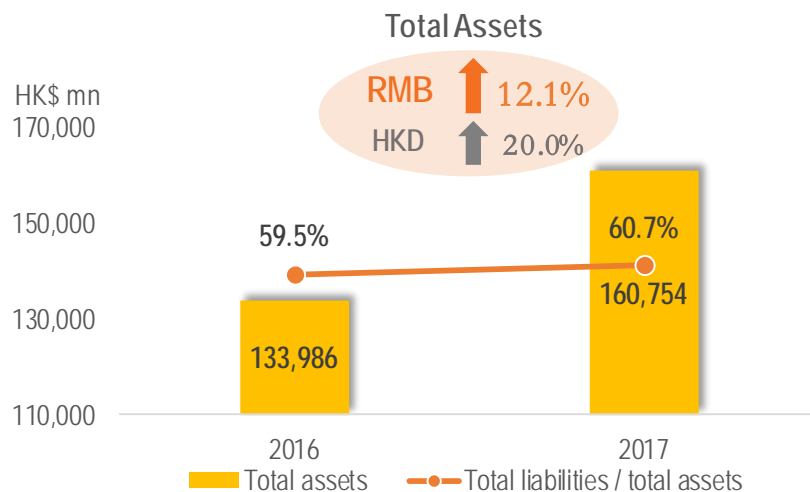
Operating Expense Ratios



Net Cash from Operating Activites



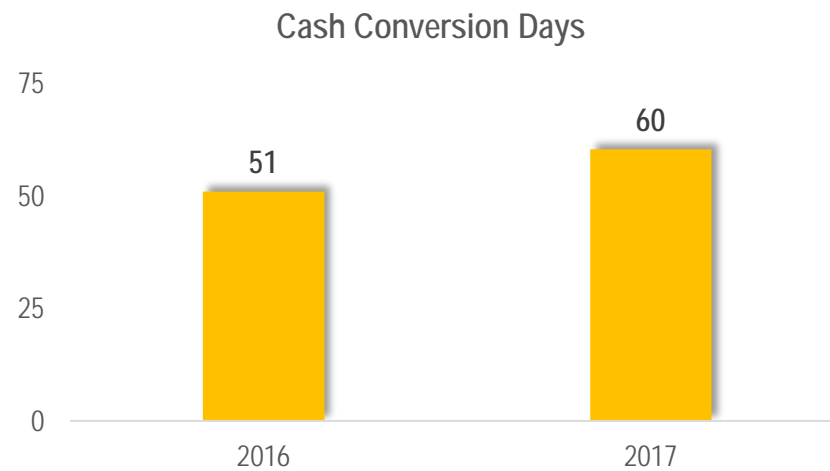
