CHARMACY PHARMACEUTICAL CO., LTD.
創美藥業股份有限公司

(a joint stock limited liability company established in the People's Republic of China)

(Stock Code: 2289)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL SUMMARY

- In 2017, the operating revenue of the Group was RMB4,095.84 million, increasing by 11.61% as compared to RMB3,669.78 million in 2016.
- In 2017, the net profit of the Group amounted to RMB44.29 million, representing a decline of 21.54% compared with RMB56.46 million in 2016.
- In 2017, the Group's net profit attributable to the shareholders of parent company was RMB44.76 million, decreasing by 20.72% as compared to RMB56.46 million in 2016.
- In 2017, the Group's basic and diluted earnings per share was RMB0.41 as compared to RMB0.52 in 2016.
- The Board recommends the distribution of a final dividend of RMB0.20 per share for the year ended 31 December 2017.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Charmacy Pharmaceutical Co., Ltd. (the "**Company**" or "**we**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016.

According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Stock Exchange in December 2010, mainland incorporated issuers listed in Hong Kong are allowed to prepare their financial statements in accordance with mainland accounting standards, and mainland audit firms approved by the Ministry of Finance of the People's Republic of China (the "**PRC**") and China Securities Regulatory Commission ("**CSRC**") are allowed to serve these issuers using mainland auditing standards. Accordingly, on the annual general meeting convened on 10 June 2017, the Company approved the change to preparing its financial statements in accordance with PRC accounting standards. Unless stated otherwise, the financial information contained in this results announcement was presented in accordance with China Accounting Standards for Business Enterprise.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017

	Notes	**2017** *RMB*	2016 *RMB*
Operating revenue	*4*	**4,095,835,450.18**	3,669,781,092.20
Less: Operating cost	*4*	**3,885,972,976.78**	3,488,020,014.20
Taxes and surcharges		**4,612,627.66**	3,739,742.05
Selling expenses		**68,005,339.09**	51,541,787.61
Management expenses		**49,576,119.01**	38,991,686.54
Finance costs	*6*	**27,606,978.42**	10,265,249.95
Impairment loss of assets		**4,417,622.82**	4,028,963.03
Add: Gains on disposal of assets		**–185,982.92**	–29,215.31
Other gains		**467,051.01**	–
Operating profit		**55,924,854.49**	73,164,433.51
Add: Non-operating revenue		**4,077,127.40**	3,101,527.68
Less: Non-operating expenses		**144,667.60**	184,495.45
Total profit		**59,857,314.29**	76,081,465.74
Less: Income tax expense	*7*	**15,562,441.59**	19,623,195.96
Net profit		**44,294,872.70**	56,458,269.78
Net profit attributable to the shareholders of parent company		**44,759,911.86**	56,458,269.78
Profit or loss of minority shareholders		**–465,039.16**	–
Total comprehensive income		**44,294,872.70**	56,458,269.78
Total comprehensive income attributable to the shareholders of parent company		**44,759,911.86**	56,458,269.78
Total comprehensive income attributable to minority shareholders		**–465,039.16**	–
Earnings per share			
Basic and diluted earnings per share	*8*	**0.4144**	0.5228

CONSOLIDATED BALANCE SHEET
As at 31 December 2017

	Notes	**31 December 2017** *RMB*	31 December 2016 *RMB*
Current assets			
Monetary funds		**512,413,395.71**	477,305,523.55
Bills receivables	*10*	**87,683,853.38**	69,645,078.79
Trade receivables	*11*	**882,570,454.98**	860,680,207.96
Prepayments		**149,275,256.35**	92,812,741.10
Other receivables		**9,674,650.78**	4,435,258.37
Inventories		**431,592,426.38**	351,522,843.15
Other current assets		**30,031,737.79**	25,266,982.42
Total current assets		**2,103,241,775.37**	1,881,668,635.34
Non-current assets			
Fixed assets		**115,303,828.63**	114,149,093.72
Construction in progress		**81,967,801.27**	3,534,388.47
Liquidation of fixed assets		**73,448.54**	–
Intangible assets		**160,723,843.55**	109,095,269.33
Goodwill		**4,593,625.31**	–
Long-term expenses to be amortised		**1,201,796.75**	159,599.82
Deferred income tax assets		**4,723,418.55**	2,962,930.71
Total non-current assets		**368,587,762.60**	229,901,282.05
Total assets		**2,471,829,537.97**	2,111,569,917.39

	Notes	31 December 2017 RMB	31 December 2016 RMB
Current liabilities			
Short-term borrowings		**522,900,000.00**	338,481,500.00
Bill payables	*12*	**928,824,897.42**	779,805,270.32
Trade payables	*13*	**479,781,944.91**	480,614,637.48
Receipts in advance		**5,382,568.81**	9,215,625.24
Salaries payable to employees		**4,781,858.77**	4,711,472.83
Tax payables		**50,867,274.80**	48,309,414.37
Interests payable		**1,050,789.84**	435,280.50
Other payables		**12,700,257.58**	7,227,467.79
Other current liabilities		**520,000.00**	–
Total current liabilities		**2,006,809,592.13**	1,668,800,668.53
Non-current liabilities			
Deferred income		**1,612,948.99**	–
Total non-current liabilities		**1,612,948.99**	–
Total liabilities		**2,008,422,541.12**	1,668,800,668.53
Shareholders' equity			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**282,204,487.50**	281,215,559.50
Surplus reserve		**10,115,890.49**	5,644,834.02
Unallocated profits		**55,797,710.73**	47,908,855.34
Total equity attributable to the shareholders of parent company		**456,118,088.72**	442,769,248.86
Minority interests		**7,288,908.13**	–
Total shareholders' equity		**463,406,996.85**	442,769,248.86
Total liabilities and shareholders' equity		**2,471,829,537.97**	2,111,569,917.39

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as a 全民所有制企業 (enterprise owned by the whole people in the PRC) under the name of 汕頭市醫藥聯合公司物資站 (Shantou Pharmaceutical Supplies Company*) on 18 February 1984. Pursuant to an approval granted by relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed to its current name. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 14 December 2015. The address of the registered office and principal place of business of the Company is No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC.

