創美·CH'MEI

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 2018

FINANCIAL SUMMARY

- In 2018, the operating revenue of the Group was RMB3,935.25 million, decreasing by 3.92% as compared to RMB4,095.84 million in 2017.

- In 2018, the net profit of the Group amounted to RMB44.76 million, representing an increase of 1.05% compared with RMB44.29 million in 2017.

- In 2018, the Group's net profit attributable to the shareholders of parent company was RMB45.43 million, increased by 1.50% as compared to RMB44.76 million in 2017.

- In 2018, the Group's basic and diluted earnings per share was RMB0.42 as compared to RMB0.41 in 2017.

- The Board recommends the distribution of a final dividend of RMB0.30 per share (tax inclusive) for the year ended 31 December 2018.

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 2018, together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 RMB	2017 RMB
I. Total operating revenue		**3,935,245,977.18**	4,095,835,450.18
Including: operating revenue	4	**3,935,245,977.18**	4,095,835,450.18
II. Total operating cost		**3,875,358,501.50**	4,040,191,663.78
Including: operating cost	4	**3,697,481,989.00**	3,885,972,976.78
Taxes and surcharges		**6,312,584.52**	4,612,627.66
Selling expenses		**73,976,620.95**	68,005,339.09
Management expenses		**59,905,246.94**	49,576,119.01
Finance costs	6	**31,530,138.13**	27,606,978.42
Including: Interest expenses		**31,093,279.95**	25,385,458.52
Interest income		**3,177,895.88**	3,377,080.73
Impairment loss of assets		**4,107,513.65**	4,417,622.82
Impairment loss of credits		**2,044,408.31**	–
Add: Other gains		**457,060.50**	467,051.01
Gains on disposal of assets (“–” for loss)		**–40,522.27**	–185,982.92
III. Operating profit		**60,304,013.91**	55,924,854.49
Add: Non-operating revenue		**3,611,103.89**	4,077,127.40
Less: Non-operating expenses		**259,691.95**	144,667.60
IV. Total profit		**63,655,425.85**	59,857,314.29
Less: Income tax expense	7	**18,893,432.91**	15,562,441.59
V. Net profit		**44,761,992.94**	44,294,872.70
(I) By continuity of operations		**44,761,992.94**	44,294,872.70
1. Net profit from continuing operation		**44,761,992.94**	44,294,872.70
2. Net profit from discontinued operation		**–**	–
(II) By ownership		**44,761,992.94**	44,294,872.70
1. Net profit attributable to the shareholders of parent company		**45,432,949.87**	44,759,911.86
2. Profit or loss of minority shareholders		**–670,956.93**	–465,039.16
VI. Total comprehensive income		**44,761,992.94**	44,294,872.70
Total comprehensive income attributable to the shareholders of parent company		**45,432,949.87**	44,759,911.86
Total comprehensive income attributable to minority shareholders		**–670,956.93**	–465,039.16
VII. Earnings per share			
Basic and diluted earnings per share	8	**0.4207**	0.4144

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	Notes	**31 December 2018** ***RMB***	31 December 2017 *RMB*
Current assets			
Monetary funds		**428,601,291.24**	512,413,395.71
Bills receivables and trade receivables	*10*	**827,972,997.67**	970,254,308.36
Including: Bills receivables		**35,900,330.74**	87,683,853.38
Trade receivables		**792,072,666.93**	882,570,454.98
Prepayments		**196,342,436.27**	149,275,256.35
Other receivables		**11,833,686.15**	9,674,650.78
Inventories		**472,522,915.24**	431,592,426.38
Other current assets		**24,810,498.20**	30,031,737.79
Total current assets		**1,962,083,824.77**	2,103,241,775.37
Non-current assets			
Fixed assets		**193,761,724.83**	115,377,277.17
Construction in progress		**23,788,389.90**	81,967,801.27
Intangible assets		**159,338,325.77**	160,723,843.55
Goodwill		**3,127,688.00**	4,593,625.31
Long-term expenses to be amortized		**6,244,160.99**	1,201,796.75
Deferred income tax assets		**5,635,562.76**	4,723,418.55
Total non-current assets		**391,895,852.25**	368,587,762.60
Total assets		**2,353,979,677.02**	2,471,829,537.97

