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創美·CH'MEI

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

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

(Stock Code: 2289)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

	For the six months ended 30 June		**Change**
	2022	2021	
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Results			
Operating revenue	**1,887,079**	1,993,014	-5.32%
Total profit	**25,848**	34,530	-25.14%
Net profit attributable to the shareholders of parent company	**20,639**	25,961	-20.50%
Basic and diluted earnings per share (expressed in RMB per share)	**0.1911**	0.2404	-20.50%

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 2022 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2021.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022

		For the six months ended 30 June	
		2022	2021
Item	*Notes*	***RMB***	*RMB*
		(Unaudited)	(Unaudited)
I. Total operating revenue	*4*	**1,887,079,386.22**	1,993,014,120.59
Incl: Operating Revenue		**1,887,079,386.22**	1,993,014,120.59
II. Total operating cost	*4*	**1,858,822,295.81**	1,955,424,579.88
Incl: Operating cost		**1,762,707,467.23**	1,857,967,782.94
Taxes and surcharges		**4,843,557.57**	4,386,843.07
Selling expenses		**53,809,120.23**	52,284,908.17
Management expenses		**18,401,674.42**	18,988,949.29
Research & development expenses		-	-
Finance costs	*6*	**19,060,476.36**	21,796,096.41
Incl: Interest expenses		**17,152,560.51**	20,300,388.76
Interest income		**2,641,344.75**	1,921,670.20
Add: Other income		**295,562.20**	295,184.84
Investment income (“ - ” for loss)		-	-
Incl: Investment income from associates and joint ventures		-	-
Financial assets measured at amortized cost are derecognized earnings		-	-
Exchange gains (“ - ” for loss)		-	-
Frequent exposure to hedge gains (“ - ” for loss)		-	-
Gain on change in fair value (“ - ” for loss)		-	-
Impairment loss of credit (“ - ” for loss)		**-229,086.87**	-247,245.69
Impairment loss of assets (“ - ” for loss)		**-2,845,084.18**	-3,136,215.98
Gains on disposal of assets (“ - ” for loss)		**20,894.19**	-11,149.73
III. Operating profit (“ - ” for loss)		**25,499,375.75**	34,490,114.15
Add: Non-operating revenue		**588,793.44**	69,392.04
Less: Non-operating expenses		**240,293.80**	29,037.34
IV. Total profit (“ - ” for loss)		**25,847,875.39**	34,530,468.85
Less: Income tax expense	*7*	**5,208,548.26**	8,569,088.80
V. Net profit (“ - ” for loss)		**20,639,327.13**	25,961,380.05
(1) By continuity of operations		**20,639,327.13**	25,961,380.05
1.Net profit from continuing operation (“ - ” for net loss)		**20,639,327.13**	25,961,380.05
2.Net profit from discontinued operation (“ - ” for net loss)		-	-
(2) By ownership		**20,639,327.13**	25,961,380.05
1.Net profit attributable to the owners of parent company (“ - ” for net loss)		**20,639,327.13**	25,961,380.05
2.Profit or loss of minority shareholders (“ - ” for net loss)		-	-

Item	Notes	For the six months ended 30 June **2022** ***RMB*** **(Unaudited)**	 2021 *RMB* (Unaudited)
VI. Net of tax of other comprehensive income		-	-
Net of tax of other comprehensive income attributable to the owners of parent company		-	-
(I) Other comprehensive income not subject to reclassification to profit or loss in future		-	-
1. Remeasure the change in the set benefit plan		-	-
2. Other comprehensive income under the equity method that cannot be converted into profit or loss		-	-
3. Change in fair value of other equity instrument investments		-	-
4. Changes in the fair value of the enterprise's own credit risk		-	-
5. Others		-	-
(II) Other comprehensive income to be reclassified into profit or loss in future		-	-
1. Other comprehensive income of convertible profit or loss under the equity method		-	-
2. Changes in the fair value of other debt investments		-	-
3. The amount of financial assets reclassified into other comprehensive income		-	-
4. Other debt investment credit impairment provisions		-	-
5. Cash flow hedging reserve (effective part of cash flow hedging profit or loss)		-	-
6. Conversion difference of foreign currency statement		-	-
7. Others		-	-
Net other comprehensive income after-tax which belongs to minority shareholders		-	-
VII. Total comprehensive income		**20,639,327.13**	25,961,380.05
Total comprehensive income attributable to the shareholders of parent company		**20,639,327.13**	25,961,380.05
Total comprehensive income attributable to minority shareholders		-	-
VIII. Earnings per share:			
(I) Basic earnings per share	*8*	**0.1911**	0.2404
(II) Diluted earnings per share	*8*	**0.1911**	0.2404