The Company and its subsidiary (collectively referred to as the "**Group**") are engaged in trading of pharmaceutical products and provision of related services.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(1) Preparation basis

The Group prepared its financial statements on the going concern basis, according to actual transactions and events as well as such disclosure requirements under the Accounting Standards for Enterprises (《企業會計準則》) issued by the Ministry of Finance of the PRC and relevant provisions (collectively referred to as "**Accounting Standards for Enterprises**"), the Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.15 – General Provisions on Financial Reporting (Revised in 2014) (《公開發行證券的公司信息披露編報規則第15號—財務報告的一般規定》(2014年修訂)) issued by China Securities Regulatory Commission, the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange, and based on the accounting policies and accounting estimates applicable to the Group.

(2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 31 December 2017, did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Declaration on compliance with Accounting Standards for Enterprises

The Company complied with the requirements of Accounting Standards for Enterprises in preparing its financial statements, which give a true and full view of the financial position, operating results and cash flows of the Company and the Group.

(2) Accounting period

The Group's accounting period begins on 1 January and ends on 31 December of the calendar year.

(3) Business cycle

The Group treats 12 months as a business cycle and the criteria for classifying the liquidity of assets and liabilities.

(4) Functional currency

The Group adopts Renminbi as its functional currency.

Unless otherwise stated, in respect of the data disclosed in the following financial statements, “beginning of the year”, “end of the year”, “the year” and “last year” refer to 1 January 2017, 31 December 2017, 1 January 2017 to 31 December 2017, and 1 January 2016 to 31 December 2016, respectively, while the currency unit is RMB yuan.

4. OPERATING REVENUE AND OPERATING COST

	Amount for the year		Amount for last year	
Item	**Revenue**	**Cost**	Revenue	Cost
Principal business	**4,061,633,057.77**	**3,885,972,976.78**	3,641,948,218.29	3,488,020,014.20
Other business	**34,202,392.41**	**–**	27,832,873.91	–
Total	**4,095,835,450.18**	**3,885,972,976.78**	3,669,781,092.20	3,488,020,014.20

5. SEGMENT INFORMATION

Information would be reported to the chief executive officer of the Group, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The chief executive officer of the Company considers that there is only one operating and reportable segment for the Group: trading and promoting pharmaceutical products.

Geographical information

All the Group’s operations are located in the PRC. All the Group’s operating revenue from external customers is generated from the PRC and all the non-current assets of the Group are located in the PRC.

Information about major customers

No individual customer has contributed over 10% of the total operating revenue of the Group for the two years ended 31 December 2017 and 2016.

6. FINANCE COSTS

Item	**Amount for the year**	Amount for last year
Interest expenses	**25,385,458.52**	17,041,424.74
Less: Interest income	**3,377,080.73**	3,513,121.93
Add: Foreign exchange loss	**1,741,945.41**	–5,825,547.04
Add: Handling fees	**3,856,655.22**	2,562,494.18
Total	**27,606,978.42**	10,265,249.95

7. INCOME TAX EXPENSE

(1) Income tax expense

Item	**Amount for the year**	Amount for last year
Current income tax calculated according to the tax law and related regulations	**17,317,005.48**	20,174,973.13
– PRC	**17,317,005.48**	20,174,973.13
– Hong Kong	**–**	–
Deferred income tax expenses	**–1,754,563.89**	–551,777.17
Total	**15,562,441.59**	19,623,195.96

The Group had no Hong Kong income tax, since it had no taxable income in Hong Kong during the year.

(2) Reconciliation between accounting profit and income tax expenses

Item	**Amount for the year**
Combined total profit for the year	**59,857,314.29**
Income tax expenses calculated at statutory/applicable tax rate	**14,964,328.57**
Effect of non-deductible costs, expenses and losses	**598,113.02**
Effect of deductible temporary difference or deductible losses of unrecognized deferred tax assets for the year	**–**
Income tax expenses	**15,562,441.59**

8. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No.9 – Calculations and Disclosures for Return on Net Assets and Earnings Per Share (Revised in 2010)" (《公開發行證券的公司信息披露編報規則第9號–淨資產收益率和每股收益的計算及披露(2010年修訂)》) issued by the China Securities Regulatory Commission, the weighted average return on net assets, basic earnings per share and diluted earnings per share of the Group for 2017 are as follows:

Profit for the reporting period	**Weighted average return on net assets (%)**	**Earnings per share**	
		Basic earnings per share	**Diluted earnings per share**
Net profit attributable to the shareholders of parent company	9.85	0.4144	0.4144
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	9.15	0.3849	0.3849

9. DIVIDEND

An interim dividend of RMB0.10 per share totaling RMB8,000,000 was declared and paid by the Company on its shares issued in the PRC ("**Domestics Shares**") and HK$0.11771 per share at the time of approval by the Company's shareholders totaling approximately HK$3,295,880 (equivalent to RMB2,800,000) was declared and paid by the Company on the overseas listed foreign shares ("**H Shares**") during 2017.

The Board proposed the distribution of a final dividend of RMB0.20 (tax inclusive) per share for the year ended 31 December 2017 (2016: RMB0.20), subject to the Company's shareholders' approval on the forthcoming annual general meeting.

10. BILLS RECEIVABLES

(1) Classification of bills receivables

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bank acceptance bills	**49,483,853.38**	42,145,078.79
Commercial drafts	**38,200,000.00**	27,500,000.00
Total	**87,683,853.38**	69,645,078.79

(2) Pledged bills receivables as at the end of the year

Item	Pledged amount as at the end of the year
Bank acceptance bills	**27,934,276.03**
Commercial drafts	**13,700,000.00**
Total	**41,634,276.03**

(3) Bills receivables endorsed but not mature at the balance sheet date, as at the end of the year

Item	Amount derecognized as at the end of the year
Bank acceptance bills	**445,037,113.59**
Commercial drafts	**–**
Total	**445,037,113.59**

(4) Bills receivables discounted but not mature at the balance sheet date, as at the end of the year

Item	Amount derecognized as at the end of the year	Amount not derecognized as at the end of the year
Bank acceptance bills	**150,642,483.98**	–
Commercial drafts	**–**	22,000,000.00
Total	**150,642,483.98**	22,000,000.00

(5) As at the end of the year, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills.

Note: The age of the bills receivables of the Group was within 180 days as at the aforementioned end of the year.

