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

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

(Stock code: 2289)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June		
	2019	2018	
	RMB'000	*RMB'000*	Change
	(Unaudited)	(Unaudited)	
Results			
Operating revenue	**1,708,088**	2,021,988	-15.52%
Total profit	**57,618**	64,315	-10.41%
Net profit attributable to the shareholders of parent company	**42,305**	45,640	-7.31%
Basic and diluted earnings per share (expressed in RMB per share)	**0.3917**	0.4226	-7.31%

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Charmacy Pharmaceutical Co., Ltd. (the "**Company**" or "**we**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019

		Notes	Six months ended 30 June 2019 RMB (Unaudited)	2018 RMB (Unaudited)
I.	Operating revenue	*3*	**1,708,087,754.80**	2,021,987,734.30
	Less: Operating cost	*3*	**1,571,371,663.46**	1,872,269,199.68
	Taxes and surcharges		**4,384,609.47**	3,109,163.27
	Selling expenses		**36,114,716.76**	36,183,218.93
	Management expenses		**22,473,948.31**	25,826,831.18
	Finance costs		**14,455,575.89**	15,946,169.44
	Including: Interest expenses		**13,226,829.25**	15,698,262.24
	Interest income		**1,403,472.62**	1,787,873.08
	Add: Other gains		**228,530.25**	228,530.25
	Impairment loss of credit		**586,422.52**	–881,782.72
	Impairment loss of assets		**–2,649,263.69**	–4,355,493.88
	Gains on disposal of assets		**–39,889.87**	–39,489.01
II.	**Operating profit**		**57,413,040.13**	63,604,916.44
	Add: Non-operating revenue		**230,976.77**	776,435.94
	Less: Non-operating expenses		**25,587.14**	66,574.95
III.	**Total profit**		**57,618,429.76**	64,314,777.43
	Less: Income tax expense	*4*	**15,313,728.44**	18,991,852.63
IV.	**Net profit**		**42,304,701.32**	45,322,924.80
	(I) According to operation continuity			
	Net profit from continuing operation		**42,304,701.32**	45,322,924.80
	(II) According to ownership			
	Net profit attributable to the shareholders of parent company		**42,304,701.32**	45,640,024.27
	Profit or loss of minority shareholders		**–**	–317,099.47
V.	**Total comprehensive income**		**42,304,701.32**	45,322,924.80
	Total comprehensive income attributable to the shareholders of parent company		**42,304,701.32**	45,640,024.27
	Total comprehensive income attributable to minority shareholders		**–**	–317,099.47
VI.	**Earnings per share**			
	Basic and diluted earnings per share	*5*	**0.3917**	0.4226

CONSOLIDATED BALANCE SHEET
As at 30 June 2019

	Notes	**30 June 2019** *RMB* **(Unaudited)**	31 December 2018 *RMB* (Audited)
Current assets			
Monetary funds		**443,673,850.42**	428,601,291.24
Bills receivables	*7*	**93,310,459.88**	35,900,330.74
Trade receivables	*8*	**709,542,258.05**	792,072,666.93
Prepayments		**206,674,030.23**	196,342,436.27
Other receivables		**11,309,495.08**	11,833,686.15
Inventories		**464,126,164.48**	472,522,915.24
Other current assets		**35,129,181.05**	24,810,498.20
Total current assets		**1,963,765,439.19**	1,962,083,824.77
Non-current assets			
Fixed assets		**197,647,856.16**	193,761,724.83
Construction in progress		**23,110,805.30**	23,788,389.90
Right-of-use assets		**17,709,775.00**	–
Intangible assets		**156,203,669.05**	159,338,325.77
Goodwill		**3,127,688.00**	3,127,688.00
Long-term expenses to be amortised		**5,873,836.68**	6,244,160.99
Deferred income tax assets		**5,183,670.39**	5,635,562.76
Total non-current assets		**408,857,300.58**	391,895,852.25
Total assets		**2,372,622,739.77**	2,353,979,677.02

