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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June		
	2018	2017	
	RMB'000	*RMB'000*	Change
	(Unaudited)	(Unaudited)	
Results			
Operating revenue	**2,021,988**	1,903,942	6.20%
Total profit	**64,315**	57,908	11.06%
Net profit attributable to the shareholders of parent company	**45,640**	42,919	6.34%
Basic and diluted earnings per share (expressed in RMB per share)	**0.4226**	0.3974	6.34%

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 2018, together with the comparative figures for the corresponding period in 2017.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB (Unaudited)	2017 RMB (Unaudited)
Operating revenue	3	**2,021,987,734.30**	1,903,941,547.86
Less: Operating cost	3	**1,872,269,199.68**	1,777,161,164.14
Taxes and surcharges		**3,109,163.27**	2,031,413.15
Selling expenses		**36,183,218.93**	32,168,217.67
Management expenses		**25,826,831.18**	23,549,817.21
Finance costs		**15,946,169.44**	12,191,178.92
Including: Interest expenses		**15,698,262.24**	10,614,431.37
Interest income		**1,787,873.08**	1,463,787.83
Impairment loss of assets		**5,237,276.60**	996,814.06
Add: Other gains		**228,530.25**	–
Gains on disposal of assets (loss to be listed with "–")		**–39,489.01**	–
Operating profit		**63,604,916.44**	55,842,942.71
Add: Non-operating revenue		**776,435.94**	2,240,617.59
Less: Non-operating expenses		**66,574.95**	175,812.78
Total profit		**64,314,777.43**	57,907,747.52
Less: Income tax expense	4	**18,991,852.63**	14,946,247.42
Net profit		**45,322,924.80**	42,961,500.10
Net profit attributable to the shareholders of parent company		**45,640,024.27**	42,918,679.91
Profit or loss of minority shareholders		**–317,099.47**	42,820.19
Total comprehensive income		**45,322,924.80**	42,961,500.10
Including:			
Total comprehensive income attributable to the shareholders of parent company		**45,640,024.27**	42,918,679.91
Total comprehensive income attributable to minority shareholders		**–317,099.47**	42,820.19
Earnings per share			
Basic and diluted earnings per share	5	**0.4226**	0.3974

CONSOLIDATED BALANCE SHEET
As at 30 June 2018

	Notes	**30 June 2018 *RMB* (Unaudited)**	31 December 2017 *RMB* (Audited)
Current assets			
Monetary funds		**392,512,337.83**	512,413,395.71
Bills receivables and trade receivables	*7*	**852,751,148.19**	970,254,308.36
Prepayments		**157,973,749.51**	149,275,256.35
Other receivables		**10,283,278.97**	9,674,650.78
Inventories		**483,939,340.47**	431,592,426.38
Other current assets		**19,613,263.17**	30,031,737.79
Total current assets		**1,917,073,118.14**	2,103,241,775.37
Non-current assets			
Fixed assets		**177,188,362.34**	115,377,277.17
Construction in progress		**19,622,028.03**	81,967,801.27
Intangible assets		**162,463,121.15**	160,723,843.55
Goodwill		**3,127,688.00**	4,593,625.31
Long-term expenses to be amortised		**6,552,114.43**	1,201,796.75
Deferred income tax assets		**5,727,768.21**	4,723,418.55
Total non-current assets		**374,681,082.16**	368,587,762.60
Total assets		**2,291,754,200.30**	2,471,829,537.97

	Notes	**30 June 2018** *RMB* **(Unaudited)**	31 December 2017 *RMB* (Audited)
Current liabilities			
Short-term borrowings		**492,900,000.00**	522,900,000.00
Bills payables and trade payables	*8*	**1,234,435,004.18**	1,408,606,842.33
Receipts in advance		**3,944,699.04**	5,382,568.81
Salaries payable to employees		**4,471,212.08**	4,781,858.77
Tax payables		**51,946,220.83**	50,867,274.80
Other payables		**15,075,096.99**	13,751,047.42
Other current liabilities		**457,060.50**	520,000.00
Total current liabilities		**1,803,229,293.62**	2,006,809,592.13
Non-current liabilities			
Deferred income		**1,447,358.24**	1,612,948.99
Deferred income tax liabilities		**69,236.45**	–
Total non-current liabilities		**1,516,594.69**	1,612,948.99
Total liabilities		**1,804,745,888.31**	2,008,422,541.12
Shareholders' equity			
Share capital		**108,000,000.00**	108,000,000.00
Capital reserve		**282,204,487.50**	282,204,487.50
Surplus reserve		**10,115,890.49**	10,115,890.49
Unallocated profits		**79,837,735.00**	55,797,710.73
Total equity attributable to the shareholders of parent company		**480,158,112.99**	456,118,088.72
Minority shareholders' interests		**6,850,199.00**	7,288,908.13
Total shareholders' interests		**487,008,311.99**	463,406,996.85
Total liabilities and shareholders' interests		**2,291,754,200.30**	2,471,829,537.97

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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**"), 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.