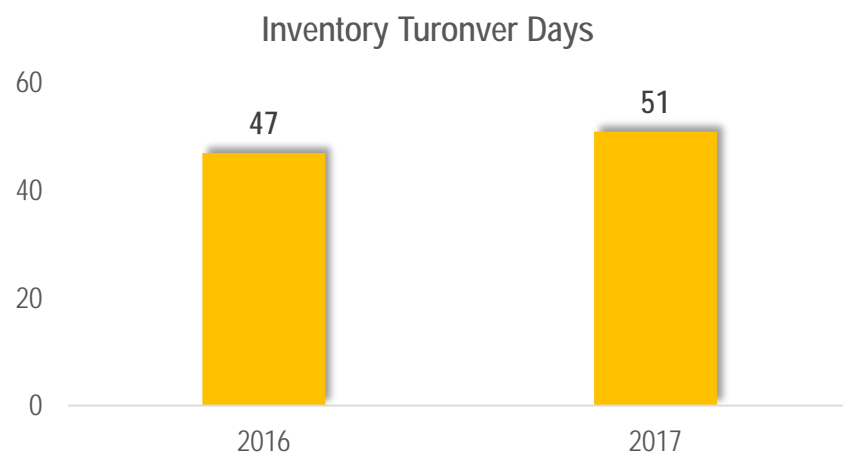
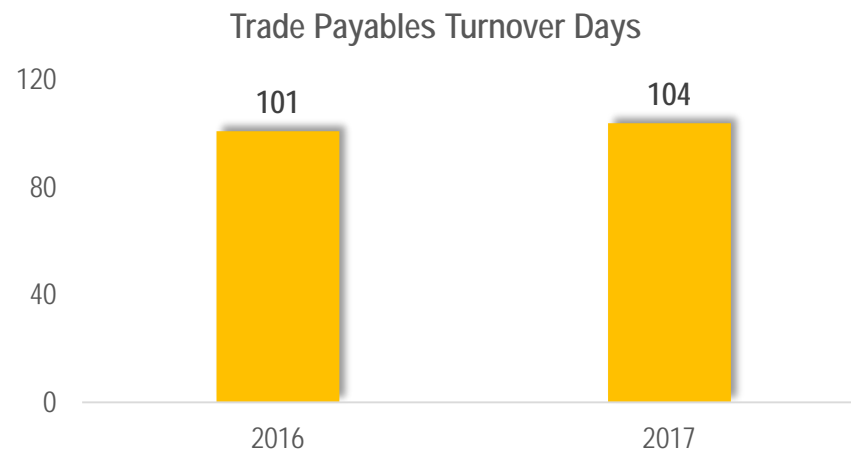
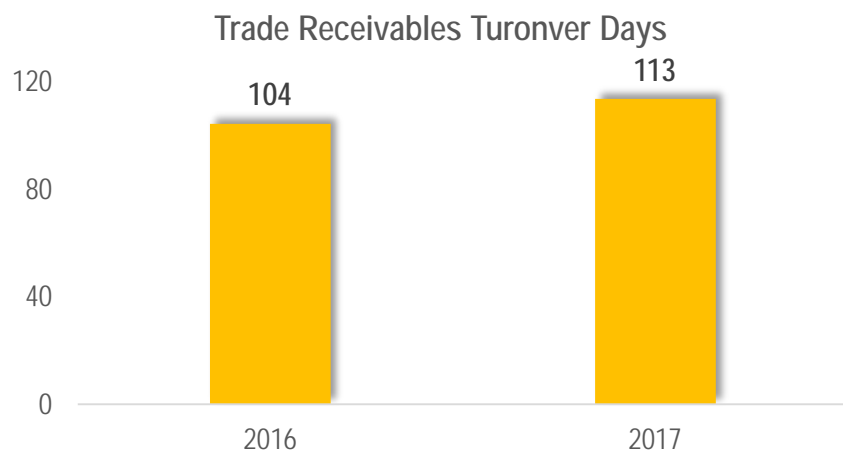
Manageable Gearing, Effective Interest Rate Declined