CONSOLIDATED BALANCE SHEET

As at 30 June 2022

Item	*Notes*	**30 June 2022** *RMB* **(Unaudited)**	31 December 2021 *RMB* (Audited)
Current assets:			
Monetary funds		**443,608,192.02**	630,168,026.51
Trading financial assets		-	-
Derivative financial assets		-	-
Bills receivables	*10*	**896,670.00**	14,947,500.00
Trade receivables	*11*	**746,677,884.75**	716,312,947.43
Account receivable financing	*12*	**14,216,386.49**	-
Prepayments		**332,242,140.79**	312,160,694.19
Other receivables		**11,989,545.20**	32,249,707.83
Incl: Interest receivable		-	-
Dividends receivable		-	-
Buying back the sale of financial assets		-	-
Inventories		**558,042,719.82**	509,156,426.37
Contract assets		-	-
Assets held for sale		-	-
Non-current assets due within one year		-	-
Other current assets		**30,101,256.73**	23,226,980.50
Total current assets		**2,137,774,795.80**	2,238,222,282.83
Non-current assets:			
Debt investment		-	-
Other debt investment		-	-
Long-term accounts receivable		-	-
Long-term equity investments		-	-
Other equity instrument investments		-	-
Other non-current financial assets		-	-
Investment properties		-	-
Fixed assets		**324,213,328.70**	334,925,145.94
Construction in progress		-	-
Right-of-use assets		**12,040,954.91**	13,511,183.61
Intangible assets		**139,818,367.10**	143,033,824.90
Development expenditure		-	-
Goodwill		**6,024,104.16**	6,024,104.16
Long-term expenses to be amortized		**17,771,658.62**	19,214,660.88
Deferred income tax assets		**8,645,886.45**	8,160,319.54
Other non-current assets		-	-
Total non-current assets		**508,514,299.94**	524,869,239.03
Total assets		**2,646,289,095.74**	2,763,091,521.86

Item	Notes	30 June 2022 *RMB* (Unaudited)	31 December 2021 *RMB* (Audited)
Current liabilities:			
Short-term borrowings		**515,486,716.70**	668,039,276.07
Trading financial liabilities		**-**	-
Derivative financial liabilities		**-**	-
Bills payables	*13*	**818,410,573.01**	809,768,308.81
Trade payables	*14*	**514,868,844.10**	532,860,284.07
advance receipts		**-**	-
Contract liabilities		**67,641,555.74**	46,664,141.17
Salaries payable to employees		**4,670,152.37**	5,180,138.03
Tax payables		**61,719,721.19**	44,557,999.46
Other payables		**12,875,096.44**	11,030,236.31
Incl: Interest payable		**-**	-
Dividends payable		**-**	-
Liabilities held for sale		**-**	-
Non-current liabilities due within one year		**34,628,688.18**	34,758,053.67
Other current liabilities		**8,793,402.24**	6,066,338.36
Total current liabilities		**2,039,094,749.98**	2,158,924,775.95
Non-current liabilities:			
Long-term borrowings		**71,073,337.34**	86,867,415.04
Bonds payable		**-**	-
Lease liabilities		**11,290,634.74**	12,489,734.63
Long-term payables		**-**	-
Long-term payroll payable		**-**	-
Estimated liabilities		**-**	-
Deferred income		**76,176.74**	304,706.99
Deferred income tax liabilities		**12,890.18**	402,909.62
Other non-current liabilities		**-**	-
Total non-current liabilities		**82,453,039.00**	100,064,766.28
Total liabilities		**2,121,547,788.98**	2,258,989,542.23
Shareholders' equity:			
Share capital		**108,000,000.00**	108,000,000.00
other equity instruments		**-**	-
Capital reserve		**278,990,829.04**	278,990,829.04
Less: Treasury stock		**-**	-
Other comprehensive income		**-**	-
Special reserve		**-**	-
Surplus reserve		**21,080,432.34**	21,080,432.34
General Risk Preparation		**-**	-
Unallocated profits		**116,670,045.38**	96,030,718.25
Total equity attributable to the shareholders of parent company		**524,741,306.76**	504,101,979.63
Minority interests		**-**	-
Total shareholders' interests		**524,741,306.76**	504,101,979.63
Total liabilities and shareholders' interests		**2,646,289,095.74**	2,763,091,521.86