In 2017, the Ministry of Finance of the PRC (the "**Ministry of Finance**") amended the "Accounting Standards No. 14 – Revenue", "Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Enterprises No. 24 – Hedging", "Accounting Standards for Enterprises No. 37 – Presentation and Reporting of Financial Instrument", and The Notice on Issuing the Revised General Enterprise Financial Statement Formats (Cai Kuai [2018] No. 15), which made requirements for corporates listed both domestic and overseas, as well as corporates that listed overseas and used International Financial Reporting Standards or Accounting Standards for Enterprises to prepare financial reports. Since 1 January 2018, the Company commenced implementing above new or revised standards in accordance with the time requirements of the Ministry of Finance. Pursuant to the assessment of the Board of the Company, the changes of the above new or revised accounting standards will not have a significant effect 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 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. 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 selling of goods and provision of services in the normal course of business, net of 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 2018		For the six months ended 30 June 2017	
Items	**Revenue**	**Cost**	Revenue	Cost
	RMB	***RMB***	*RMB*	*RMB*
	(Unaudited)	**(Unaudited)**	(Unaudited)	(Unaudited)
Principal business	**2,006,067,441.91**	**1,872,269,199.68**	1,881,994,596.84	1,777,161,164.14
Other business	**15,920,292.39**	**–**	21,946,951.02	–
Total	**2,021,987,734.30**	**1,872,269,199.68**	1,903,941,547.86	1,777,161,164.14

4. INCOME TAX EXPENSE

(1) Income tax expense

Items	**For the six months ended 30 June**	
	2018	2017
	RMB	*RMB*
	(Unaudited)	(Unaudited)
Current income tax calculated in accordance with the tax laws and relevant requirements	**19,926,965.84**	15,106,815.67
– PRC	**19,926,965.84**	15,106,815.67
– Hong Kong	**–**	–
Deferred income tax expenses	**–935,113.21**	–160,568.25
Total	**18,991,852.63**	14,946,247.42

There is no Hong Kong profits tax as the Group has no taxable income in Hong Kong for the six months ended 30 June 2017 and 2018.

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

Items	**For the six months ended 30 June 2018** *RMB* **(Unaudited)**
Total combined profits for the period	**64,314,777.43**
Income tax expense calculated at statutory/applicable tax rate	**16,078,694.36**
Effect of non-deductible cost, expenses and loss	**2,540,744.50**
Tax effect of deductible loss and deductible temporary differences unrecognized for the period	**5,929.44**
Other	**366,484.33**
Income tax expense	**18,991,852.63**

5. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the requirements of the "Preparation Rules for Information Disclosures by Companies Offering Securities 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	**9.60**	**0.4226**	0.4226
Net profit attributable to the shareholders of parent company (excluding non-recurring profit or loss)	**9.44**	**0.4154**	0.4154

6. DIVIDEND

The Board did not propose the payment of interim dividend after the interim period (interim dividend of 2017: RMB0.10 per share).

7. BILLS RECEIVABLES AND TRADE RECEIVABLES

(1) Classification

Items	Balance as at 30 June 2018 *RMB* (Unaudited)	Balance as at 31 December 2017 *RMB* (Audited)
Bills receivables	**96,132,898.71**	87,683,853.38
Trade receivables	**756,618,249.48**	882,570,454.98
Total	**852,751,148.19**	970,254,308.36

(2) Bills receivables

1) Classification of bills receivables

Classification of bills	Balance as at 30 June 2018 *RMB* (Unaudited)	Balance as at 31 December 2017 *RMB* (Audited)
Bank acceptance bills	**56,857,113.20**	49,483,853.38
Commercial drafts	**39,275,785.51**	38,200,000.00
Total	**96,132,898.71**	87,683,853.38