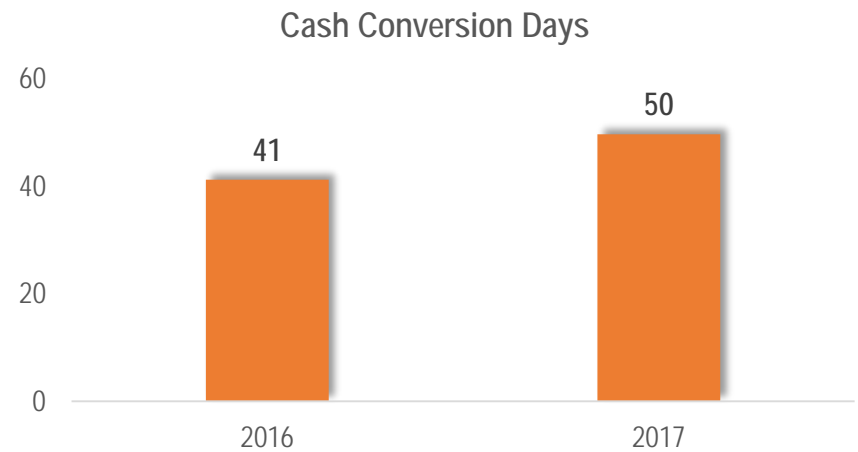
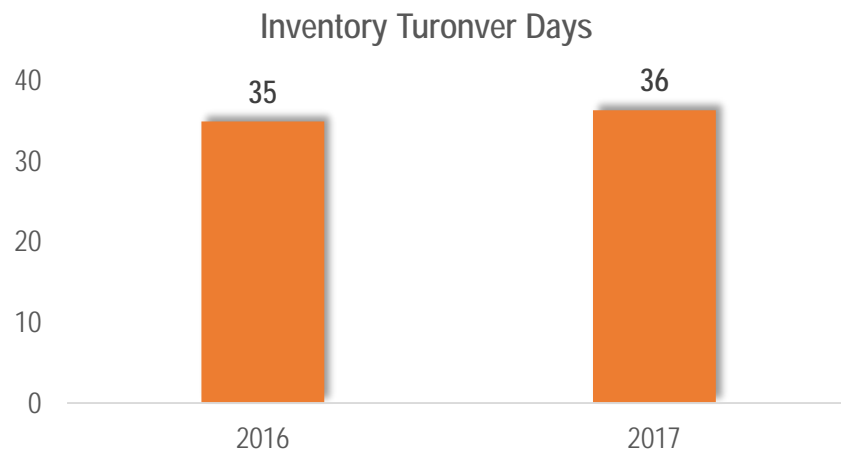
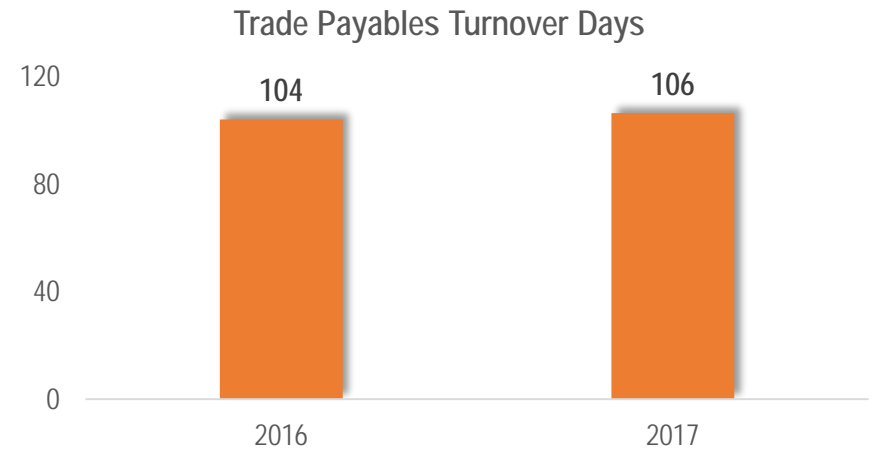
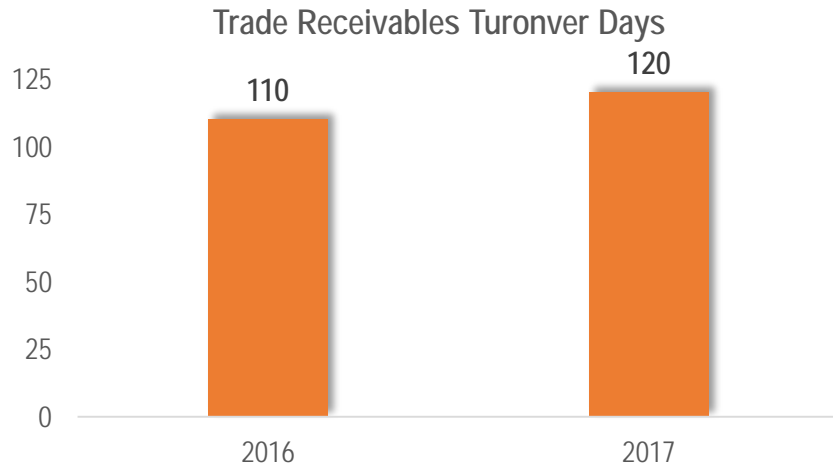
Debt Structure