	Notes	31 December 2018 RMB	31 December 2017 RMB
Current liabilities			
Short-term borrowings		**387,900,000.00**	522,900,000.00
Bills payables and trade payables	*11*	**1,343,420,220.04**	1,408,606,842.33
Receipts in advance		**–**	5,382,568.81
Contract liability		**1,879,275.48**	–
Salaries payable to employees		**5,066,954.31**	4,781,858.77
Tax payables		**37,441,066.12**	50,867,274.80
Other payables		**9,658,239.15**	13,751,047.42
Including: Interests payable		**921,877.61**	1,050,789.84
Other current liabilities		**457,060.50**	520,000.00
Total current liabilities		**1,785,822,815.60**	2,006,809,592.13
Non-current liabilities			
Long-term borrowings		**90,000,000.00**	–
Deferred income		**1,218,827.99**	1,612,948.99
Deferred income tax liabilities		**200,653.30**	–
Total non-current liabilities		**91,419,481.29**	1,612,948.99
Total liabilities		**1,877,242,296.89**	2,008,422,541.12
Shareholders' equity			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**278,990,829.04**	282,204,487.50
Surplus reserve		**13,665,514.85**	10,115,890.49
Unallocated profits		**76,081,036.24**	55,797,710.73
Total equity attributable to the shareholders of parent company		**476,737,380.13**	456,118,088.72
Minority shareholders' interests		**–**	7,288,908.13
Total shareholders' interests		**476,737,380.13**	463,406,996.85
Total liabilities and shareholders' interests		**2,353,979,677.02**	2,471,829,537.97

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as an enterprise owned by the whole people in the People's Republic of China (the "**PRC**") (全民所有制企業) under the name of Shantou Pharmaceutical Supplies Company* (汕頭市醫藥聯合公司物資站) 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 its name to Charmacy Pharmaceutical Co., Ltd (創美藥業股份有限公司). 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 2018, 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 information such as 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 2018, 31 December 2018, 1 January 2018 to 31 December 2018, and 1 January 2017 to 31 December 2017, respectively, while the currency unit is RMB yuan.

4. OPERATING REVENUE AND OPERATING COST

Item	**Amount for the year**		Amount for last year	
	Revenue	**Cost**	Revenue	Cost
Principal business	**3,906,599,642.74**	**3,697,481,989.00**	4,061,633,057.77	3,885,972,976.78
Other business	**28,646,334.44**	**–**	34,202,392.41	–
Total	**3,935,245,977.18**	**3,697,481,989.00**	4,095,835,450.18	3,885,972,976.78

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 2018 and 2017.

6. FINANCE COSTS

Item	**Amount for the year**	Amount for last year
Interest expenses	**31,093,279.95**	25,385,458.52
Less: Interest income	**3,177,895.88**	3,377,080.73
Add: Foreign exchange loss	**122,685.03**	1,741,945.41
Add: Handling fees	**3,492,069.03**	3,856,655.22
Total	**31,530,138.13**	27,606,978.42

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	**19,604,923.82**	17,317,005.48
– PRC	**19,604,923.82**	17,317,005.48
– Hong Kong	**–**	–
Deferred income tax expenses	**–711,490.91**	–1,754,563.89
Total	**18,893,432.91**	15,562,441.59

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	**63,655,425.85**
Income tax expenses calculated at statutory/applicable tax rate	**15,913,856.46**
Effect of non-deductible costs, expenses and losses	**2,613,092.12**
Other	**366,484.33**
Income tax expenses	**18,893,432.91**

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 2018 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	9.75	0.4207	0.4207
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	9.10	0.3926	0.3926

9. DIVIDEND

The Board proposed the distribution of a final dividend of RMB0.30 (tax inclusive) per share for the year ended 31 December 2018 (2017: RMB0.20), subject to the Company's shareholders' approval on the forthcoming annual general meeting.