2) Pledged bills receivable as at 30 June 2018

Items	Pledged amount as at 30 June 2018 *RMB* (Unaudited)
Bank acceptance bills	**34,024,779.63**
Commercial drafts	**18,300,000.00**
Total	**52,324,779.63**

3) Bills receivables endorsed but not mature at the balance sheet date, as at 30 June 2018

Items	Amount derecognized as at 30 June 2018 RMB (Unaudited)	Amount not derecognized as at 30 June 2018 RMB (Unaudited)
Bank acceptance bills	**391,833,162.00**	–
Total	**391,833,162.00**	–

4) Bills receivables discounted but not mature at the balance sheet date, as at 30 June 2018

Items	Amount derecognized as at 30 June 2018 RMB (Unaudited)	Amount not derecognized as at 30 June 2018 RMB (Unaudited)
Bank acceptance bills	**120,849,388.85**	–
Commercial drafts	**–**	14,500,000.00
Total	**120,849,388.85**	14,500,000.00

5) As at 30 June 2018, 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.

(3) Trade receivables

Name of item	**Balance as at 30 June 2018** *RMB* **(Unaudited)**	Balance as at 31 December 2017 *RMB* (Audited)
Trade receivables	**769,043,089.26**	894,355,187.94
Less: Provision for bad debts	**12,424,839.78**	11,784,732.96
Net amount	**756,618,249.48**	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 establishes different credit policies to different customers. Credit period is generally less than six months. As for commodity sales, the trade receivables and operating revenue is recognized and the age of which is calculated after three days of product shipment.

The following is an aged analysis of trade receivables, net of provision for bad debts, presented based on the date of delivery of goods at the end of the reporting period:

Age	**Balance as at 30 June 2018** *RMB* **(Unaudited)**	Balance as at 31 December 2017 *RMB* (Audited)
Within 1 year	**756,180,719.17**	878,161,102.28
1 to 2 years	**437,530.31**	4,403,231.28
2 to 3 years	**–**	6,121.42
More than 3 years	**–**	–
Total	**756,618,249.48**	882,570,454.98

2) Classification of trade receivables

Classification	**Balance as at 30 June 2018**				
	Carrying amount		**Provision for bad debts**		
	Amount *RMB* **(Unaudited)**	**Percentage** *(%)*	**Amount** *RMB* **(Unaudited)**	**Percentage of provision** *(%)*	**Book value** *RMB* **(Unaudited)**
Trade receivables with significant individual amount and bad debt provision accrued on single item	7,603,370.70	0.99	7,603,370.70	100.00	–
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	760,441,180.51	98.88	3,822,931.03	0.50	756,618,249.48
Account age combination	760,441,180.51	98.88	3,822,931.03	0.50	756,618,249.48
Trade receivables with insignificant individual amount and bad debt provision accrued on single item	998,538.05	0.13	998,538.05	100.00	–
Total	769,043,089.26	100.00	12,424,839.78	–	756,618,249.48

Classification	Balance as at 31 December 2017				
	Carrying amount		Provision for bad debts		
	Amount *RMB* (Audited)	Percentage *(%)*	Amount *RMB* (Audited)	Percentage of provision *(%)*	Book value *RMB* (Audited)
Trade receivables with significant individual amount and bad debt provision accrued on single item	10,477,855.70	1.17	6,244,321.13	59.60	4,233,534.57
Trade receivables with bad debt provision accrued on the combination of credit risk characteristics	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Account age combination	882,760,202.66	98.70	4,423,282.25	0.50	878,336,920.41
Trade receivables with insignificant individual amount and bad debt provision accrued on single item	1,117,129.58	0.13	1,117,129.58	100.00	–
Total	894,355,187.94	100.00	11,784,732.96	–	882,570,454.98

8. BILLS PAYABLES AND TRADE PAYABLES

(1) Classification

Items	Balance as at 30 June 2018 RMB (Unaudited)	Balance as at 31 December 2017 RMB (Audited)
Bills payables	**761,729,015.70**	928,824,897.42
Trade payables	**472,705,988.48**	479,781,944.91
Total	**1,234,435,004.18**	1,408,606,842.33

(2) Bills payables

Classification of bills	Balance as at 30 June 2018 RMB (Unaudited)	Balance as at 31 December 2017 RMB (Audited)
Bank acceptance bills	**761,729,015.70**	928,824,897.42
Total	**761,729,015.70**	928,824,897.42

Note: As at 30 June 2018, the Group's bank acceptance bills due and unpaid amounted to RMB13.90 million. Their delay of payment by banks was due to the maturity date, being 30 June 2018, was a non-working day.