	2016	2017
Domestic Debt	92%	81%
Bank Loans	61%	87%
Fixed-rate Borrowings	57%	70%

Working Capital Turnover – Overall



Working Capital Turnover – Distribution



Q&A



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Appendix 1: Income Statement Highlights



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HK\$ mn	FY2016	FY2017	YoY
Revenue	156,705	172,532	10.1%
Gross Profit	24,109	28,276	17.3%
Gross Profit Margin	15.4%	16.4%	
Operating Profit	9,001	10,404	15.6%
Operating Profit Margin	5.7%	6.0%	
Net Profit for the Company	5,968	6,867	15.1%
Net Profit Attributable to Shareholders	2,821	3,483	23.5%
Net Profit Margin (Attributable to Shareholders)	1.8%	2.0%	
EPS (HK\$)	0.57	0.55	

Appendix 2: Balance Sheet Highlights

HK\$ mn	31 Dec 2016	31 Dec 2017
Total assets	133,986	160,754
PPE	12,500	14,738
Goodwill	17,405	20,545
Trade receivable (net) and bills receivable	48,112	58,871
Inventories	18,859	21,406
Bank and cash	13,960	14,162
Total liabilities	79,684	97,617
Trade payable and bills payable	39,827	42,192
Bank borrowings	15,762	32,210
Bonds payable	9,949	4,665
Total equity	54,302	63,137
Shareholders' equity	37,620	41,870
Current ratio	1.3	1.2
Total debt	25,711	36,875
Net debt	11,751	22,713
Net debt / total equity	0.22	0.36

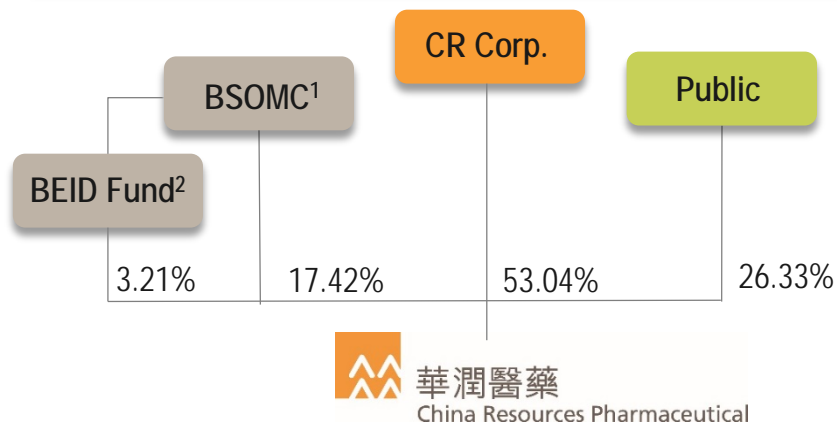
Appendix 3: 2017 Segment Results

HK\$ mn	Manufacturing	Distribution	Retail	Others	Total
External Revenue	26,362	141,826	4,244	100	172,532
Segment results	7,666	6,564	116	60	14,407
Other income					1,417
Other gains & losses					(32)
Admin expenses					(4,247)
Other expenses					(873)
Share of results of associates					141
Finance costs					(2,231)
Profit before tax					8,582

Principal Business

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

Shareholding Structure



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

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

³ By the close of business on 20 March 2018

Share Information

- Listed on the SEHK on 28 Oct 2016 (stock code: 3320.HK)
- Issued shares: 6,285 mn ³
- Market cap: HK\$68.4 bn ³
- Inclusion in key capital market indices:
 - **FTSE Index Series**
 - Global Equity Index (Large Cap)
 - FTSE All-World Index
 - FTSE AllCap (LMS) Index
 - **Hang Seng Index Series**
 - Composite LargeCap Index (eligible for trading under SHA/SZ–HK Stock Connect)
 - Mainland Healthcare Index
 - Healthcare Index
 - **CR Pharm and two of its A-share listed subsidiaries (CR Sanjiu/ Dong-E-E-Jiao) have been included in MSCI China Index**
 - **Hang Seng Stock Connect Hong Kong Index Series**

Appendix 5: Business Overview



Manufacturing

Revenue: HK\$29.3bn
Gross Profit: HK\$17.8bn

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



- Manufacture more than 460 pharmaceutical products

Distribution

Revenue: HK\$144.6bn
Gross Profit: HK\$9.6bn

- The 2nd largest pharmaceutical distributor in China
- 163 subsidiaries covering 27 provinces
- Distribute more than 150,000 types of products, comprising over 50,000 types of prescription drugs and around 20,000 OTC pharmaceutical products
- Source products from over 10,000 international and domestic pharmaceutical manufacturers