10. BILLS RECEIVABLES AND TRADE RECEIVABLES

Item	Balance as at the end of the year	Balance as at the beginning of the year
Bills receivables	**35,900,330.74**	87,683,853.38
Trade receivables	**792,072,666.93**	882,570,454.98
Total	**827,972,997.67**	970,254,308.36

10.1 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	**31,924,545.23**	49,483,853.38
Commercial drafts	**3,975,785.51**	38,200,000.00
Total	**35,900,330.74**	87,683,853.38

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

Item	Pledged amount as at the end of the year
Bank acceptance bills	**30,393,653.82**
Commercial drafts	**–**
Total	**30,393,653.82**

(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	**355,412,974.47**
Commercial drafts	**–**
Total	**355,412.974.47**

(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	**186,099,333.72**	–
Commercial drafts	**–**	–
Total	**186,099,333.72**	–

(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: As at the end of the year, the age of the aforementioned bills receivables of the Group were within 1 year.

10.2 TRADE RECEIVABLES

Name of item	Balance as at the end of the year	Balance as at the beginning of the year
Trade receivables	**805,660,132.30**	894,355,187.94
Less: Provision for bad debt	**13,587,465.37**	11,784,732.96
Net amount	**792,072,666.93**	882,570,454.98

(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 trade receivables and operating revenue is recognized and the age of which is calculated after the main risks and rewards related to the ownership of goods have been transferred to the buyers.

	Balance as at the end of the year			Balance as at the beginning of the year		
Age	**Carrying amount**	**Percentage (%)**	**Provision for bad debt**	Carrying amount	Percentage (%)	Provision for bad debt
Within 1 year	**773,997,564.44**	**96.07**	**2,428,056.64**	882,682,889.70	98.70	4,521,787.42
1 to 2 years	**23,317,010.64**	**2.90**	**2,918,001.63**	8,965,313.46	1.00	4,562,082.18
2 to 3 years	**5,836,096.71**	**0.72**	**5,731,946.59**	163,703.05	0.02	157,581.63
More than 3 years	**2,509,460.51**	**0.31**	**2,509,460.51**	2,543,281.73	0.28	2,543,281.73
Total	**805,660,132.30**	**100.00**	**13,587,465.37**	894,355,187.94	100.00	11,784,732.96

(2) Classification of trade receivables

Classification	Balance as at the end of the year Carrying amount Amount	Percentage (%)	Provision for bad debt Amount	Lifetime expected credit loss rate (%)	Book value
Bad debt provision made on individual basis	**8,468,876.90**	**1.05**	**8,468,876.90**	**100.00**	**–**
Bad debt provision made on group basis	**797,191,255.40**	**98.95**	**5,118,588.47**	**0.64**	**792,072,666.93**
Account age combination	**797,191,255.40**	**98.95**	**5,118,588.47**	**0.64**	**792,072,666.93**
Total	**805,660,132.30**	**100.00**	**13,587,465.37**	**–**	**792,072,666.93**

Classification	Balance as at the beginning of the year Carrying amount Amount	Percentage (%)	Provision for bad debt Amount	Lifetime expected credit loss rate (%)	Book value
Bad debt provision made on individual basis	11,594,985.28	1.30	7,361,450.71	63.49	4,233,534.57
Bad debt provision made on group basis	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
Total	894,355,187.94	100.00	11,784,732.96	–	882,570,454.98

(3) No amounts past due but not impaired as at the balance sheet date

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

Balance as at the beginning of the year	Change amount in the year Accured	Recovered or reversed	Write-back or Write-off	Balance as at the end of the year
11,784,732.96	3,257,053.61	1,217,645.30	236,675.90	13,587,465.37

(5) Trade receivables written off during the year

Item	**Amount written off**
Trade receivables written-off	236,675.90

11. BILLS PAYABLES AND TRADE PAYABLES

Items	**Balance as at the end of the year**	Balance as at the beginning of the year
Bills payables	**778,925,488.11**	928,824,897.42
Trade payables	**564,494,731.93**	479,781,944.91
Total	**1,343,420,220.04**	1,408,606,842.33

11.1 BILLS PAYABLES

Classification of bills	**Balance as at the end of the year**	Balance as at the beginning of the year
Bank acceptance bills	**778,925,488.11**	928,824,897.42
Total	**778,925,488.11**	928,824,897.42

As at the end of the year, the age of the aforementioned bills payables of the Group were within 1 year.