The age of the aforementioned bills payables of the Group were within 180 days.

(3) Trade payables

Below is an aging analysis of trade payables based on the transaction date as at 30 June 2018:

Age	Balance as at 30 June 2018 RMB (Unaudited)	Balance as at 31 December 2017 RMB (Audited)
Within 1 year	**471,410,154.74**	477,997,374.71
1 to 2 years	**667,111.75**	1,527,649.39
2 to 3 years	**389,673.46**	12,988.20
More than 3 years	**239,048.53**	243,932.61
Total	**472,705,988.48**	479,781,944.91

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

On 25 July 2018, the National Medical Security Bureau, the Ministry of Finance, the Ministry of Human Resources and Social Security as well as the National Health Commission of the PRC have jointly issued the Notice on Improvement of Urban-rural Residents' Basic Medical Security Work in 2018 (《關於做好2018年城鄉居民基本醫療保險工作的通知》) (the "**Notice**"). The Notice stated that the fiscal subsidies for urban and rural residents' medical insurance and individual premium standards shall both be increased in 2018. The fiscal subsidies standard per capita at different levels shall be increased by RMB40 from the base amount in 2017, reaching no less than RMB490 per person per annum. The individual premium standards per capita for urban and rural residents' medical insurance shall be also increased by RMB40 in 2018, reaching RMB220 per person per annum.

On 21 June 2018, the Ministry of Commerce of the PRC issued the Report of Statistical Analysis on the Operation of Pharmaceutical Circulation Industry in 2017 (《2017年藥品流通行業運行統計分析報告》) (the "**Report**"). According to the Report, with the change of disease spectrum, the acceleration of aging population, the improvement of people's living standards and the increase in awareness of health care, the demand for medical health in the society will continue to climb, and the sales scale of pharmaceutical market will be further expanded. It is expected that the growth rate of sales in pharmaceutical circulation market will decline slightly in 2018, but the sales scale will continue to grow steadily for a period of time in the future. For the first half of 2018:

Slowdown of sales growth of pharmaceutical wholesale enterprises with a slight decline in the concentration

The sales growth of pharmaceutical wholesale enterprises has slowed down, while the sales growth rate of large-scale pharmaceutical wholesale enterprises has notably slowed down. In 2017, the operating revenue derived from principal business of top 100 pharmaceutical wholesale enterprises had a year-on-year increase of 8.4%, and the growth rate decreased by 5.6 percentage points. The operating revenue derived from principal business of top 100 pharmaceutical wholesale enterprises accounted for 70.7% of the total pharmaceutical market size of the same period, representing a year-on-year decrease of 0.2%.

Encouraging patients to retail pharmacies with the implementation of two-invoice system

Under the impetus of the "two-invoice system" policy, large-scale pharmaceutical wholesale enterprises continued to enhance their own distribution capability by way of external expansion through mergers and acquisitions and internal growth through actively developing the end-market. During the course of the "13th Five Year Plan", medical reform policies were rolled out successively, including control on medical insurance fees, zero medicine mark-up in public hospitals, the limitation of medicine proportion, and medical payment, which indirectly facilitated the external prescription dispensing process of medical institutions. Some regions actively explored prescription information of hospitals, information of medical insurance settlement and pharmacy retail information sharing. The pilot scheme on designated pharmacy and medical insurance settlement regarding outpatient special diseases and chronic diseases was commenced, directly encouraging the patients to retail pharmacies.

Robust growth in size of pharmaceutical e-commerce

In terms of the overall sales scale, the total sales volume of pharmaceutical e-commerce companies amounted to RMB73.6 billion in 2017, representing a year-on-year growth of 22.5% after deducting incomparable factors, of which B2C business achieved a year-on-year increase of 21.4%.