Retail

Revenue: HK\$4.2bn
Gross Profit: HK\$0.7bn

- Operate 786 retail pharmacies
- Own premium brand names

CR Care 华润堂



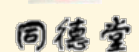
Yibaoquanxin 医保全新



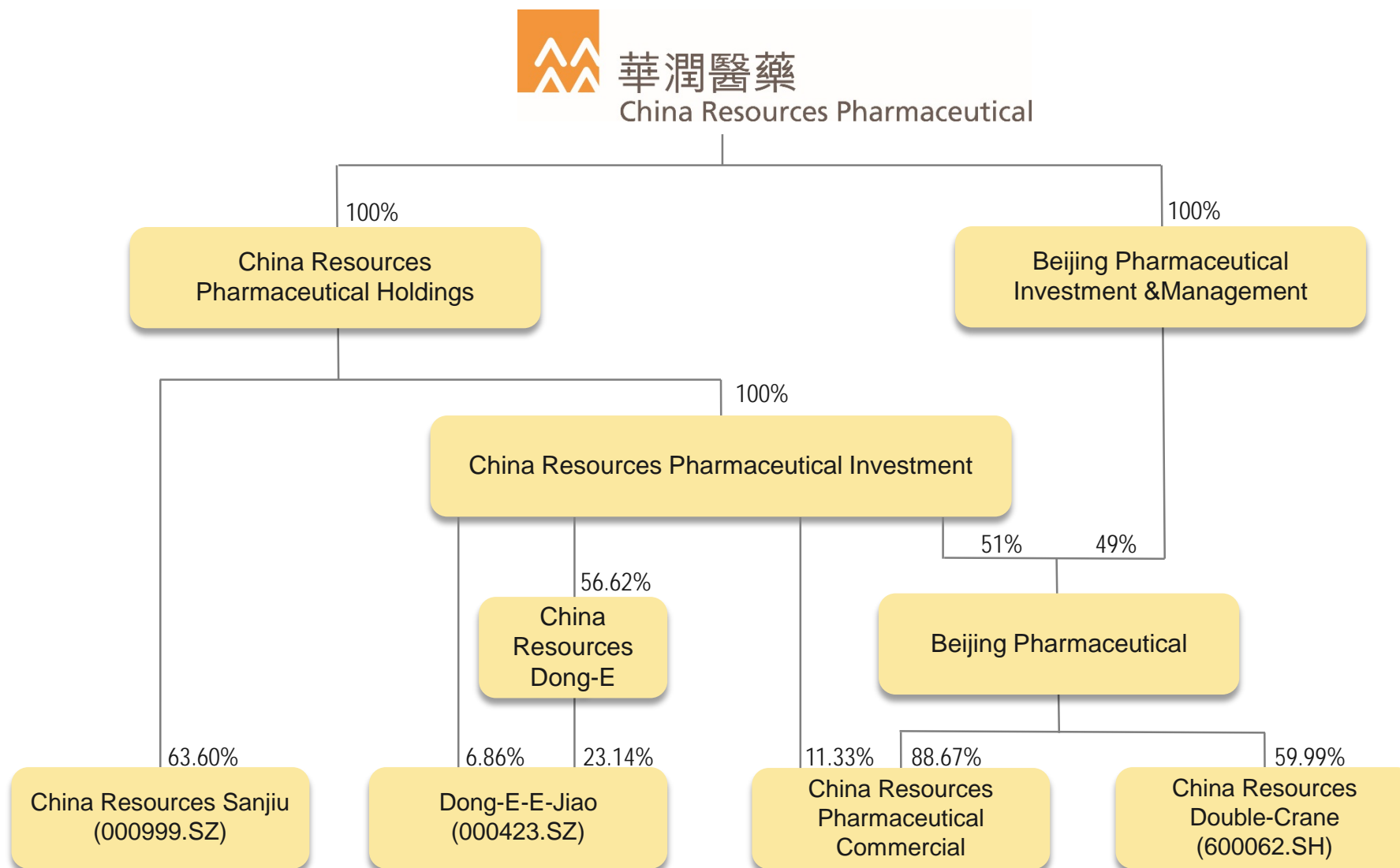
Li'an chain 礼安连锁



Tung Tak Tong 同德堂



Appendix 6: Corporate Structure