11. TRADE RECEIVABLES

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	**894,355,187.94**	870,611,809.42
Less: Provision for bad debt	**11,784,732.96**	9,931,601.46
Net amount	**882,570,454.98**	860,680,207.96

(1) Aging analysis of trade receivables

Before accepting new customers, the Group assessed the credit worthiness of potential clients and set corresponding credit limits according to the internal credit assessment policies. The Group applies different credit policies to different customers. Credit period is generally six months. As for commodity sales, the age of trade receivables and operating revenue is recognized and calculation started three days after the products are shipped;

	Balance as at the end of the year		
Age	Trade receivables	Provision for bad debt	Percentage of provision *(%)*
Within 1 year	**882,682,889.70**	**4,521,787.42**	**0.51**
1 to 2 years	**8,965,313.46**	**4,562,082.18**	**50.89**
2 to 3 years	**163,703.05**	**157,581.63**	**96.26**
More than 3 years	**2,543,281.73**	**2,543,281.73**	**100.00**
Total	**894,355,187.94**	**11,784,732.96**	**–**

Age	Balance as at the beginning of the year Trade receivables	Provision for bad debt	Percentage of provision (%)
Within 1 year	829,239,594.78	5,160,467.09	0.62
1 to 2 years	38,805,705.67	2,204,625.40	5.68
2 to 3 years	2,453,570.86	2,453,570.86	100.00
More than 3 years	112,938.11	112,938.11	100.00
Total	870,611,809.42	9,931,601.46	–

(2) Classification of trade receivables

	Balance as at the end of the year				
	Carrying amount		**Provision for bad debt**		
Classification	**Amount**	**Percentage** *(%)*	**Amount**	**Percentage of provision** *(%)*	**Book value**
Trade receivables with significant individual amount and bad debt provision accrued on single item	**10,477,855.70**	**1.17**	**6,244,321.13**	**59.60**	**4,233,534.57**
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	**882,760,202.66**	**98.70**	**4,423,282.25**	**0.50**	**878,336,920.41**
Account age combination	**882,760,202.66**	**98.70**	**4,423,282.25**	**0.50**	**878,336,920.41**
Trade receivables with insignificant individual amount but bad debt provision accrued on single item	**1,117,129.58**	**0.13**	**1,117,129.58**	**100.00**	**–**
Total	**894,355,187.94**	**100.00**	**11,784,732.96**	**–**	**882,570,454.98**

	Balance as at the beginning of the year				
	Carrying amount		Provision for bad debt		
Classification	Amount	Percentage *(%)*	Amount	Percentage of provision *(%)*	Book value
Trade receivables with significant individual amount and bad debt provision accrued on single item	2,013,875.90	0.23	2,013,875.90	100.00	–
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	866,726,629.12	99.55	6,066,421.16	0.70	860,660,207.96
Account age combination	866,726,629.12	99.55	6,066,421.16	0.70	860,660,207.96
Trade receivables with insignificant individual amount but bad debt provision accrued on single item	1,871,304.40	0.22	1,851,304.40	98.93	20,000.00
Total	870,611,809.42	100.00	9,931,601.46	–	860,680,207.96

(3) Aging analysis of amounts past due but not impaired as at the balance sheet date

Age	**Balance as at the end of the year**	Balance as at the beginning of the year
Within 1 year	**50,161,077.88**	130,821,147.00
1 to 2 years	**4,402,194.44**	560,389.93
2 to 3 years	**6,121.42**	–
Net amount	**54,569,393.73**	131,381,536.93

(4) Conditions about the provision for bad debts drawn and reversed (or recovered) in the year

In the year, the provision for bad debts drawn amounted to RMB5,960,328.28 and the provision for recovered or reversed bad debts was RMB3,978,894.78.

(5) Trade receivables written off during the year

Item	**Amount written off**
Trade receivables written-off	128,302.00

12. BILL PAYABLES

Classification of bills	**Balance as at the end of the year**	Balance as at the beginning of the year
Bank acceptance bills	**928,824,897.42**	779,805,270.32
Total	**928,824,897.42**	779,805,270.32

Note: As at 31 December 2017, the Group's bank acceptance bills due and unpaid amounted to RMB1,194,400. Their delay of payment by banks was caused by 31 December 2017 being a non-working day.

As at the end of the year, the age of the Group's bill payables mentioned above was within 180 days.

13. TRADE PAYABLES

(1) Trade payables

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Loans	**445,909,395.68**	480,614,637.48
Land costs	**32,380,952.38**	–
Project maintenance costs	**1,491,596.85**	–
Total	**479,781,944.91**	480,614,637.48

(2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2017:

Age	**Balance as at the end of the year**	Balance as at the beginning of the year
Within 1 year	**477,997,374.71**	479,994,973.65
1 to 2 years	**1,527,649.39**	281,791.69
2 to 3 years	**12,988.20**	337,872.14
More than 3 years	**243,932.61**	–
Total	**479,781,944.91**	480,614,637.48

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In recent years, the Chinese pharmaceutical circulation industry has undergone rapid growth in terms of market size, as the new medical reform takes place at a faster place and residents witness an improvement in their quality of life. At the same time, the industry faces fresh opportunities and challenges, under a raft of new pharmaceutical policies.

During the reporting period, the General Office of the State Council of the PRC (the "**State Council**") promulgated Several Opinions on Further Reforming and Improving the Policies Concerning Production, Circulation and Usage of Drugs (《關於進一步改革完善藥品生產流通使用政策的若干意見》) ("**Circular No.13**") in January 2017 to deepen the reform of pharmaceutical and healthcare systems, improve the quality and therapeutic effect of pharmaceutical products, regulate pharmaceutical circulation and usage, better meet the public demand for medical consultation and treatment, and ultimately help develop a "Healthy China". In respect of pharmaceutical circulation, Circular No.13 places its emphasis on rectifying the circulation order and improving the circulation system. Specifically, the following measures are raised: developing large modern businesses to serve the backbone in pharmaceutical circulation; enforcing the "Two-Invoice System" for pharmaceutical purchase and distribution; carrying out the policy for classified pharmaceutical purchase, and containing unreasonably high prices of pharmaceutical products; strengthening the management of purchase and distribution contracts for pharmaceutical products; imposing severe legal punishment on businesses that violate laws and regulations; enhancing the monitoring of price information; and promoting the "Internet + Pharmaceutical Circulation" model.

Steadily improving industry concentration in pharmaceutical circulation

According to Circular No.13, China will implement a "Two-Invoice System" on pharmaceutical purchase and distribution, which is expected to be promoted across the country in 2018. The new system will facilitate industrial integration among pharmaceutical circulation businesses, and raise the degree of industrial concentration in pharmaceutical circulation industry.