11.2 TRADE PAYABLES

(1) Trade payables

Item	**Balance as at the end of the year**	Balance as at the beginning of the year
Loans	**563,275,976.07**	445,909,395.68
Land costs	**–**	32,380,952.38
Project maintenance costs	**1,218,755.86**	1,491,596.85
Total	**564,494,731.93**	479,781,944.91

(2) Aging analysis of trade payables

Below is an aging analysis of trade payables based on transaction date as at 31 December 2018:

Age	**Balance as at the end of the year**	Balance as at the beginning of the year
Within 1 year	**563,551,065.72**	477,997,374.71
1 to 2 years	**507,200.82**	1,527,649.39
2 to 3 years	**270,210.38**	12,988.20
More than 3 years	**166,255.01**	243,932.61
Total	**564,494,731.93**	479,781,944.91

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the course of the "13th Five Year Plan", with the successive implementation of medical reform policies (including control on medical insurance fees, zero medicine mark-up in public hospitals, the limitation of drug proportion, Two-Invoice system, reform of medical payment methods and the further promotion of the opinion on "Internet + Healthcare", Purchase in Quantity, "Three Medical System" Reform and Hierarchical Diagnosis and Treatment, the pharmaceutical distribution industry faced new opportunities and challenges.

Pharmaceutical wholesale enterprises' sales scale increased steadily and the growth rate slowed down under the economic downturn

The growth of gross domestic product ("**GDP**") has been decreasing year by year, with GDP growth rate of 6.6% in 2018. Sales growth of large pharmaceutical wholesale enterprises slowed down. In 2017, the income from principal activities of the top 100 pharmaceutical wholesale enterprises increased by 8.4% year on year, and the growth rate dropped by 5.6%.

Slight decline in the concentration of the pharmaceutical wholesale enterprises

From the perspective of market share, the income from principal activities of the top 100 pharmaceutical wholesale enterprises in 2017 accounted for 70.7% of the total size of the pharmaceutical market within the PRC for the same period, representing a year-on-year decrease of 0.2%. The concentration declined slightly.

Effective from 2016, the new edition of "Good Supply Practice for Pharmaceutical Products" (《藥品經營質量管理規範》) achieves effective control of the whole pharmaceutical industry chain, putting forward higher requirements for the industry. Under the impetus of the "VAT Program" and the Two-Invoice System policy, large-scale pharmaceutical wholesale enterprises had to continue to enhance their own business capability by way of external expansion through mergers and reorganizations and internal growth through actively developing the end-market. Industry concentration will increase as a result.

New changes in drug distribution patterns

On 17 March 2018, the Plan for Restructuring State Council (中國國務院機構改革方案) was approved at the first meeting of the 13th National People's Congress of the PRC, under which the National Health Commission and the National Healthcare Security Administration, the National Medical Products Administration were established, forming a new regulatory system. Among which, the main responsibilities of the National Healthcare Security Administration are: to organize the formulation of unified medical insurance catalogues and payment standards for medicines, medical consumables, medical service items and medical service facilities etc. for urban and rural areas to establish a dynamic adjustment mechanism, and formulate rules for negotiating access to medical insurance catalogues and organize such implementation to organize the formulation of policies on prices of medicines and medical consumables and fees for medical service items and medical service facilities etc., and establish a reasonable and dynamical system to determine and adjust medical service price for medical insurance payment, and promote the establishment of market-led price formation mechanism for social medical service price, and establish price information monitoring and information release system; to formulate and supervise the implementation of bidding and procurement policies for drugs and medical consumables, and guide the construction of bidding and procurement platform for drugs and medical consumables and so on.