	Notes	**30 June 2019** *RMB* **(Unaudited)**	31 December 2018 *RMB* (Audited)
Current liabilities			
Short-term borrowings		**439,543,952.00**	387,900,000.00
Bills payables	*9*	**758,286,427.76**	778,925,488.11
Trade payables	*10*	**469,676,672.73**	564,494,731.93
Contract liabilities		**7,215,657.20**	1,879,275.48
Salaries payable to employees		**3,907,229.59**	5,066,954.31
Tax payables		**56,119,548.70**	37,441,066.12
Other payables		**41,769,566.38**	9,658,239.15
Other current liabilities		**228,530.25**	457,060.50
Total current liabilities		**1,776,747,584.61**	1,785,822,815.60
Non-current liabilities			
Long-term borrowings		**90,000,000.00**	90,000,000.00
Lease liabilities		**18,014,245.72**	–
Deferred income		**1,218,827.99**	1,218,827.99
Deferred income tax liabilities		**–**	200,653.30
Total non-current liabilities		**109,233,073.71**	91,419,481.29
Total liabilities		**1,885,980,658.32**	1,877,242,296.89
Shareholders' equity			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**278,990,829.04**	278,990,829.04
Surplus reserve		**13,665,514.85**	13,665,514.85
Unallocated profits		**85,985,737.56**	76,081,036.24
Total equity attributable to the shareholders of parent company		**486,642,081.45**	476,737,380.13
Minority interests		**–**	–
Total shareholders' equity		**486,642,081.45**	476,737,380.13
Total liabilities and shareholders' equity		**2,372,622,739.77**	2,353,979,677.02

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL

Charmacy Pharmaceutical Co., Ltd. (the "**Company**") was established as an enterprise owned by the whole people (全民所有制企業) in the People's Republic of China (the "**PRC**") under the company name of Material Station of Shantou Pharmaceutical Supplies Company* (汕頭市醫藥聯合公司物資站) on 18 February 1984. Pursuant to the approval granted by the 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**") on 14 December 2015. The Company's address of the registered office and principal place of business is No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC.

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

The condensed interim 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**"), as well as 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 the 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.

The Ministry of Finance of the PRC revised the Accounting Standards for Enterprises No. 21 – Leases on 7 December 2018, which is required to be adopted by enterprises that are listed both domestically and overseas, and enterprises that are listed overseas and prepare their financial reports in accordance with the International Financial Reporting Standards or the Accounting Standards for Enterprises, with effect from 1 January 2019. The Ministry of Finance of the PRC issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for 30 April 2019 (Cai Kuai [2019] No. 6) (《關於修訂印發2019年度一般企業財務報表格式的通知》(財會 [2019] 6號)) on 10 April 2019 to revise the format of financial statements of general enterprises, with the purpose of addressing the issues arising from the phased implementation of the Accounting Standards for Enterprises No. 21 – Leases and the implementation of the Accounting Standards for Enterprises since 1 January 2019. The Group has commenced to implement the above standards according to the required time of the above revised standards. According to the assessment of the Board of the Company, changes to the above standards will not have a material impact on the financial statements of the Group.

(2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 30 June 2019, 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. OPERATING REVENUE, OPERATING COST AND SEGMENT INFORMATION

Information is 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 directors of the Company consider that there is only one operating and reportable segment for the Group: trading and promoting of pharmaceutical products.

Operating revenue represents the amounts received and receivable for sale of goods and provision of services in the normal course of business, net of commercial discounts and sales related taxes. Analysis of the Group's operating revenue and cost for the period is as follows:

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
Items	**Revenue**	**Cost**	Revenue	Cost
	RMB	***RMB***	*RMB*	*RMB*
	(Unaudited)	**(Unaudited)**	(Unaudited)	(Unaudited)
Principal business	**1,698,410,396.06**	**1,571,371,663.46**	2,006,067,441.91	1,872,269,199.68
Other business	**9,677,358.74**	**–**	15,920,292.39	–
Total	**1,708,087,754.80**	**1,571,371,663.46**	2,021,987,734.30	1,872,269,199.68

4. INCOME TAX EXPENSE

(1) Income tax expense

Items	**For the six months ended 30 June**	
	2019	2018
	RMB	*RMB*
	(Unaudited)	(Unaudited)
Current income tax calculated in accordance with the tax laws and relevant requirements	**15,765,620.82**	19,926,965.84
– PRC	**15,765,620.82**	19,926,965.84
– Hong Kong	**–**	–
Deferred income tax expenses	**–451,892.38**	–935,113.21
Total	**15,313,728.44**	18,991,852.63

There is no Hong Kong income tax as the Group has no taxable income in Hong Kong for the six months ended 30 June 2018 and 2019.

(2) Adjustment process for accounting profits and income tax expenses

Items	**For the six months ended 30 June 2019** *RMB* **(Unaudited)**
Total combined profits for the period	**57,618,429.76**
Income tax expense calculated at statutory/applicable tax rate	**15,765,620.82**
Effect of non-deductible cost, expenses and loss	**–**
Tax effect of deductible loss and deductible temporary differences unrecognised for the period	**–451,892.38**
Other	**–**
Income tax expense	**15,313,728.44**

5. 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 are as follows:

Profit for the reporting period	**Weighted average return on net assets (%)**	**Earnings per share**	
		Basic earnings per share *RMB* **(Unaudited)**	Diluted earnings per share *RMB* (Unaudited)
Net profit attributable to the shareholders of parent company	**8.78**	**0.3917**	0.3917
Net profit attributable to the shareholders of parent company (excluding non-recurring profit or loss)	**8.76**	**0.3906**	0.3906

6. DIVIDEND

The Board did not propose the payment of interim dividend after the interim period (interim dividend of 2018: Nil).