In December 2016, the Chinese Ministry of Commerce issued the National Development Plan for Drug Circulation Industry (2016–2020) (《全國藥品流通行業發展規劃(2016-2020年)》) (the "**Plan**"), in an attempt to continue to encourage pharmaceutical circulation businesses to grow stronger and larger through various approaches such as mergers and acquisitions, financing through listing, and bond issuance. In this way, the industry can achieve sizeable, intensive and modern operation more quickly. The plan also proposes that the country will develop a group of large pharmaceutical circulation businesses with nationwide coverage and a high degree of intensive and information-based operation by 2020, and that top 100 pharmaceutical distribution businesses will account for over 90% of the total annual sales of the pharmaceutical distribution market. According to the Report of Statistical Analysis on the Operation of Pharmaceutical Circulation Industry (《藥品流通行業運行統計分析報告》) issued by the Chinese Ministry of Commerce in June 2017, in respect of revenue from principal business, top 100 pharmaceutical wholesalers accounted for 70.9% of the Chinese pharmaceutical market in 2016, which represented a year-on-year increase of 0.2%.

The implementation of various policies will push pharmaceutical circulation into a period of rapid industrial concentration.

Increasingly strict regulation in the pharmaceutical circulation industry

During the reporting period, China Food and Drug Administration ("**CFDA**") targeted the rectification in pharmaceutical circulation, tightening the regulation of the industry. In February 2017, CFDA amended the Good Supply Practice ("**GSP**") for Pharmaceutical Products – Guiding Principles for Onsite Inspection (《藥品經營質量管理規範現場檢查指導原則》), which sets out higher requirements on GSP certification and inspection for pharmaceutical operation firms. On 23 October 2017, CFDA issued a draft amendment to the PRC Law on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》). The draft amendment cancelled GMP (Good Manufacturing Practice for Pharmaceutical Products) and GSP systems, signaling that dynamic supervision and spot checks will replace "static" supervision.

By rolling out such regulatory policies, the Chinese authorities for pharmaceutical circulation have shown their determination to provide a safe and efficient circulation environment for the industry. Implementing such policies will result in tighter industrial supervision. This will be conducive to regulating and managing pharmaceutical circulation industry, and facilitate its healthy development.

Regulating medical practice and medication, reforming and adjusting the profit-driven mechanism

Circular No.13 proposes to further dismantle the mechanism in which doctors profit from medicine, and promote the separation of doctors from the provision of medicine. In January 2017, the State Council issued the "13th Five-Year Plan for Deepening the Reform of Pharmaceutical and Healthcare Systems" (《"十三五"深化醫藥衛生體制改革規劃》) which specifies that work will be done to improve the national policy and system on medicine, restructure the market, and allow retail pharmacies to grow into an important channel to sell medicine to patients and offer them pharmaceutical service.

In May 2017, the People's Government of Guangdong Province issued the Notice of People's Government of Guangdong Province on the 13th Five-Year Plan for Reforming Pharmaceutical and Healthcare Systems in Guangdong Province (廣東省"十三五"深化醫藥衛生體制改革規劃), which sets out the requirement that "comprehensive measures shall be taken to separate medical institutions from pharmaceutical business, and cut the profit chain that links hospitals and medical staff to pharmaceutical products and medical supplies". Medical institutions shall not prevent their prescriptions from external use, and patients can take such prescriptions to retail pharmacies to purchase medicine. In addition, efforts shall be made to promote hierarchical management for pharmaceutical retailers, and establish a hierarchical management system. Furthermore, online pharmaceutical sales should be under tighter scrutiny, with efforts to develop standard pharmacies for medical institutions. Efforts shall also be made to promote sufficient competition, mergers and acquisitions among pharmaceutical companies, so as to realize sizable, intensive and modern operation. The market shall be adjusted to enable retail pharmacies to become an important channel to sell pharmaceutical products to patients and offer them pharmaceutical advice service.

The separation of doctors from medicine provision has regulated medical practice and medication, adjusted the profit mechanism, lowered the medication cost for residents and improved the medical service system. The implementation of the policy allows pharmacies to take on the role of selling prescription medicine and residents to change their consumption habits. As such, pharmacies have assumed an increasingly prominent role and accounted for a larger share in pharmaceutical sales, which in turn, has facilitated the development of pharmaceutical circulation industry.

Actively promoting the "Internet + Pharmaceutical Circulation" model to integrate the development of online and offline business

In January 2017, the State Council cancelled the approval of B and C certificates for online pharmaceutical transactions. On 22 September 2017, the State Council issued the Decision of the State Council on Canceling a Group of Administrative Licensing Items (GF[2017]No.46) (《國務院關於取消一批行政許可事項的決定(國發[2017]46號)》) (the "**Decision**"). Among the cancelled items is the approval of online pharmaceutical transaction and service businesses (third parties), known as Pharmaceutical E-Commerce A Certificate (醫藥電商A證). Since then A/B/C certificates have all been cancelled for online pharmaceutical businesses.

China's support and trust will set "Internet + Pharmaceutical Circulation" as a fresh model and allow the industry to grow speedily. Stimulating extensive internet application in the pharmaceutical circulation industry, the Decision enriched industry development models and facilitated the integration of online and offline development.

BUSINESS REVIEW

Our principal business is pharmaceutical products distribution in the PRC, with most of our operating revenue derived from pharmaceutical products distribution. We procure pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and then sell the products to distributor customers, retail pharmacies, and hospitals, clinics, health centres and others. In 2017, we followed the established operation target, continue to explore the market in Southern China, with a focus on developing the business of distribution to end-customers.

As of 31 December 2017, our distribution network covered 7,355 customers, among which 782 were distributors, 4,777 were retail pharmacies and 1,796 were hospitals, clinics, health centres and others. As of 31 December 2016, our distribution network covered 5,674 customers, among which 783 were distributors, 3,496 were retail pharmacies and 1,395 were hospitals, clinics, health centres and others.

As of 31 December 2017, we had a total of 1,066 suppliers, of which 687 were pharmaceutical manufacturers and 379 were distributor suppliers. As of 31 December 2016, we had 1,019 suppliers, among which 673 were pharmaceutical manufacturers and 346 were distributor suppliers.

As of 31 December 2017, we distributed 11,230 products, which represented an increase of 5,161 products as compared to 2016.

	Number of products for the year ended 31 December	
	2017	2016
Products Category		
Western medicines	**4,180**	2,881
Chinese patent medicines	**3,438**	2,392
Healthcare products	**197**	125
Others	**3,415**	671
Total	**11,230**	6,069

Our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) commenced full operation in December 2015. As of 31 December 2017, our B2B e-commerce platform ("**e-commerce platform**") had 6,240 registered customers who are mainly retail pharmacies. The operating revenue contributed by our e-transactions through our B2B e-commerce platform in 2017 was approximately RMB194.89 million. In 2017, we were comprehensively engaged in upgrading the PC application of our e-commerce platform and the mobile application of WAP, as well as developing the APP platform. Besides, in September 2017, we officially launched "Charmacy e-Medicine" APP platform where customers can enjoy convenient and efficient distribution experience through a series of convenient service such as customer query, order placement and payment.