On 28 April 2018, the General Office of the State Council issued the "Opinions on Promoting the Development of "Internet + Healthcare" (《關於促進「互聯網+醫療健康」發展的意見》) which put forward the improvement of "Internet +" drug supply and protection services. Medical institutions and drug operating enterprises may entrust qualified third-party organizations for such distribution in terms of prescriptions for common and chronic diseases issued online after checking and verifying by pharmacists. The industry can explore the interconnection and real-time sharing of prescription information and drug retail consumption information in medical and health institutions, and promote the standardized development of drug network sales and medical logistics distribution and others.

On 1 November 2018, the "National Catalogue of Essential Drugs"(2018 Version) (《國家基本藥物目錄》(2018年版)) came into effect. The number of varieties increased from 520 to 685, highlighting the demand for basic medicines in respect of common diseases, chronic diseases, and serious harm diseases with heavy burdens and public health and others.

On 15 November 2018, with the consent of the National Medical Security Administration, the "Document on Centralized Procurement of Drugs in 4+7 Cities" (《4+7城市藥品集中採購文件》) (the "**Purchase in Quantity**") was officially released on Sunshine Medical Procurement All-in-One (上海陽光醫藥採購網). The Central Committee for Comprehensive Deepening Reform (中央全面深化改革委員會) has approved the pilot program for centralized drug procurement, which cover 11 cities, namely Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu and Xi'an (the "**4 + 7 Cities**"). The Office of Joint Procurement (the "**Office of Joint Procurement**") was established by the representatives of the pilot areas as the working organization to implement centralized procurement on behalf of the public medical institutions in the pilot area. The daily work and specific implementation were undertaken by Shanghai Drug Centralized Bidding and Procurement Office (上海市醫藥集中招標採購事務管理所).

On 17 December 2018, the Office of Joint Procurement publicized the selection results of 4 + 7 Cities drug centralized procurement. As compared with the lowest purchase price of the same kind of drugs in the pilot cities in 2017, the average price of the proposed selection decreased by 52%. Despite the significant decrease in the prices of the drugs winning the bid, the sales increased greatly. Purchase in Quantity helps to relief the burden of medical treatment and promote full competition in the pharmaceutical market.

The Separation of Doctors from the Provision of Medicine, Hierarchical Diagnosis and Treatment and Expansion of Drug Catalogue at the Basic Level are new opportunities for the pharmaceutical distribution industry and primary medical institutions. The further implementation of the policies of Control on Medical Insurance Fees and "Internet +Healthcare", "Three Medical System" reform of the combination of medical treatment, medical insurance and medicine can help to promote the construction of an orderly hierarchical diagnosis and treatment pattern and meet people's increasing demand for health care. This enables the Group to draw on its sales network in the end-market and capture new growth drivers.

Increase in demand for medical health due to acceleration of aging population

By the end of 2017, there were 241 million people aged 60 and above in the PRC, accounting for 17.3% of the total population. By the end of 2018, there were 249 million people aged 60 and above in the PRC, accounting for 17.9% of the total population.

In the general public budget expenditure in 2018, the expenditure on medical health and family planning amounted to RMB1,570 billion, representing an increase of 8.5% as compared to 2017. The average number of residents' visits to health care institutions increased from 5.4 in 2013 to 5.9 in 2017.

With the acceleration of aging population, the increase in awareness of health care and the expansion of disease spectrum, the demand for medical health will continue to climb.

Sources of the above data: National Statistical Bureau, http://www.xinhuanet.com, the "Report of Statistical Analysis on the Operation of Pharmaceutical Circulation Industry" (2017) (《藥品流通行業運行統計分析報告》(2017)), "Financial Income and Expenditure in 2018" (《2018年財政收支情況》), the "National Statistical Bulletin on Health and Family Planning Development in 2013" (《2013年我國衛生和計劃生育事業發展統計公報》), the "National Statistical Bulletin on the Development of Health in 2017" (《2017年我國衛生健康事業發展統計公報》).

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 pharmacy stores, and hospitals, clinics, health centres and others. In 2018, we followed the established operation target, continuing to explore the market in Southern China, with a focus on developing the business of distribution to end-customers.