According to the data from CFDA Southern Medicine Economic Research Institute, Guangzhou Biaodian Medicine Information Co., Ltd.* (廣州標點醫藥信息股份有限公司), China's pharmaceutical end market sales in the first half of 2018 was RMB859.0 billion, representing a year-on-year increase of 6.9%. According to the current characteristics of the pharmaceutical market, the pharmaceutical end-market can be segmented into three major ends and six key markets, of which the first end-market is public hospital. Sales of this end-market maintained a growth trend, but the growth rate continued to slow down, reaching RMB581.2 billion in the first half of 2018 with a year-on-year increase of 6.1%; the second end-market is retail pharmacy stores. Sales of this end-market maintained a growth trend, but the growth rate has also slowed down. The sales for the first half of 2018 amounted to RMB195.4 billion with a year-on-year increase of 7.8%; the third end-market is public primary healthcare. The sales for the first half of 2018 amounted to RMB82.4 billion with a year-on-year increase of 10.6%. As such, its sales growth was notably faster than that of the other two end-markets.

BUSINESS REVIEW

Our principal business is pharmaceutical products distribution in the PRC, and most of our operating revenue 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 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 centers and others. As of 30 June 2017, our distribution network covered 6,330 customers, among which 680 were distributors, 4,040 were retail pharmacies and 1,610 were hospitals, clinics, health centers and others.

As of 30 June 2018, we had a total of 973 suppliers, of which 630 were pharmaceutical manufacturers and 343 were distributor suppliers. As of 30 June 2017, we had 926 suppliers, among which 626 were pharmaceutical manufacturers and 300 were distributor suppliers.

For the six months ended 30 June 2018, we distributed 10,145 products. For the six months ended 30 June 2017, we distributed 9,617 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	
	2018	2017
Categories of products		
Western medicines	**3,557**	4,143
Chinese patent medicines	**3,436**	2,546
Healthcare products	**171**	167
Others	**2,981**	2,761
Total	**10,145**	9,617

For the six months ended 30 June 2018, our B2B e-commerce platform, "Charmacy e-Medicine" (創美e藥) (http://www.cmyynet.com/) had 4,912 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 RMB128.52 million.

During the six months ended 30 June 2018, the Company was awarded the "China Logistics Industry Golden Ants Service Award in 2017-2018" (2017-2018年度中國物流行業金螞蟻服務獎) by the Organization Committee of the China (Guangzhou) International Logistics Equipment and Technology Exhibition (中國(廣州)國際物流裝備與技術展覽會組委會), the "AAA-level Credit Enterprise in China" jointly awarded by the China Association of Cooperative Trade Enterprises (中國合作貿易企業協會), the China Enterprise Reform and Development Research Association (中國企業改革與發展研究會) and the China Enterprise Credit Evaluation Center (中國企業信用評價中心); and the"Annual Major Wholesaler and Retailer in 2017" (2017年度批零大戶) and the"Annual Major Tax Payer in 2017" (2017年度納稅大戶) by the Longhu District Committee, Shantou, CPC (中共汕頭市龍湖區委) and the People's Government of Longhu District, Shantou (汕頭市龍湖區人民政府).

Successfully launching the informatization program to facilitate corporate strategic development

The informatization program (Phase II) was launched on 1 January 2018. The program was initiated in March 2017 to invest in the implementation of SAP EWM and SAP TM. By doing so, we seek to develop and enhance our warehousing management and transportation systems, and deliver visualized management of warehousing and distribution by combining such systems and our supply chain collaboration platform. We have also established a logistics model featuring integrated network operation, breaking through the separate operations model among logistics and distribution centers and realize linkage among warehouses. In addition, we have delivered standardized 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 circulation industry. The informatization programs of Zhuhai Charmacy Hengxiang Pharmaceutical Limited* (珠海創美恒祥醫藥有限公司) ("**Zhuhai Charmacy**"), Guangzhou Charmacy Pharmaceutical Limited* (廣州創美藥業有限公司) ("**Guangzhou Charmacy**") were launched on 1 February 2018 and 31 March 2018, respectively.

PROSPECTS

Construction of distribution workshops of the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center to enhance service and distribution capacity

In order to construct the distribution workshops of the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center of gross floor area of 23,678.14 square metres, the Company 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) on 4 August 2018, pursuant to which the consideration is RMB95.5 million. The source of funds will primarily be from medium and long-term loans of the bank and supplemented by self-raised funds of the Company. The construction of such distribution workshops will help to improve the present insufficient of warehousing capacity of the Group in the Pearl River Delta region, break through existing constraints of warehousing and distribution capacity, expand the supply and service scope and improve the service efficiency so as to enhance the service and distribution capacity of the Group in the Pearl River Delta region.