The operating revenue of the Group in 2017 was RMB4,095.84 million, increasing by 11.61% as compared to last year. The gross profit margin was 5.12%, increasing by 0.17 percentage point as compared to last year. The total expense ratio was 3.54%, representing an increase of 0.79 percentage point as compared to last year. Net profit amounted to RMB44.29 million, which represented a decline of 21.54% as compared to last year. Our net profit margin was 1.08%, decreasing by 0.46 percentage point as compared to last year.

Launching the construction of informatization program (Phase II) to facilitate corporate strategic development

In March 2017, the Group officially launched the construction of informatization program (Phase II) to invest in the implementation of SAP EWM and SAP TM. By doing so, we seek to develop and enhance our warehousing management and transportation systems, and deliver visualized management of warehousing and distribution by combining such systems and our supply chain collaboration platform. We have also established a logistics model featuring integrated network operation, breaking through the separate operations model among logistics and distribution centers and realize mutual assistance among warehouses. In addition, we have delivered standardized operation in logistics and distribution, with a replicable operational model established. Phase II of our informatization program was officially launched on 1 January 2018. Thus, the Group has become the first firm equipped with SAP EWM and SAP TM in the Chinese pharmaceutical circulation industry.

Penetrating into Zhuhai and Guangzhou to improve the distribution network

In 2017, the Group proceeded with its acquisitions. Its successive increase of capital contribution to two pharmaceutical distribution companies in Zhuhai and Guangzhou has further improved the Group's distribution network in the Guangdong market, with extended service coverage of pharmaceutical delivery, higher service efficiency, greater coverage of the Group's end market in Guangdong, and a more competitive pharmaceutical distribution network.

On 13 March 2017, the Company increased its capital contribution to Zhuhai Hengxiang Pharmaceutical Limited* (珠海市恒祥醫藥有限公司) to hold 70% of its shares, at a consideration of RMB18 million. Zhuhai Hengxiang Pharmaceutical Limited completed the registration for industrial and commercial changes on 30 March 2017, with its name changed to "Zhuhai Charmacy Hengxiang Pharmaceutical Limited*" (珠海創美恒祥醫藥有限公司) ("**Zhuhai Charmacy**").

The increase of capital contribution to Zhuhai Charmacy is an important move for the Group to penetrate into Zhuhai region, with full coverage across the end markets of Zhuhai and neighboring Zhongshan and Jiangmen. As of 31 December 2017, Zhuhai Charmacy had added 1,085 downstream customers and 3,503 products under its operation (including 1,921 Chinese medicine decoction pieces) to the Group's portfolio.

On 19 June 2017, the Company increased its capital contribution to Guangzhou Wangkang Pharmaceutical Technology Limited* (廣州王康醫藥科技有限公司) to hold 90% of its shares, at a consideration of RMB18 million. Guangzhou Wangkang Pharmaceutical Technology Limited completed the registration for industrial and commercial changes on 21 June 2017, with its name changed to "Guangzhou Charmacy Pharmaceutical Limited*" (廣州創美藥業有限公司) ("**Guangzhou Charmacy**").

On 12 July 2017, the Company purchased the properties (the "**Properties**", including the land use rights attached thereunder and occupied land) of No.33, Liyu Street, Dongyong Township, Nansha District, Guangzhou City of the PRC, at an aggregate cash consideration of RMB131 million (tax included). The Properties comprise of (i) a factory, which has a total gross floor area of 15,293.80 square meters; and (ii) a dormitory, which has a total gross floor area of 4,881.06 square meters. Both properties are erected on the land with a site area of 31,141.57 square meters. In December 2017, the Company subleased its factory to Guangzhou Charmacy. Planned to commence operation in April 2018, the factory will better serve the small and medium-sized pharmaceutical distributors and retail end-customers in Guangzhou, provide efficient delivery service, and further improve the layout of the distribution network.

Purchasing refrigerated transportation vehicles to provide high-quality pharmaceutical logistics service

To ensure the quality of its pharmaceutical products during transportation, the Group has built on the "Good Supply Practice for Pharmaceutical Products" to set even higher requirements on the transportation conditions for its pharmaceutical products. With that in mind, the Group chose refrigerated transportation vehicles to serve as its new addition or replace obsolete ones. In 2017, the Group purchased 26 refrigerated transportation vehicles. As of 31 December 2017, the Group owned a total of 86 transportation vehicles, including 52 refrigerated ones, to ensure the quality and safety of its pharmaceutical products during transportation. With such vehicles came a larger distribution network and a highly efficient delivery mechanism, through which the Group can deliver its pharmaceutical products three times per day for customers within a radius of 10 kilometers, twice per day for customers within a radius of 50 kilometers and once per day for those within a 250-kilometers' radius. All these are designed to provide customers with professional, high-quality pharmaceutical logistics service.

Prospects

Establish a wholly-owned subsidiary in Shenzhen to increase coverage in the end markets of Guangdong

The Group plans to sustain its intensive engagement in the Guangdong market, expand the distribution network, and widen its coverage in the end market of Guangdong. The Group has set up Shenzhen Charmacy Pharmaceutical Limited* (深圳創美藥業有限公司), a wholly-owned subsidiary in Shenzhen in January 2018, and plans to commence its operation by the end of 2018, through which the Group aims to further establish its presence in Shenzhen and extend its presence to neighboring cities. As such, the Group can further enhance its distribution network, with wider distribution coverage, higher operating efficiency, a broader customer base and greater operating revenue.

Establish a pharmaceutical sorting and distribution center in Guangzhou to boost market competitiveness

The Group plans to invest RMB165 million in a construction project to build Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center ("**Guangzhou Pharmaceutical Sorting and Distribution Centre**"), a new center for sorting and distributing pharmaceutical products on a piece of vacant land between the properties at No.33, Liyu Street, Dongyong Township, Nansha District, Guangzhou, the PRC.