As of 31 December 2018, our distribution network covered 7,776 customers, among which 732 were distributors, 5,195 were retail pharmacies and 1,849 were hospitals, clinics, health centres and others. 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 2018, we had a total of 1,075 suppliers, of which 668 were pharmaceutical manufacturers and 407 were distributor suppliers. As of 31 December 2017, we had 1,066 suppliers, among which 687 were pharmaceutical manufacturers and 379 were distributor suppliers.

As of 31 December 2018, we distributed 11,493 products, which represented an increase of 263 products as compared to 2017.

	Number of products for the year ended 31 December	
	2018	2017
Products Category		
Western medicines	**3,871**	4,180
Chinese patent medicines	**3,871**	3,438
Healthcare products	**206**	197
Others	**3,545**	3,415
Total	**11,493**	11,230

Our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) commenced full operation in December 2015. For the year ended 31 December 2018, our B2B e-commerce platform ("**e-commerce platform**") had 5,638 active trading clients who are principally end-market customers such as retail pharmacy stores, clinic and health centers. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform was approximately RMB217.80 million.

The operating revenue of the Group in 2018 was RMB3,935.25 million, decreased by 3.92% as compared to last year. The gross profit margin was 6.04%, increased by 0.92 percentage point as compared to last year. The total expense ratio was 4.20%, representing an increase of 0.66 percentage point as compared to last year. Net profit amounted to RMB44.76 million, which represented an increase of 1.05% as compared to last year. Our net profit margin was 1.14%, increased by 0.06 percentage point as compared to last year.

Realising a logistics model featuring integrated network operation with the successful launch of SAP EWM and SAP TM Projects

The informatization program (Phase II) was launched on 1 January 2018. The program was initiated in March 2017 to invest in the implementation of modules of SAP EWM and SAP TM. By doing so, we seek to develop and enhance our warehousing management and transportation systems, and deliver visual management for warehousing and distribution by combining such systems with 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 realise linkage among warehouses. In addition, we have delivered standardised operation in logistics and distribution, with a replicable operational model established. The Group has become the first firm equipped with SAP EWM and SAP TM in the Chinese pharmaceutical distribution industry.

Completion of the equity acquisition of Zhuhai Charmacy and Guangzhou Charmacy and to pursue the Group's strategic plans

In August 2018, the Group acquired the remaining 30% equity interest in and became the 100% controlling shareholder of Zhuhai Charmacy Pharmaceutical Limited ("**Zhuhai Charmacy**"). In October 2018, the Group acquired the remaining 10% equity interest in and became the 100% controlling shareholder of Guangzhou Charmacy Pharmaceutical Limited ("**Guangzhou Charmacy**").

Establishment of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center to improve warehousing and delivery capabilities in the Pearl River Delta region

On 4 August 2018, the Group entered into a construction contract with Guangdong Jin Zhong Hai Construction Engineering Co., Ltd.* (廣東金中海建設工程有限公司) to carry out the construction of the distribution workshops for the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center. The location of the construction is at No. 33, Liyu Street, Dongyong Zhen, Nansha District, Guangzhou City, the PRC. The amount of consideration is approximately RMB95.5 million and is expected to be completed by the end of 2019. For details, please refer to the Company's announcement dated 4 August 2018.

PROSPECTS

The Group will be active in developing the pharmaceutical terminal retail network in Guangdong Province and its neighboring areas, with a view to increasing market share and operating revenue.

The Group will adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and will establish a pharmaceutical retail terminal network to fully cover Guangdong Province and its neighboring areas.

The Group will continue to tap into the growth potential of the non-tendering pharmaceutical market and replicate its mature model for non-tendering market operation at a faster pace, strive to elevate the operating efficiency of its pharmaceutical supply chain and reduce the cost of pharmaceutical distribution, in a bid to become the most competitive service provider in the medical and healthcare industry in China.

FINANCIAL REVIEW

Operating revenue

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Principal business	**3,906,600**	4,061,633
Other business	**28,646**	34,202
Operating revenue	**3,935,246**	4,095,835

The operating revenue of the Group in 2018 was RMB3,935.25 million, representing a decrease of 3.92% as compared to last year.