Continuously optimize product structure and enhance product mix

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

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

The Group will collect industry information and market information through the expansion of upstream resources and the coverage of downstream customers, so as to analyze historical sales data effectively in order to better predict and grasp the demand from upstream and downstream as well as their changes. With the integration of upstream and downstream resources, the Group will provide more suitable marketing plans and execution plans targeting different market characteristics and needs. The Group will offer a selection of market target customers to its pharmaceutical suppliers, provide various marketing plans, promotion campaigns and new products, and assist them in channel management and optimization as well as product price management and maintenance. Also, as a bridge between upstream and downstream customers, the Group hosts trade fairs and factory training sessions for its customers, from whom the Group will not only charge a fee for such value-added service, but gain greater customer reliance and loyalty, more business opportunities and better profitability.

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

To better align with its long-term development strategy and objective, the Company is planning an initial public offering and listing of its A shares on Shenzhen Stock Exchange, with a total of no more than 20 million A shares to be issued. The proceeds from the A Share Listing is expected to be invested in the construction project of Guangzhou Pharmaceutical Sorting and Distribution Center, the information system improvement project, and the project of expanding the pharmaceutical wholesale business.

The Group will actively proceed with its A share Listing, in an attempt to elevate its corporate image and brand recognition, widen financing channels, increase working capital and attain greater recognition from capital markets. The A share issuance will also bring more financial resources to the Group, lift its competitiveness, and ultimately benefit its long-term development. Currently, the work related to the A share issuance of the Group is progressing actively and orderly.

FINANCIAL REVIEW

Operating revenue

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Principal business	**2,006,067**	1,881,995
Other business	**15,920**	21,947
Total operating revenue	**2,021,988**	1,903,942

The operating revenue of the Group for the six months ended 30 June 2018 was RMB2,021.99 million, representing an increase of 6.20% over the corresponding period of last year.

The table below sets forth the breakdown of revenue from principal business by customer types:

	Six months ended 30 June	
	2018	2017
Customer Type	***RMB'000***	*RMB'000*
Distributors	**1,360,545**	1,244,438
Retail pharmacy stores	**583,108**	586,528
Hospitals, clinics, health centers and others	**62,414**	51,029
Revenue from principal business	**2,006,067**	1,881,995

For the six months ended 30 June 2018, our revenue from principal business was from product sales to (i) distributor customers, (ii) retail pharmacy stores, and (iii) hospitals, clinics, health centers and others. For the six months ended 30 June 2018, about 97% of our revenue from principal business was derived from distributor customers and retail pharmacy stores customers.

The increase in our operating revenue for the six months ended 30 June 2018 was mainly due to (i) our product offerings increased from 9,617 types for the six months ended 30 June 2017 to 10,145 types for the six months ended 30 June 2018; in particular, the product offerings provided by us as a primary distributor increased from 5,542 types for the six months ended 30 June 2017 to 7,996 types for the six months ended 30 June 2018; and (ii) our acquisition of two subsidiaries, namely Zhuhai Charmacy and Guangzhou Charmacy in 2017 which led to operating revenue of RMB75 million in total.

Operating cost, gross profit and gross profit margin

For the six months ended 30 June 2018, the operating cost of the Group was RMB1,872.27 million, representing an increase of 5.35% as compared to RMB1,777.16 million for the six months ended 30 June 2017. The increase in operating cost was in line with the increase in operating revenue from sales of products.

For the six months ended 30 June 2018, the gross profit of the Group was RMB149.72 million, representing an increase of 18.09% as compared to RMB126.78 million for the six months ended 30 June 2017. For the six months ended 30 June 2018, the gross profit margin of the Group was 7.40%, increased by 0.74 percentage point as compared to 6.66% for the six months ended 30 June 2017. This was mainly due to the fact that (i) the State Administration of Taxation and the Ministry of Finance of the PRC jointly adjusted the VAT rate, which reduced from 17% to 16% since 1 May 2018; and (ii) the number of Chinese patent medicine products increased by 890 types as compared to 2,546 types as of 30 June 2017, resulting an increase of gross profit.

Selling expenses

For the six months ended 30 June 2018, the selling expenses were RMB36.18 million, representing an increase of 12.48% as compared to RMB32.17 million for the six months ended 30 June 2017. It was mainly due to the fact that (i) the leasing warehouse of Guangdong Charmacy and Zhuhai Charmacy generated a total rental fee of RMB2.07 million; and (ii) the transportation expenses increased by RMB0.53 million from RMB5.73 million for the six months ended 30 June 2017 resulted from the increase of oil price and the use of refrigerated vehichels.