In recent years, the Group has experienced rapid business growth in Pearl River Delta. Such rapid growth has rendered warehousing and distribution a bottleneck in the development of the Company. Its warehousing and distribution capacity is unable to meet the demand for further development, which urgently requires a new center for pharmaceutical sorting and distribution. Hence, building such a center in Guangzhou helps to relieve the Company's insufficient warehousing capacity in Pearl River Delta, and frees the Company from the current restriction caused by its warehousing and distribution capacity. Bringing larger supply, more extensive service coverage and higher service efficiency, the new center will elevate the Group's distribution capacity across Pearl River Delta, enable the Group with more capability of negotiating better price with upstream factories, secure the primary distribution right of more high-quality products, and meet the purchase demand from end users who need a variety of products, purchase in small batches and make frequent purchases. Ultimately, the Company will have a greater influence in the end market. Upon the completion of its construction, Guangzhou Pharmaceutical Sorting and Distribution Center will increase the size of the Group, help unleash its merits in service, customer resource, branding and management, and enhance the Group's market competitiveness and sustainability.

Continuously optimize product structure and enhance product mix

To meet different demands from customers and improve customer reliance as well as the Group's profitability and market competitiveness, the Group will sustain its optimization of product resources, strengthen collaboration with famous factories from home and abroad, and increase the variety and scale of primary distribution products. In particular, quality products that are marketable and high in gross profit margin will be introduced on a continuous basis, including Chinese medicine decoction pieces, healthcare products, cosmetics and medical devices. Besides, efforts will be made on product diversification and enhancement of product mix, so as to meet the diverse purchase demands from customers and improve their reliance and loyalty. At the same time, the Group will phase out some of the products with low gross profit margin and turnover rate, to increase the Group's profitability and competitive status.

Actively expand value-added service and improve customer reliance and loyalty

In respect of its principal business of pharmaceutical distribution, the Group will leverage on its advanced informatization system to analyze historical sales data and through the grasp of rich customer resources of both upstream and downstream as well as the market demands in different regions, to further expand its value-added service for upstream and downstream customers. In addition, the Group will offer a variety of activity solutions and new-product promotion to its pharmaceutical suppliers, to assist them in channel management and aggregation as well as product price control and protection. Also, as a bridge between upstream and downstream customers, the Group hosts trade fairs and factory training sessions for its customers, from whom the Group will not only charge a fee for such value-added service, but gain greater customer reliance and loyalty, more business opportunities and better profitability.

Actively proceed with A Share Listing to benefit the Group's long-term development

To better align with its long-term development strategy and objective, the Company is planning an initial public offering and listing of its A shares on Shenzhen Stock Exchange, with a total of no more than 20 million A shares to be issued. The proceeds from the A Share Listing will be invested in the construction project of Guangzhou Pharmaceutical Sorting and Distribution Center, the information system improvement project, and the project of expanding the pharmaceutical wholesale business. The implementation of such projects will help the Group enhance its competitive advantages in non-tendering markets, improve warehousing and delivery capabilities as well as its level of information-based development, lower capital costs, and ultimately further strengthen the Group's comprehensive competitiveness.

The Company filed its application for the initial public offering and listing of A shares with CSRC on 7 December 2017, and received a formal notice of acceptance from CSRC on 13 December 2017. In 2018, the Group will actively proceed with its A Share Listing, in an attempt to elevate its corporate image and brand recognition, widen financing channels, increase working capital and attain greater recognition from capital markets. The A share issuance will also bring more financial resources to the Group, lift its competitiveness, and ultimately benefit its long-term development.

FINANCIAL REVIEW

Operating revenue

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Principal business	**4,061,633**	3,641,948
Other business	**34,202**	27,833
Operating revenue	**4,095,835**	3,669,781

The operating revenue of the Group in 2017 was RMB4,095.84 million, representing an increase of 11.61% as compared to last year.

	For the year ended 31 December	
Customer type	**2017**	2016
	RMB'000	*RMB'000*
Distributors	**2,758,615**	2,436,868
Retail pharmacies	**1,214,657**	1,113,904
Hospitals, clinics, health centres and others	**88,361**	91,176
Revenue from principal business	**4,061,633**	3,641,948

During 2017, our revenue from principal business was from product sales to (i) distributor customers; (ii) retail pharmacies; and (iii) hospitals, clinics, health centres and others. In 2017, over 97% of our revenue from principal business was derived from distributor customers and retail pharmacies.

Our revenue from principal business increased in 2017, which was primarily attributable to the higher operating revenue from sales to distributor customers and retail pharmacies.

Our operating revenue from sales to distributor customers and retail pharmacies increased during 2017, mainly because (i) our product offerings increased from 6,069 types in 2016 to 11,230 types in 2017; in particular, the product offerings provided by us as a primary distributor increased from 4,509 types in 2016 to 6,472 types in 2017; (ii) we kept expanding our sales to retail pharmacies and other end markets, with the number of our retail pharmacy clients up from 3,496 in 2016 to 4,777 in 2017; and (iii) our acquisition of Zhuhai Charmacy led to an additional operating revenue of RMB13.98 million.

Operating cost, gross profit and gross profit margin

The operating cost of the Group increased by 11.41% to RMB3,885.97 million for the year ended 31 December 2017 from RMB3,488.02 million for the year ended 31 December 2016. The increase in operating cost was in line with the increase in operating revenue from sales of products.

The gross profit of the Group increased by 15.46% to RMB209.86 million for the year ended 31 December 2017 from RMB181.76 million for the year ended 31 December 2016. The gross profit margin of the Group increased to 5.12% for the year ended 31 December 2017 from 4.95% for the year ended 31 December 2016. The increase in the gross profit margin of the Group was primarily due to (i) more trade discounts from our suppliers, primarily attributable to the increase in procurement of products from us as a primary distributor from 4,509 in 2016 to 6,472 in 2017; and (ii) phasing-out of products with lower gross profit margin and turnover rate.

Selling expenses

For the year ended 31 December 2017, the Group's selling expenses amounted to RMB68.01 million, representing a 31.94% increase from RMB51.54 million for the year ended 31 December 2016. Such increase was caused by (i) an increase of RMB12.03 million in employee salaries compared with the year ended 31 December 2016, mainly because (a) to improve operational capability, the Group and its subsidiary Guangdong Charmacy Pharmaceutical Co., Ltd.* (廣東創美藥業有限公司) ("**Guangdong Charmacy**") recruited more sales-related personnel to boost the development of end markets, provided reserve talents for such subsidiaries as Guangzhou Charmacy, and recruiting some E-commerce and product development personnel, which led to a year-on-year increase of 57 employees; in the meantime, employee salaries have been raised to a proper level to stay competitive with industry peers, which led to a year-on-year increase of RMB9.76 million in total salaries to employees of the Company and Guangdong Charmacy; (b) the Group acquired Zhuhai Charmacy and Guangzhou Charmacy, which resulted in an increase of 63 employees and an additional RMB2.27 million for employee salaries; and (ii) the Company's own warehouses approaching full-capacity storage, which led to a total of RMB1.93 million in rental fees incurred by the new warehouses of Guangdong Charmacy and Zhuhai Charmacy.