	For the year ended 31 December	
	2018	2017
Customer Type	***RMB'000***	*RMB'000*
Distributors	**2,674,316**	2,758,615
Retail pharmacy stores	**1,133,835**	1,214,657
Hospitals, clinics, health centers and others	**98,449**	88,361
Revenue from principal business	**3,906,600**	4,061,633

During 2018, our revenue from principal business was from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. In 2018, over 97% of our revenue from principal business was derived from distributor and retail pharmacy stores.

Our revenue from principal business decreased in 2018, primarily because in response to the impact of the economic environment, The Group, adopted a relatively conservative marketing strategy to improve the quality of operations, and to ensure the safety of payment for goods, the Group has adopted appropriate control measures for some distributors, which resulted in a decline in operating revenue.

Operating cost, gross profit and gross profit margin

The operating cost of the Group decrease by 4.85% to RMB3,697.48 million for the year ended 31 December 2018 from RMB3,885.97 million for the year ended 31 December 2017. Such changes were in line with the change in operating revenue from sales of products.

The gross profit of the Group increased by 13.30% to RMB237.76 million for the year ended 31 December 2018 from RMB209.86 million for the year ended 31 December 2017. The gross profit margin of the Group increased to 6.04% for the year ended 31 December 2018 from 5.12% for the year ended 31 December 2017. The increase in the gross profit margin of the Group was primarily due to the fact that (i) the Ministry of Finance of the PRC and the State Administration of Taxation jointly adjusted the VAT rate, which reduced from 17% to 16% since 1 May 2018; and (ii) certain high gross profit products contributed to the increase in gross profit.

Selling expenses

For the year ended 31 December 2018, the Group's selling expenses amounted to RMB73.98 million, representing a 8.78% increase from RMB68.01 million for the year ended 31 December 2017. Such increase was caused by (i) the leasing of warehouses of Guangdong Charmacy and Zhuhai Charmacy which generated a total rental fee of RMB4.20 million, representing an increase of RMB2.42 million as compared to the year ended 31 December 2017; (ii) the Group increased the frequency of distribution to enhance customer service experience, resulting in the increase of transportation fee by RMB1.03 million; (iii) the new logistics equipment of Guangzhou Charmacy and warehouse renovation of Zhuhai Charmacy, resulted in an increase of RMB0.90 million in the depreciation and amortisation expenses; and (iv) the commencement of operation of Guangzhou Charmacy, where the expenses of low-value consumables such as plastic trays for storage increased by RMB0.60 million.

Management expenses

For the year ended 31 December 2018, the Group's management expenses amounted to RMB59.91 million, representing a 20.83% increase from RMB49.58 million for the year ended 31 December 2017, which was mainly because of (i) the termination of the A Share Listing project, the fees on engaging intermediaries for the A Share Listing project has been expensed, resulting in an increase of RMB5.74 million in the expenses on engaging agencies; and (ii) the amortisation of property and land use rights of Guangzhou Nansha, resulting in an increase of RMB2.91 million in the depreciation and amortisation expenses.

Finance costs

For the year ended 31 December 2018, the Group's finance costs amounted to RMB31.53 million, representing a 14.21% increase from RMB27.61 million for the year ended 31 December 2017, which was mainly because of the increase in (i) bank borrowing during the year as compared to that of 2017, resulting in an increase of RMB5.71 million in interest expenses; and (ii) the decrease in foreign exchange loss by RMB1.62 million as compared to the year ended 31 December 2017.

Income tax expense

For the year ended 31 December 2018, the Group's income tax expense amounted to RMB18.89 million, representing a 21.40% increase from RMB15.56 million for the year ended 31 December 2017, which was mainly caused by an increase in total taxable profit.

Net profit

The net profit of the Group increased by 1.05% to RMB44.76 million for the year ended 31 December 2018 from RMB44.29 million for the year ended 31 December 2017. In particular, the net profit attributable to the shareholders of parent company increased by 1.50% to RMB45.43 million for the year ended 31 December 2018 from RMB44.76 million for the year ended 31 December 2017. Net profit attributable to the shareholders of parent company recorded an increase mainly because of (i) the increase in the overall gross profit margin; and (ii) the increased amount in gross profit exceeded the overall increased amount in expenses.