7. BILLS RECEIVABLES

(1) Classification of bills receivables

Classification of bills	**Balance as at 30 June 2019** *RMB* **(Unaudited)**	Balance as at 31 December 2018 *RMB* (Audited)
Bank acceptance bills	**66,640,459.88**	31,924,545.23
Commercial drafts	**26,670,000.00**	3,975,785.51
Total	**93,310,459.88**	35,900,330.74

(2) Pledged bills receivable as at 30 June 2019

Items	**Pledged amount as at 30 June 2019** *RMB* **(Unaudited)**
Bank acceptance bills	**58,399,968.56**
Commercial drafts	**12,000,000.00**
Total	**70,399,968.56**

(3) Bills receivables endorsed but not mature at the balance sheet date, as at 30 June 2019

Items	**Amount derecognised as at 30 June 2019** *RMB* **(Unaudited)**	Amount not derecognised as at 30 June 2019 *RMB* (Unaudited)
Bank acceptance bills	**419,563,956.72**	–
Total	**419,563,956.72**	–

(4) Bills receivables discounted but not mature at the balance sheet date, as at 30 June 2019

Items	**Amount derecognised as at 30 June 2019** *RMB* **(Unaudited)**	Amount not derecognised as at 30 June 2019 *RMB* (Unaudited)
Bank acceptance bills	**160,011,399.91**	–
Commercial drafts	**–**	14,670,000.00
Total	**160,011,399.91**	14,670,000.00

(5) As at 30 June 2019, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills

Note: The age of the aforementioned bills receivables were within 180 days.

8. TRADE RECEIVABLES

Name of item	**Balance as at 30 June 2019** *RMB* **(Unaudited)**	Balance as at 31 December 2018 *RMB* (Audited)
Trade receivables	**722,543,300.90**	805,660,132.30
Less: Provision for bad debts	**13,001,042.85**	13,587,465.37
Net amount	**709,542,258.05**	792,072,666.93

(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 establishes different credit policies to different customers. Credit period is usually less than six months. As for commodity sales, the trade receivables and operating revenue is recognised and the age of which is calculated when the main risks and rewards have been transferred to the buyers:

Age	**Balance as at 30 June 2019** *RMB* **(Unaudited)**	Balance as at 31 December 2018 *RMB* (Audited)
Within 1 year	**689,504,862.95**	773,997,564.44
1 to 2 years	**24,937,237.56**	23,317,010.64
2 to 3 years	**–**	5,836,096.71
More than 3 years	**8,101,200.39**	2,509,460.51
Total	**722,543,300.90**	805,660,132.30

(2) Classification of trade receivables

Classification	Balance as at 30 June 2019				
	Carrying amount		Provision for bad debts		Book value
	Amount *RMB* **(Unaudited)**	**Percentage** *(%)* **(Unaudited)**	**Amount** *RMB* **(Unaudited)**	**Lifetime expected credit loss rate** *(%)* **(Unaudited)**	*RMB* **(Unaudited)**
Bad debt provision made on individual basis	**8,290,419.73**	**1.15**	**8,290,419.73**	**100.00**	**–**
Bad debt provision made on group basis	**714,252,881.17**	**98.85**	**4,710,623.12**	**0.66**	**709,542,258.05**
Account age combination	**714,252,881.17**	**98.85**	**4,710,623.12**	**0.66**	**709,542,258.05**
Total	**722,543,300.90**	**100.00**	**13,001,042.85**	**–**	**709,542,258.05**

Classification	Balance as at 31 December 2018				
	Carrying amount		Provision for bad debts		Book value
	Amount *RMB* (Audited)	Percentage *(%)* (Audited)	Amount *RMB* (Audited)	Lifetime expected credit loss rate *(%)* (Audited)	*RMB* (Audited)
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

9. BILLS PAYABLES

Classification of bills	**Balance as at 30 June 2019** *RMB* **(Unaudited)**	Balance as at 31 December 2018 *RMB* (Audited)
Bank acceptance bills	**753,786,427.76**	778,925,488.11
Commercial drafts	**4,500,000.00**	–
Total	**758,286,427.76**	778,925,488.11

The age of the aforementioned bills payables of the Group were within 1 year.