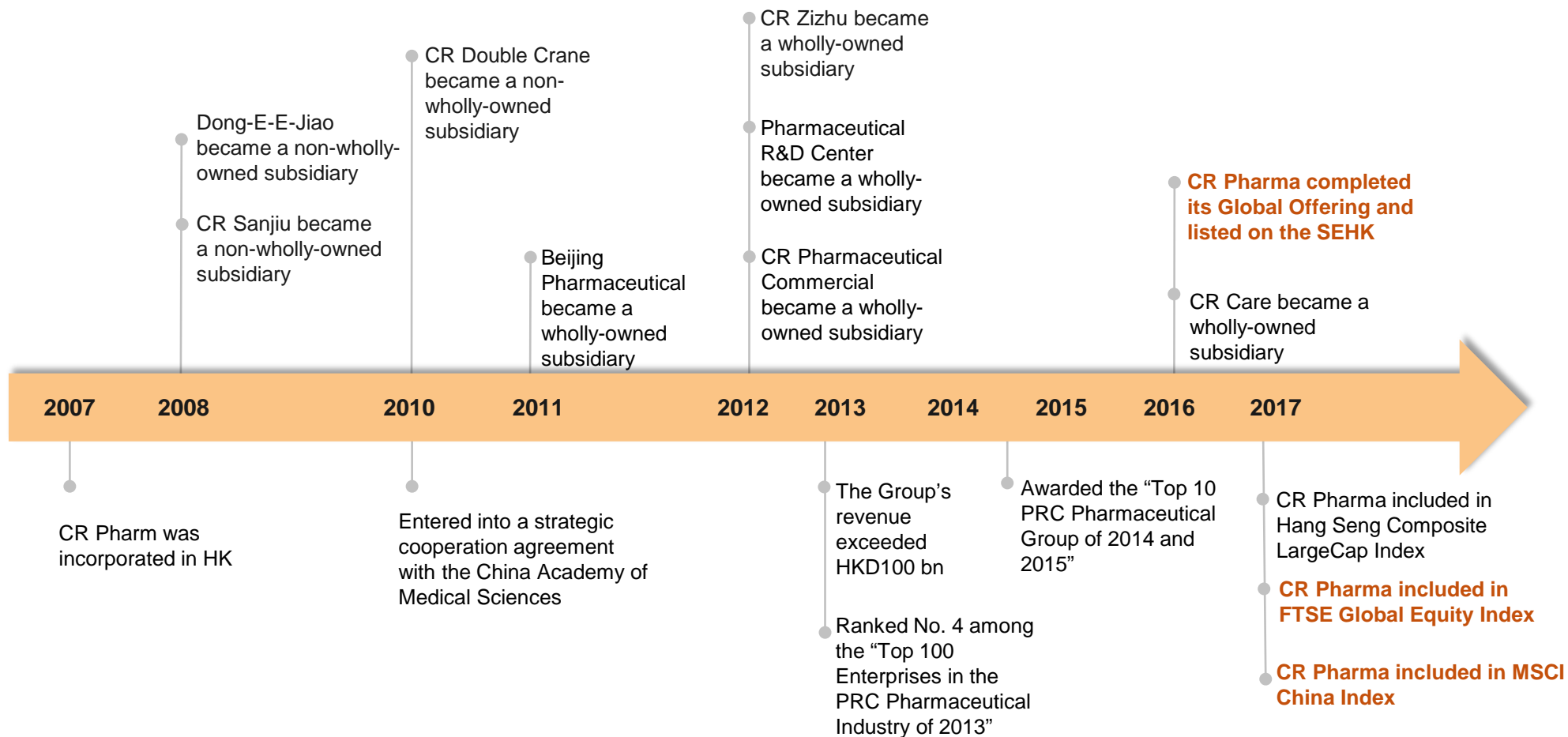


Appendix 7: Development History



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Appendix 8: Chinese Medicine & Nutritional Product



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

Appendix 9: Chemical Drugs

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