Management expenses

For the six months ended 30 June 2018, the management expenses were RMB25.83 million, representing an increase of 9.67% as compared to RMB23.55 million for the six months ended 30 June 2017. It was mainly due to the fact that (i) the number of employees of Zhuhai Charmacy and Guangzhou Charmacy increased by 65 compared to the corresponding period in 2017, and employee compensation increased by RMB1.71 million; and (ii) the purchase of the property and land use rights of Guangzhou Nansha in 2017, resulting an increase of RMB0.92 million in the depreciation and amortisation expenses.

Finance costs

For the six months ended 30 June 2018, the finance costs were RMB15.95 million, representing an increase of 30.80% as compared to RMB12.19 million for the six months ended 30 June 2017. It was mainly due to: (i) the expansion of financing scale led to an increase of RMB100.70 million in short-term borrowings from RMB392.20 million for six months ended 30 June 2017, which led to an additional interest expense of RMB5.08 million; and (ii) the exchange gain decreased of RMB1.55 million compared to the six months ended 30 June 2017.

Non-operating revenue

For the six months ended 30 June 2018, non-operating revenue was RMB0.78 million, representing a decrease of 65.35% as compared to non-operating revenue of RMB2.24 million for the six months ended 30 June 2017, mainly due to the amount of government grants received decreased compared to the six months ended 30 June 2017.

Income tax expense

For the six months ended 30 June 2018, the income tax expense of the Group were RMB18.99 million, increased by 27.07% as compared with that of RMB14.95 million for the six months ended 30 June 2017. For the six months ended 30 June 2018, the effective tax rate (income tax divided by profit before taxation) was 29.53%, representing an increase of 3.72 percentage points as compared to 25.81% for the six months ended 30 June 2017.

Net profit

The net profit of the Group was RMB45.32 million for the six months ended 30 June 2018 compared to RMB42.96 million for the six months ended 30 June 2017, representing an increase of 5.50%. Among which, the net profit attributable to the shareholders of parent company was RMB45.64 million compared to RMB42.92 million for the six months ended 30 June 2017, representing an increase of 6.34%. The increase in net profit attributable to the shareholders of parent company was mainly due to (i) the increase in operating revenue as compared to the corresponding period in 2017; (ii) the increase in the overall gross profit margin; and (iii) the increased amount in gross profit exceeded the overall increased amount in expenses.

Liquidity and financial resources

As at 30 June 2018, the cash and bank deposits of the Group were RMB47.37 million, while the cash and bank deposits were RMB75.10 million as at 31 December 2017.

As at 30 June 2018 and 31 December 2017, the Group recorded net current assets of RMB113.84 million and RMB96.43 million, respectively. As at 30 June 2018, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.06 (31 December 2017: 1.05).

The bank borrowings of the Group as at 30 June 2018 were RMB492.90 million (31 December 2017: RMB522.90 million). All of the bank borrowings were provided by the banks within the PRC. All 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 2018, the trade receivables and bills receivables amounted to RMB852.75 million, representing a decrease of RMB117.50 million as compared to the amount of trade receivables and bills receivables as of 31 December 2017, 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 2018, the trade payables and bills payables amounted to RMB1,234.44 million, representing a decrease of RMB174.17 million compared to the amount of trade payables and bills payables as of 31 December 2017. The decrease in bills payables was mainly due to the reduction in the amount paid to the suppliers by way of bank acceptance bills issued by the Group as the issuer.

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. For the six months ended 30 June 2018, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risks

For the six months ended 30 June 2018, the Group had no bank borrowings which bear interest at floating rate.

Capital management

Set out below is the Group's gearing ratios as at 30 June 2018 and 31 December 2017, respectively:

	30 June 2018	31 December 2017
Gearing ratio (%)	**47.78%**	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 30 June 2018, the Group's capital commitment amounted to RMB1.01 million (31 December 2017: RMB8.93 million).

Employees' information

As at 30 June 2018, the Group had 826 employees (as at 30 June 2017: 804), including the executive Directors. Total staff costs (including emoluments of Directors and supervisors) were approximately RMB33.78 million, as compared to approximately RMB30.53 million for the six months ended 30 June 2017. 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 performances. Other staff benefits include other related insurances set up for the employees employed by the Group in accordance with the rules under Labour Law, Employment Contract Law, Social Insurance Law of the PRC and 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 2018, the Group did not hold any material investments, or have any acquisitions and disposals in the equity interests of any other companies.