10. TRADE PAYABLES

Below is an aging analysis of trade payables based on the transaction date as at 30 June 2019:

Age	**Balance as at 30 June 2019** *RMB* **(Unaudited)**	Balance as at 31 December 2018 *RMB* (Audited)
Within 1 year	**467,298,207.23**	563,551,065.72
1 to 2 years	**1,719,469.52**	507,220.82
2 to 3 years	**358,660.88**	270,210.38
More than 3 years	**300,335.10**	166,255.01
Total	**469,676,672.73**	564,494,731.93

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the 13th Five-Year Plan period, on the one hand, with the implementation and promotion of policies including Two-invoice System, the new edition of "Good Supply Practice for Pharmaceutical Products" (《藥品經營質量管理規範》), zero medicine mark-up in public hospitals, the limitations for the proportions of drugs, quantity-specific procurement and "Diagnosis Related Group ("**DRG**") Payment" (按疾病診斷相關分組付費), the superposition effects of policy promotion and market competition are highlighted, driving the industry as a whole into a period of structural adjustment; on the other hand, the policies including the Opinions on Promoting the Development of "Internet plus Healthcare", outflow of prescription drugs, the construction of Healthcare Associations and Healthcare Alliances and the promotion of "medical institutions by social capital" (社會辦醫), further enhance the hierarchical diagnosis and treatment system, bringing new opportunities for the expansion of the primary healthcare market.

Higher market share of public primary healthcare terminal and retail pharmacy terminal under economic downturn

The growth of gross domestic product ("**GDP**") has been decreasing year by year. In the first half of 2019, the year-on-year GDP growth rate was 6.3%, representing a decrease of 0.5 percentage points as compared with the same period last year.

According to Menet, the three largest end markets made stable sales growth but represented a sales growth rate decreasing year by year. Total sales of medicines amounting to RMB1,713.1 billion was recorded for six major pharmacy markets of three major terminals in the PRC for 2018, with sales growth decreasing from 20% in 2011 to 6.3% in 2018.

In the first half of 2019, the public primary healthcare terminal market recorded a sales growth rate of 9%, with its market share increased by 0.2 percentage points as compared to the year of 2018; the retail pharmacy terminal market recorded a sales growth rate of 7.4%, with its market share increased by 0.2 percentage points as compared to the year of 2018; and the public hospital terminal market recorded a sales growth rate of 4.8%, with its market share decreased by 0.4 percentage points as compared to the year of 2018.

New opportunities for the market expansion of the primary healthcare market

The National Health Commission (the "**NHC**") and the National Administration of Traditional Chinese Medicine ("**NATCM**") jointly issued the Notice on Promoting the Construction of Compact County Medical and Health Alliances (《關於推進緊密型縣域醫療衛生共同體建設的通知》) (the "**Notice**") on 28 May 2019, and on 22 May 2019 the Pilot Work Plan of the Construction of Urban Healthcare Associations (《城市醫療聯合體建設試點工作方案》) (the "**Plan**").

The Notice points out that, by the end of 2020, the new county medical and health service system with explicit objectives, clear division between rights and responsibilities and coordination and delineation of duties will be initially established in 500 counties (including county-level cities and municipal districts), and gradually form medical and healthcare alliances of services, responsibilities, benefits and management ("**Healthcare Alliances**").

The Plan points out that, by the end of 2019, the grid-based layout and management of the Urban Healthcare Associations ("**Healthcare Associations**") will be fully kicked off in 100 pilot cities, in order to build at least one apparently effective Healthcare Association in each pilot city.

On 5 June 2019, the National Healthcare Security Administration ("**NHSA**"), the Ministry of Finance, the NHC and the NATCM jointly issued the Notice on the List of National Pilot Cities Paying by Disease Diagnosis Related Grouping confirmed that 30 cities including Beijing, Tianjin, Foshan in Guangdong Province, etc. were identified as DRG payment pilot cities.

DRG payment is a multi-component payment mode explored to establish in China, which is mainly based on disease type, and is helpful to deepen the reform of medical insurance payment and reduce patients' medical burden.

On 12 June 2019, 10 departments, including the NHC, the National Development and Reform Commission, the NHSA, etc., jointly issued the Opinions on Promoting the Sustainable, Healthy and Normative Development of Medical Institutions by Social Capital (《關於促進社會辦醫持續健康規範發展的意見》) (the "**Opinions**").

It was pointed out in the Opinions that, firstly, the government should increase its support for the social medical service, including expanding space for social medical service, expanding land supply, promoting government purchasing services, implementing preferential tax policies, strictly controlling the number and scale of public hospitals, etc; secondly, the government should promote the "streamlined procedures of admission, innovative regulation and efficient service" and simplify access approval services, including improving the efficiency of admission examination and approval, lifting planning restrictions on the total number and spatial layout of the social medical service areas, supporting and encouraging the social medical service to participate in the hospital grading evaluation, etc.