Liquidity and financial resources

As at 31 December 2018, the cash and bank deposits of the Group amounted to RMB55.74 million, while the cash and bank deposits amounted to RMB75.10 million as at 31 December 2017.

As at 31 December 2018 and 31 December 2017, the Group recorded net current assets of RMB176.26 million and RMB96.43 million, respectively. As at 31 December 2018, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.10 (2017: 1.05).

The bank borrowings of the Group as at 31 December 2018 were RMB477.9 million (short-term borrowings: RMB387.90 million, long-term borrowings: RMB90 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.

Bill receivables and trade receivables

As at 31 December 2018, the Group's bills receivables and trade receivables amounted to RMB827.97 million, representing a decrease of RMB142.28 million compared to those as at 31 December 2017. Such decrease was mainly due to our strengthened management for bills receivables and trade receivables, and enhance the effort to recover the receivables.

Bills payables and trade payables

As at 31 December 2018, the Group's bill payables and trade payables amounted to RMB1,343.42 million, representing a decrease of RMB65.19 million compared to those as at 31 December 2017. Such decrease was mainly due to a reduction in the goods payment paid to suppliers by way of bank acceptance bills issued by the Group as the issuer, which resulted in the decrease in bills payables.

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, and most of the assets and all liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. 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 2018, the Group had no bank borrowings which bear interest at floating rate. (2017: Nil).

Capital management

Set out below is the Group's gearing ratios as at 31 December 2018 and 2017, respectively:

	31 December 2018	31 December 2017
Gearing ratio	**46.96%**	49.14%

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 2018, the Group's capital commitment amounted to RMB60.29 million (2017: RMB8.93 million).

Employees' information

As at 31 December 2018, the Group had a total of 794 employees (including executive Directors), representing a decrease of 48 employees compared with the number of employees as at 31 December 2017. The total staff cost (including emoluments of directors and supervisors) was RMB68.34 million, as compared to RMB63.18 million for the year ended 31 December 2017, representing a growth rate of 8.17%. 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 Labor 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.

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 2018.

Future plans related to the material investments and capital assets

Save as disclosed in the prospectus of the Company dated 2 December 2015, 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 2018, the Group had no material acquisitions and disposals related to the subsidiary, associates and joint ventures.

Pledge of assets

As at 31 December 2018, the Group was granted a credit limit of RMB1,035.29 million by various banks, while the Group's utilized banking facilities totaled RMB865.92 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB160.72 million as at 31 December 2018; (ii) land use rights held by the Group with a carrying amount of RMB144.11 million as at 31 December 2018; and (iii) inventories with a carrying amount of RMB350.00 million as at 31 December 2018.

Contingent liabilities

As at 31 December 2018, the Group had no material contingent liabilities (2017: Nil).

DIVIDEND

The Board recommends the distribution of a final dividend of RMB0.30 per share for the year ended 31 December 2018 (tax inclusive), which is subject to approval by the shareholders of the Company at the annual general meeting (the "**AGM**") to be convened on 3 June 2019 and, if approved, will be paid on or before 8 July 2019. 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 AGM to be held on 3 June 2019, the register of members of the Company will be closed from 3 May 2019 to 3 June 2019 (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 2 May 2019.

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 2018, 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 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2018, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

According to the general mandate approved at the general meeting on 14 December 2018, the Company intended to further issue no more than 5.6 million overseas-listed foreign invested shares of nominal value of RMB1 each. On 20 February 2019, the China Securities Regulatory Commission issued the "Securities Regulatory Commission Permission [2019] No. 221 (證監許可[2019]221號文)" and approved such matter. Further announcement will be made by the Company to disclose the update of the matter in accordance with the applicable laws and regulation as and when appropriate.

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 2018.

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 2018 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

Shantou, the PRC, 25 March 2019

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).