Future plans for material investments and capital assets

On 4 August 2018, the Company 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) in relation to the provision of construction services on the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center. For details of the construction contract, please refer to the announcement of the Company dated 4 August 2018.

Material acquisitions and disposals related to the subsidiaries and associated companies

During the six months ended 30 June 2018, the Group did not have any material acquisitions and disposals related to the subsidiaries and associated companies.

Pledge of assets

As at 30 June 2018, the Group was granted a credit limit of RMB910.57 million by various banks, while the Group's utilized banking facilities totalled RMB804.11 million, which were secured by:

(i) property, plant and equipment held by the Group with a carrying amount of RMB152.42 million (31 December 2017: RMB153.97 million) as at 30 June 2018.

(ii) land use rights held by the Group with a carrying amount of RMB146.35 million (31 December 2017: RMB148.62 million) as at 30 June 2018.

(iii) inventories with a carrying amount of RMB250.00 million (31 December 2017: RMB250.00 million) as at 30 June 2018.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities (2017: Nil).

EVENTS AFTER THE END OF REPORTING PERIOD

On 20 July 2018, the Board has passed the resolutions in relation to the proposed extension of the term of validity of the resolution of shareholders' meeting on the initial public offering of A share and listing, and the proposed extension of the term of validity of the authorization to the board of directors to handle matters concerning the initial public offering of A share and listing, subject to the approval to be granted in the extraordinary general meeting and class meeting to be held on 5 September 2018. For details, please refer to the circular of the Company dated 20 July 2018.

On 3 August 2018, the Company entered into an equity transfer agreement with Mr. Zheng Shuibiao (鄭水標), a natural-person shareholder, for the acquisition of 30% equity interests of Zhuhai Charmacy at a consideration of RMB7.71 million. The registration for industrial and commercial changes on the said equity change has been completed on 10 August 2018. Upon completion of this acquisition, the Company holds 100% equity interests of Zhuhai Charmacy and Zhuhai Charmacy becomes a wholly-owned subsidiary of the Company.

On 4 August 2018, the Company 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) in relation to the provision of construction services on the construction project of Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center with gross floor area of 23,678.14 square metres at a consideration of approximately RMB95.5 million. For details of the construction contract, please refer to the announcement of the Company dated 4 August 2018.

USE OF PROCEEDS

The H shares of the Company were listed on the Stock Exchange on 14 December 2015. The net proceeds from the Global Offering are RMB158.91 million, after deducting underwriting commissions, expenses and expenses payable related to listing.

In order to increase the effectiveness of the proceeds from the Global Offering, the Board has resolved to re-allocate the use of proceeds at the board meetings held on 21 March 2017 and 20 July 2017, respectively, and the proposals were approved by the Company on the annual general meeting held on 10 June 2017, and the first extraordinary general meeting on 5 September 2017. The actual usages of the proceeds as of 30 June 2018 after re-allocation are detailed below (excluding exchange gains and losses, interest income, etc.):

Planned use	**Budgeted amount** *(RMB million)*	**Budgeted amount after the use of proceeds changed on 10 June 2017 and 5 September 2017** *(RMB million)*	**Actual usage amount as of 30 June 2018** *(RMB million)*
To strengthen, expand and integrate our existing distribution network and capabilities	55.62	36.30	36.30
To enhance and promote our B2B e-commerce platform	15.89	9.88	9.88
To repay bank borrowings	47.67	47.67	47.67
To acquire pharmaceutical distribution business in Southern China region	23.84	36.00	36.00
For working capital and general corporate purposes	15.89	15.89	15.89
Additional use			
Used for the establishment of Shenzhen company	–	13.17	13.17
Total	**158.91**	**158.91**	**158.91**

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (interim dividend of 2017: RMB0.10 per Share).

CORPORATE GOVERNANCE

The Company confirms that, other than the deviation from Code Provision A.2.1, the Company has 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**") throughout the six months ended 30 June 2018.

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 for 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 at a time 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 have compiled with the required standards of dealing as set out in the Model Code for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2018, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell 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 2018 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 2018 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 2018 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, 23 August 2018

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).

* *For identification purposes only*