According to the "National Statistical Bulletin on the Development of Health in 2018" (《2018年我國衛生健康事業發展統計公報》), at the end of 2018, the total number of medical and health institutions in China reached 997,434, representing an increase of 10,785 over the previous year. Among which, there were 33,009 hospitals, 943,639 basic medical and health institutions and 18,034 professional public health agencies. Compared with the previous year, the number of hospitals has increased by 1,953, the number of basic medical and health institutions has increased by 10,615, and the number of professional public health agencies has decreased by 1,862. Among hospitals, the number of public hospitals decreased by 265, while the number of private hospitals has increased by 2,218.

On 22 July 2019, the NHSA issued the Opinions on Establishing the Management System for List of Healthcare Security Treatment (Draft for Opinions) (《關於建立醫療保障待遇清單管理制度的意見(徵求意見稿)》) (the "**Draft for Opinions**"). It has made clear that the scope of medicines paid under the basic medical insurance and China has uniformly formulated the Catalogue of Drugs for National Basic Medical Insurance (基本醫療保險藥品目錄) (the "**Catalogue**"), which will be strictly followed by various localities. In principle, it is not allowed to formulate the Catalogue on self initiative or use alternative methods to increase the number of drugs in the Catalogue. In accordance with the requirements of eradicating increments and regulating stock, the provincial People's Governments will take the overall responsibilities for the policies and measures inconsistent with the previously introduced list, and the policy-issuing departments will take the lead in detail. In principle, the clean-up and regulations will be completed within three years, and will be aligned with state policy.

The implementation of the control on medical insurance fees and hierarchical diagnosis and treatment model as mentioned above has greatly relieved the burden of patients and social medical treatment, promoted the integration of medical resources within regions and the sinking of high quality medical resources, as well as enhanced competition in the pharmaceutical market. The overall trend of pharmaceutical circulation and layout integration, efficiency improvement and innovation upgrading will be continued.

Higher industry concentration under tightened regulation

Industrial regulation has been enhanced as the new edition of "Good Supply Practice for Pharmaceutical Products (2016)" focused on the effective control of the whole pharmaceutical industry chain, putting forward higher requirements for the industry. A new regulatory system has taken shape after the reform of regulatory authorities, which was conducive to facilitating the synergetic reform of medical service, medical insurance and pharmaceutical services as well as the implementation of control on medical insurance fees. Amidst rigorous regulation, there will be continuously increasing industry concentration for pharmaceutical distribution, as small and medium-sized pharmaceutical distributors face the dual challenges of stricter regulation and higher supply chain standard.

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

According to the "National Statistical Bulletin on Economy and Social Development in 2018" (《2018年國民經濟和社會發展統計公報》), by the end of 2018, the number of people aged 0 to15 (including those under the age of 16) was 248.6 million, accounting for 17.8% of the total population. The number of people aged 60 and above was 249.49 million, accounting for 17.9% of the total population, of which the number of 65-year-old and above reached 166.58 million, accounting for 11.9% of the total population.

According to the "National Statistical Bulletin on the Development of Health in 2018" (《2018年我國衛生健康事業發展統計公報》), the average number of residents' visits to healthcare institutions increased from 5.4 times in 2013 to 6.0 times in 2018. Total health expense per capita was RMB4,148.1, and the total health expense as a percentage of GDP was 6.4%, representing an increase of 0.03 percentage points as compared with the previous year.

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

Sources of the above information: MENET (Note: The three terminal markets do not include private medical institutions), the "National Statistical Bulletin on the Development of Health in 2018" (《2018年我國衛生健康事業發展統計公報》), the "National Statistical Bulletin on National Economy and Social Development in 2018" (《2018年國民經濟和社會發展統計公報》).

BUSINESS REVIEW

Our principal business is pharmaceutical products distribution in the PRC, and most of our operating revenue is derived from pharmaceutical products distribution. We also derive our service income by providing consultancy services on marketing strategies and related information services to our suppliers.

As of 30 June 2019, our distribution network covered 7,100 customers, among which 577 were distributors, 4,761 were retail pharmacies and 1,762 were hospitals, clinics, health centres and others. As of 30 June 2018, our distribution network covered 7,124 customers, among which 658 were distributors, 4,770 were retail pharmacies and 1,696 were hospitals, clinics, health centres and others.

As of 30 June 2019, we had a total of 948 suppliers, of which 601 were pharmaceutical manufacturers and 347 were distributor suppliers. As of 30 June 2018, we had 973 suppliers in total, among which 630 were pharmaceutical manufacturers and 343 were distributor suppliers.