Management expenses

For the year ended 31 December 2017, the Group's management expenses amounted to RMB49.58 million, representing a 27.15% increase from RMB38.99 million for the year ended 31 December 2016, mainly because (i) employee salaries increased by RMB5.66 million compared with the year ended 31 December 2016, mainly owing to the fact that (a) the Group enhanced its talent introduction by recruiting some experienced management talents, which led to an additional 35 employees recruited by the Company and Guangdong Charmacy on a year-on-year basis; in the meantime, the Group has raised its employee salaries to a proper level to stay competitive with its industry peers, which led to a year-on-year increase of RMB4.31 million in total salaries to employees of the Company and Guangdong Charmacy; (b) the Group acquired Zhuhai Charmacy and Guangzhou Charmacy, which led to an increase of 28 employees and an additional RMB1.36 million in total salaries to employees; (ii) the Group renovated its office areas, which led to an additional maintenance fee of RMB1.06 million; and (iii) in January 2017, Mr. Yao Chuanglong transferred some of his equity interests to Shantou Meizhi Investment Management Limited Partnership* (汕頭市美智投資管理合夥企業(有限合夥)), Shantou Zhichuang Investment Management Limited Partnership* (汕頭市智創投資管理合夥企業(有限合夥)) and Shantou Youran Investment Management Limited Partnership* (汕頭市悠然投資管理合夥企業(有限合夥)), which led to the payment of an additional processing fee of RMB0.99 million for such equity transfer according to China Accounting Standards for Business Enterprise.

Finance costs

For the year ended 31 December 2017, the Group's finance costs amounted to RMB27.61 million, representing a 168.94% increase from RMB10.27 million for the year ended 31 December 2016, mainly because (i) the expansion of financing scale led to an increase of RMB184.42 million in short-term borrowings compared with the year ended 31 December 2016 and a 0.18% increase in weighted average interest rate of borrowings compared with the year 31 December 2016, which led to an additional interest expense of RMB8.34 million; and (ii) the depreciation of HKD against RMB caused a foreign exchange loss of RMB1.74 million, as opposed to the foreign exchange gain of RMB5.83 million for the year ended 31 December 2016, which resulted in a reduction of RMB7.57 million in foreign exchange gains.

Income tax expense

For the year ended 31 December 2017, the Group's income tax expense amounted to RMB15.56 million, representing a 20.69% decline from RMB19.62 million for the year ended 31 December 2016, which was mainly caused by a decrease in total taxable profit. The effective tax rate (income tax expense divided by total profit) increased by 0.21 percentage point to 26.00% in 2017 from 25.79% in 2016.

Net profit

The net profit of the Group declined by 21.54% to RMB44.29 million for the year ended 31 December 2017 from RMB56.46 million for the year ended 31 December 2016. In particular, the net profit attributable to the shareholders of parent company decreased by 20.72% to RMB44.76 million for the year ended 31 December 2017 from RMB56.46 million for the year ended 31 December 2016. Net profit attributable to the shareholders of parent company recorded a decline, mainly because (i) the Group increased its capital contribution to its subsidiaries Zhuhai Charmacy and Guangzhou Charmacy, with a total loss of RMB1.88 million for 2017; (ii) the Group introduced more sales and management personnel as well as e-commerce and product development personnel, and raised its employee salaries; the acquisition of Zhuhai Charmacy and Guangzhou Charmacy as subsidiaries led to more staff members and higher total staff costs; and (iii) there was an increase in finance costs caused by increase in RMB loans with higher interest rates, and less foreign exchange gains due to exchange rate fluctuations.

Pearl River Delta is the best-off area in Guangdong, with huge volume and great prospect of pharmaceutical circulation market. Guangdong Charmacy was able to deliver speedy business development by capitalizing on the favorable opportunities of such market development. Hence, the Company has replicated the mature operational experience of Foshan region to increase its investment in the pharmaceutical circulation market, which can lay a better foundation for the long-term sustainable development of its future business. Phase II of the informatization program was formally launched on 1 January 2018; Zhuhai Charmacy completed its informatization construction project on 1 February 2018; and Guangzhou Charmacy is about to complete its informatization construction project before 31 March 2018, whilst Guangzhou Nansha warehouse will complete its alteration project and commence operation in April 2018. As such new subsidiaries start the operation of warehousing and logistics facilities successively, they also enjoy a stable information system and increasingly mature marketing teams. The subsidiaries in Zhuhai Charmacy and Guangzhou Charmacy will soon start their business operation and become new profit growth points of the Company.

Liquidity and financial resources

As at 31 December 2017, the cash and bank deposits of the Group amounted to RMB75.10 million, while the cash and bank deposits amounted to RMB119.57 million as at 31 December 2016.

At at 31 December 2017 and 31 December 2016, the Group recorded net current assets of RMB96.43 million and RMB212.87 million, respectively. As at 31 December 2017, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.05 (2016: 1.13).

The bank borrowings of the Group as at 31 December 2017 were RMB522.90 million. All the bank borrowings were provided by the banks within the PRC, which bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Trade receivables and bill receivables

As at 31 December 2017, the Group's trade receivables and bills receivables amounted to RMB970.25 million, representing an increase of RMB39.93 million compared to those as at 31 December 2016. Such increase was mainly caused by sales expansion.

Trade payables and bill payables

As at 31 December 2017, the Group's trade payables and bill payables amounted to RMB1,408.61 million, representing an increase of RMB148.19 million compared to those as at 31 December 2016. Such increase was mainly caused by the expanded use of bills receivables.

Treasury policy

The Group adopts a prudent financial management strategy in executing its treasury policy. Thus, a sound liquidity position was able to be maintained throughout the period under review. The Group continues to assess its customers' credit and financial positions so as to minimize credit risks. In order to control liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure that its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Foreign currency exchange risk

The transactions of the Group are mainly denominated in RMB. Except for part of the unused funds raised from listing which are denominated in HK$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong, most of the assets and all liabilities are denominated in RMB. The Group's deposits which are denominated in HK$ and deposited in designated accounts of commercial banks within the PRC and Hong Kong are subject to exchange risks. During the year, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the year ended 31 December 2017, the Group had no bank borrowings which bears a floating interest rate (2016: Nil).