For the six months ended 30 June 2019, we distributed 10,331 products. For the six months ended 30 June 2018, we distributed 10,145 products.

The table below sets forth the major categories of our products and the number of products in each category:

	Number of products for the six months ended 30 June	
	2019	2018
Products Category		
Western medicines	**3,395**	3,557
Chinese patent medicines	**3,690**	3,436
Healthcare products	**169**	171
Others	**3,077**	2,981
Total	**10,331**	10,145

For the six months ended 30 June 2019, our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) had a total of 5,177 active trading clients who are principally end-market customers such as retail pharmacy stores, clinics and health centres. The operating revenue contributed by e-commerce transactions through our B2B e-commerce platform totalled approximately RMB136.85 million.

Awards Received

With good reputation and high quality services, the Group was honored with the "2018 Enterprise Brand Credit Jingding Award" (2018年度企業品牌信用金鼎獎) awarded by the Guangdong Credit Association in February 2019, "Gold Ant Innovation Award for the Chinese Logistics Industry" (中國物流行業金螞蟻創新獎) awarded by the Organizing Committee of China International Logistics Equipment and Technology Exhibition (Guangzhou) (中國(廣州)國際物流裝備與技術展覽會組委會) and the "Model Enterprise of Trustworthiness in Guangdong Province" (廣東省誠信示範企業) (for eight consecutive years from 2011 to 2018) awarded by Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會) in May 2019, and "2018 China Top 100 Pharmaceutical Businesses in the Pharmaceutical Industry" (2018年度中國醫藥行業醫藥商業百強) awarded by All-China Federation of Industry & Commerce Medical & Pharmaceutical Industry Chamber (中華全國工商業聯合會醫藥業商會) in June 2019.

Establishment of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center (the "Pharmaceutical Sorting and Distribution Center") to take Guangzhou Nansha, the core location in the Greater Bay Area, as its foothold and further expands its business to 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 distribution workshops for the project of the pharmaceutical sorting and distribution center (the "**Project**"), the main body of which is estimated to be completed by the end of 2019. For details, please refer to the Company's announcement dated 4 August 2018.

On 19 April 2019, the Group entered into a business contract with Beijing Vstrong Intelligent Technology Co., Ltd.* (北京伍強智能科技有限公司) to carry out the development of logistics system integration. The installation and commissioning is estimated to be completed by the end of March 2020. For details, please refer to the Company's announcement dated 19 April 2019.

By combining the existing SAP system of the Group and introducing logistics system integration to AS/RS systems and other advanced logistics solutions, the Group can deliver visualized management of warehousing and distribution, establish a model featuring integrated network operation, realizing synergy among all the warehouses of the logistics center of the Group.

The location of the project of pharmaceutical sorting and distribution center is at No. 33, Liyu Street, Dongchong Town, Nansha District, Guangzhou City, Guangdong Province, the PRC, while Nansha District is the hub of the Pearl River Estuary City Cluster. Based on the mature non-tendering market operations model of the Group, the Project will commence operation upon its completion, which will highly enhance the operation efficiency of the supply chain of the company, customer relationship maintenance and business expansion ability so as to meet the strict regulation requirements of the pharmaceutical industry. In line with the Group's development strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", the Project will follow the trend of industry integration and simplification of distribution steps.

PROSPECTS

The General Secretary Xi Jinping pointed out in the Report of 19th National Congress of the Communist Party of China: "China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development." As for the Group, the development of the current stage should focus on strengthening risk management and sound operation and enhancing operation quality. High quality development means the transformation from a traditional distribution enterprise to a smart pharmaceutical service provider, which means that the enterprise should follow the trend of industry upgrading through the application of the internet, big data, artificial intelligence in the pharmaceutical distribution industry.

Amid the backdrop of current economic downturn and the restructuring landscape of pharmaceutical distribution industry, we believe that with the enhanced health awareness among the public, there will be growing demand for healthcare and acceleration in hierarchical diagnosis and treatment system and the Internet healthcare, which will bring new changes to the pharmaceutical distribution industry. We will firmly capture the opportunity for the historical development in the Greater Bay Area and adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas" in order to establish a pharmaceutical retail terminal network fully covering Guangdong Province and its surrounding areas, thereby promoting the long-term development of the Company and profitability in the future. The Group will continue to tap into the growth potential of the non-tendering pharmaceutical market and facilitate 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, all in a bid to become the most competitive service provider in the medical and healthcare industry in China.

FINANCIAL REVIEW

Operating revenue

The table below sets forth a breakdown of the operating revenue by principal business and other business:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Principal business	**1,698,410**	2,006,067
Other business	**9,677**	15,920
Total operating revenue	**1,708,088**	2,021,988

The operating revenue of the Group for the six months ended 30 June 2019 was RMB1,708.09 million, representing a decrease of 15.52% over the corresponding period of last year.

The table below sets forth a breakdown of revenue from principal business by customer type:

	For the six months ended 30 June	
	2019	2018
Customer Type	***RMB'000***	*RMB'000*
Distributors	**870,868**	1,360,545
Retail pharmacy stores	**762,666**	583,108
Hospitals, clinics, health centres and others	**64,876**	62,414
Revenue from principal business	**1,698,410**	2,006,067

For the six months ended 30 June 2019, 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. For the six months ended 30 June 2019, about 96% of our revenue from principal business was derived from distributor customers and retail pharmacy store customers.

Our operating revenue decreased as compared to the six months ended 30 June 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 goods control measures for certain distributor clients, which resulted in a decline in operating revenue.

Operating cost, gross profit and gross profit margin

For the six months ended 30 June 2019, the operating cost of the Group was RMB1,571.37 million, representing a decrease of 16.07% as compared to RMB1,872.27 million for the six months ended 30 June 2018. The change in operating cost was in line with the change in operating revenue.

For the six months ended 30 June 2019, the gross profit of the Group was RMB136.72 million, representing a decrease of 8.68% as compared to RMB149.72 million for the six months ended 30 June 2018. For the six months ended 30 June 2019, the gross profit margin of the Group was 8.00%, increasing by 0.60 percentage points as compared to 7.40% for the six months ended 30 June 2018. This was mainly because the Ministry of Finance of the PRC, the State Taxation Administration and the General Administration of Customs adjusted the value-added tax rate, which reduced from 16% to 13% since 1 April 2019.

Selling expenses

For the six months ended 30 June 2019, the selling expenses were RMB36.11 million, representing a slight decrease of 0.19% as compared to RMB36.18 million for the six months ended 30 June 2018, which remained stable.

Management expenses

For the six months ended 30 June 2019, the management expenses were RMB22.47 million, representing a decrease of 12.98% as compared to RMB25.83 million for the six months ended 30 June 2018. It was mainly because (i) the staff number declined as compared to the same period in 2018, which resulted in a decrease in the expense of staff remuneration; and (ii) expense management was enhanced to save office expenses.

Finance costs

For the six months ended 30 June 2019, the finance costs were RMB14.46 million, representing a decrease of 9.35% as compared to RMB15.95 million for the six months ended 30 June 2018. It was mainly because (i) short-term borrowing decreased by RMB53.36 million as compared to RMB492.90 million as of 30 June 2018, which resulted in a decrease of interest expenses; and (ii) the discount rate of bank acceptance bills declined, which resulted in a decrease in the discounted interest expenses.

Non-operating revenue

For the six months ended 30 June 2019, non-operating revenue was RMB0.23 million, representing a decrease of 70.25% as compared to the non-operating revenue of RMB0.78 million for the six months ended 30 June 2018, mainly due to a decrease in the amount of government grants received as compared to the six months ended 30 June 2018.

Income tax expense

For the six months ended 30 June 2019, the income tax expense of the Group amounted to RMB15.31 million, decreasing by 19.37% as compared with that of RMB18.99 million for the six months ended 30 June 2018. For the six months ended 30 June 2019, the effective tax rate (income tax divided by profit before taxation) was 26.58%, representing a decrease of 2.95 percentage points as compared to 29.53% for the six months ended 30 June 2018.

Net profit

The net profit of the Group was RMB42.30 million for the six months ended 30 June 2019 compared to RMB45.32 million for the six months ended 30 June 2018, representing a decrease of 6.66%. Of the amount, net profit attributable to the shareholders of parent company was RMB42.30 million compared to RMB45.64 million for the six months ended 30 June 2018, representing a decrease of 7.31%. The decrease in net profit attributable to the shareholders of parent company was mainly due to (i) the decrease in revenue, thus decreasing the gross profit; and (ii) the decrease of gross profit which was greater than the decrease of overall expenses.

Liquidity and financial resources

As at 30 June 2019, the cash and bank deposits of the Group were RMB34.88 million, while the cash and bank deposits were RMB55.74 million as at 31 December 2018.

As at 30 June 2019 and 31 December 2018, the Group recorded net current assets of RMB187.02 million and RMB176.26 million, respectively. As at 30 June 2019, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.11 (31 December 2018: 1.10).