Capital management

Set out below is the Group's gearing ratios as at 31 December 2017 and 2016, respectively:

	31 December 2017	31 December 2016
Gearing ratio (%)	**49.14%**	33.08%

Note: Gearing ratio is equal to net liabilities as at the end of the period divided by aggregate capital. Net liabilities represent total borrowings deducted by cash and cash equivalents; and aggregate capital is the sum of net liabilities and total equity.

Capital commitment

As at 31 December 2017, the Group's capital commitment amounted to RMB8.93 millom.

Employees' information

As at 31 December 2017, the Group had a total of 842 employees (including executive Directors), representing an increase of 183 employees compared with the number of employees as at 31 December 2016. The total staff cost (including emoluments of directors and supervisors) was RMB63.18 million, as compared to RMB45.48 million for the year ended 31 December 2016, representing a growth rate of 38.90%. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

The employees are entitled to bonus based on the results of the Group and individual performance other than basic salaries. Other staff benefits include other related insurances set up for the employees employed by the Group in accordance with the rules and regulations under Labour Law, Employment Contract Law, Social Insurance Law of the PRC and the current regulatory requirements of the PRC.

The salaries and benefits of the employees of the Group are kept at a competitive level. The employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

Change of auditors and the adoption of China Accounting Standards for Business Enterprise

On 10 June 2017, the Company convened the 2017 annual general meeting to approve the change of auditors. At the meeting, SHINEWING Certified Public Accountants (LLP) was appointed as the auditors of the Group for the year 2017. In addition, the standard for preparing the Company's financial statements has been changed to China Accounting Standards for Business Enterprise.

Material investments, acquisitions and disposals held

Apart from investment in subsidiaries, the Group held no material investment, acquisition or disposal in the equity interests of any other company for the year ended 31 December 2017.

Acquisition of the Properties

On 12 July 2017, the Company (as the purchaser) entered into a sale and purchase agreement with KTL (Guangzhou) Jewellery Manufacturer Ltd. (an independent third party) in relation to the properties situated at No.33, Liyu Street, Dongyong Township, Nansha District, Guangzhou City, the PRC, to purchase the Properties (including the land use rights attached thereunder and occupied land) at an aggregate cash consideration of RMB131 million (tax included). The Properties comprise of (i) a factory, which has a total gross floor area of 15,293.80 square metres; and (ii) a dormitory, which has a total gross floor area of 4,881.06 square metres. Both properties are erected on the land with a site area of 31,141.57 square metres. For details, please refer to the Company's announcement dated 12 July 2017.

Future plans related to the material investments and capital assets

Save as disclosed in the Prospectus, the Group has no other future plans related to the material investments and capital assets.

Material acquisitions and disposals related to the subsidiary, associates and joint ventures

During the year ended 31 December 2017, the Group had no material acquisitions and disposals related to the subsidiary, associates and joint ventures.

Pledge of assets

As of 31 December 2017, the Group was granted a credit limit of RMB1,091.52 million by various banks, while the Group's utilized banking facilities totalled RMB993.01 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB153.97 million as at 31 December 2017; (ii) land use rights held by the Group with a carrying amount of RMB148.62 million as at 31 December 2017; and (iii) inventories with a carrying amount of RMB250.00 million as at 31 December 2017.

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

DIVIDEND

The Board recommends the distribution of a final dividend of RMB0.20 per share for the year ended 31 December 2017 (tax inclusive), which is subject to approval by the shareholders of the Company at the annual general meeting (the "**AGM**") to be convened on 28 May 2018 and, if approved, will be paid on or before 3 July 2018. The dividend of domestic shares will be paid in RMB, whereas that of H shares will be paid in HK$. The Company will publish a circular in respect of, among others, the record date of H share dividend payment and the relevant dates when the registration of the H shares of the Company will be closed, when appropriate.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the members of the Company to attend the forthcoming AGM to be held on 28 May 2018, the register of members of the Company will be closed from 28 April 2018 to 28 May 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 pm on 27 April 2018.

CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the year ended 31 December 2017, save for the deviation as stated below:

Pursuant to Code Provision A.2.1, the responsibilities between the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Yao Chuanglong is our Chief Executive Officer, and he also performs as the chairman of our Board as he has considerable experience in the pharmaceutical distribution industry. Our Board believes that vesting the roles of both the chairman of our Board and the chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning of our Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct in dealings with securities transaction for the Directors and supervisors of the Company. Having made enquiries with all Directors and supervisors of the Company, the Company confirmed that all Directors and supervisors have complied with the required standard as set out in the Model Code for the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2017, the Company and its subsidiary have not purchased, sold or redeemed any listed securities of the Company.

IMPORTANT EVENTS AFTER THE END OF REPORTING PERIOD

On 2 January 2018, the Company established its wholly-owned subsidiary, Shenzhen Charmacy Pharmaceutical Company Limited* (深圳創美藥業有限公司) in Shenzhen, with a registered capital of RMB20.80 million. The establishment of Shenzhen Charmacy Pharmaceutical Company Limited* is in line with the Group's development strategy and needs, and will help the Group improve its market position in general.

AUDIT COMMITTEE AND REVIEW ON THE ANNUAL RESULTS

The audit committee of the Company (the "**Audit Committee**") consists of three members and three of them are independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (Chairman), Mr. Zhou Tao and Mr. Guan Jian. The Audit Committee reports to the Board and has held regular meetings to review and make recommendations to improve the Group's financial reporting process and internal controls. Other than that, the primary duties of the Audit Committee are to make recommendations to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control of the Company.

The Audit Committee of the Company, together with the management of the Company and the external auditor, had conducted review on the accounting principles and policies adopted by the Group and audited consolidated financial statements for the year ended 31 December 2017.

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement is published on the websites of the Company (www.chmyy.com) and the Stock Exchange (www.hkexnews.hk), and the annual report of the Company for the year ended 31 December 2017 will be dispatched to shareholders of the Company and published on the above websites in due course.

By order of the Board
Charmacy Pharmaceutical Co., Ltd.
Yao Chuanglong
Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the executive Directors of the Company are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Mr. Lin Zhixiong; the non-executive Director is Mr. Li Weisheng; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Zhou Tao and Mr. Guan Jian (also known as Guan Suzhe).

* *For identification purposes only*