The bank borrowings of the Group as at 30 June 2019 were RMB529.54 million (31 December 2018: RMB477.90 million). All of the bank borrowings were provided by the banks within the PRC. All such bank borrowings bore interest at fixed rates. The carrying amount of the bank borrowings is denominated in RMB, which is approximate to its 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 bills receivables

As of 30 June 2019, the trade receivables and bills receivables amounted to RMB802.85 million, representing a decrease of RMB25.12 million as compared to the amount of trade receivables and bills receivables as of 31 December 2018, mainly due to our enhancement of management of receivables, and our greater effort on the collection of receivables.

Trade payables and bills payables

As of 30 June 2019, the trade payables and bills payables amounted to RMB1,227.96 million, representing a decrease of RMB115.46 million compared to the amount of trade payables and bills payables as of 31 December 2018. Such decrease was mainly because the Group adopted a relatively steady marketing strategy to reduce procurement of medicines with lower gross profit margin and inventory turnover rate in response to the impact of economic environment, which resulted in a decline in trade 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 minimise 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 the liabilities are denominated in RMB. The foreign exchange risk that the Group has to bear is extremely low. For the six months ended 30 June 2019, the Group did not use any financial instruments for hedging its foreign currency risk.

Interest rate risks

For the six months ended 30 June 2019, the Group had no bank borrowings which bear interest at floating rates.

Capital management

Set out below is the Group's gearing ratios as at 30 June 2019 and 31 December 2018, respectively:

	30 June 2019	31 December 2018
Gearing ratio (%)	**50.41%**	46.96%

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 30 June 2019, the Group's capital commitment amounted to RMB78.60 million (31 December 2018: RMB60.29 million).

Employees' information

As at 30 June 2019, the Group had 762 employees (30 June 2018: 826), including the executive Directors. Total staff costs (including emoluments of Directors and supervisors) were approximately RMB32.91 million, as compared to approximately RMB33.78 million for the six months ended 30 June 2018. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

The Group focuses on the career development of its employees. We provide the employees with internal training and the opportunity of external training on a regular basis, to support and encourage them to continuously study and to improve their own integrated qualities and business capability.

Material investments, acquisitions and disposals

Save as the investments in the subsidiaries, during the six months ended 30 June 2019, the Group did not hold any material investments, or have any acquisitions and disposals in the equity interests of any other companies.

Future plans related to material investments and capital assets

On 19 April 2019, the Company entered into a business contract with Beijing Vstrong Intelligent Technology Co., Ltd.* (北京伍強智能科技有限公司) (the "**Implementor**"). The Implementor is responsible for the integration and implementation of the Pharmaceutical Sorting and Distribution Center Logistic System Integration Project. For details, please refer to the Company's announcement dated 19 April 2019.

Save as disclosed in this announcement and 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 subsidiaries and associated companies

During the six months ended 30 June 2019, the Group did not have any material acquisitions and disposals related to the subsidiaries and associated companies.

Pledge of assets

As at 30 June 2019, the Group was granted a credit limit of RMB1,027.37 million by various banks, while the Group's utilised banking facilities totalled RMB829.34 million, which were secured by:

(i) property, plant and equipment held by the Group with a carrying amount of RMB151.34 million as at 30 June 2019 (31 December 2018: RMB160.72 million).

(ii) land use rights held by the Group with a carrying amount of RMB141.95 million as at 30 June 2019 (31 December 2018: RMB144.11 million).

(iii) inventories with a carrying amount of RMB350.00 million as at 30 June 2019 (31 December 2018: RMB350.00 million).

Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities (2018: Nil).

EVENTS AFTER THE END OF REPORTING PERIOD

As of the date of this announcement, the Group had no significant events after the period required to be disclosed.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (interim dividend of 2018: Nil).

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from Code Provision A.2.1, the Company had complied with all 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 six months ended 30 June 2019.

Pursuant to Code Provision A.2.1, the responsibilities between the chairman and the chief executive officer should be segregated 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. The Company considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Company will continue to review and consider splitting the roles of chairman of the Board and chief executive officer when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

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 had compiled with the required standards of dealing as set out in the Model Code for the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2019, the Company did not redeem any of its listed securities, and neither the Company nor any of its subsidiaries purchased or sold any of the listed securities of the Company.

AUDIT COMMITTEE AND REVIEW ON THE INTERIM RESULTS

The audit committee of the Company consists of three independent non-executive Directors, namely Mr. Wan Chi Wai Anthony (Chairman), Mr. Zhou Tao and Mr. Guan Jian.

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been reviewed by the audit committee, and the audit committee is of the view that the interim report for the six months ended 30 June 2019 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of both the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.chmyy.com). An interim report of the Company for the six months ended 30 June 2019 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

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

Shantou, the PRC, 22 August 2019

As at the date of this announcement, the executive Directors 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).