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 name of Shantou Pharmaceutical Supplies Company* (汕頭市醫藥聯合公司物資站) on 18 February 1984. Pursuant to an approval granted by relevant PRC authorities on 28 May 2015, the Company was transformed into a joint stock company with limited liability and changed its name to Charmacy Pharmaceutical Co., Ltd. (創美藥業股份有限公司). The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 14 December 2015. The address of the registered office and principal place of business of the Company is No. 235, Song Shan North Road, Longhu District, Shantou City, Guangdong Province, the PRC.

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

The condensed interim consolidated financial statements are presented in Renminbi ("**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》) and relevant provisions (collectively referred to as "**Accounting Standards for Enterprises**") issued by the Ministry of Finance of the PRC, the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities on the Stock Exchange, and based on the accounting policies and accounting estimates applicable to the Group.

(2) Going concern

The Group, having evaluated its ability to continue as a going concern for the 12 months since 30 June 2022, did not find any event or condition which may cast significant doubt on the going concern ability. Hence, the preparation of these financial statements was based on the assumption of going concern.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Declaration on compliance with Accounting Standards for Enterprises

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

(2) Accounting period

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

(3) Business cycle

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

(4) Functional currency

The Group adopts RMB as its functional currency.

Unless otherwise stated in respect of the following data disclosed in the financial statements, "the period" refers to 1 January 2022 to 30 June 2022, the currency unit is RMB yuan.

(5) Changes of significant accounting policies and accounting estimates

There is no change in the significant accounting policies and accounting estimates of the Group for the reporting period.

4. OPERATING REVENUE AND OPERATING COST

Item	**Six months ended 30 June 2022**		Six months ended 30 June 2021	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Principal business	**1,868,014,100.74**	**1,762,707,467.23**	1,978,105,883.41	1,857,967,782.94
Other businesses	**19,065,285.48**	**-**	14,908,237.18	-
Total	**1,887,079,386.22**	**1,762,707,467.23**	1,993,014,120.59	1,857,967,782.94

5. SEGMENT INFORMATION

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

Geographical information

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

6. FINANCE COSTS

Item	For the six months ended 30 June 2022 (Unaudited)	2021 (Unaudited)
Interest expenses	**17,152,560.51**	20,300,388.76
Less: Interest income	**2,641,344.75**	1,921,670.20
Add: Foreign exchange loss	**766,124.39**	-240,579.13
Add: Handling fees	**3,389,516.20**	3,190,283.75
Add: Interest on lease liabilities	**393,620.01**	467,673.23
Total	**19,060,476.36**	21,796,096.41

7. INCOME TAX EXPENSES

(1) Income tax expenses

Item	For the six months ended 30 June 2022 (Unaudited)	2021 (Unaudited)
Current income tax calculated according to the tax law and related regulations	**6,367,110.46**	9,664,994.87
— Corporate income tax in Mainland China	**6,367,110.46**	9,664,994.87
— Profit tax in Hong Kong, PRC	**-**	-
Deferred income tax expenses	**-1,158,562.20**	-1,095,906.07
Total	**5,208,548.26**	8,569,088.80

The Group had no Hong Kong income tax, since it had no taxable income in Hong Kong for the six months ended 30 June 2021 and 2022.

(2) Reconciliation between accounting profit and income tax expenses

Item	For the six months ended 30 June 2022 (Unaudited)
Combined total profit for the period	**25,847,875.39**
Income tax expenses calculated at statutory/applicable tax rate	**6,367,110.46**
The impact of different tax rates applied to subsidiaries	**-**
Adjust the impact of income taxes for previous periods	**-**
Impact of non-taxable income	**-**
Effect of non-deductible costs, expenses and losses	**-**
Use of deductible losses that have not been previously confirmed for deferred EIT assets	**-**
Effect of deductible temporary differences or deductible losses on deferred income tax assets not recognised in the current period	**-1,158,562.20**
Income tax expenses	**5,208,548.26**

8. RETURN ON NET ASSETS AND EARNINGS PER SHARE

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

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share (Unaudited)	Diluted earnings per share (Unaudited)
Net profit attributable to the shareholders of parent company	**4.04**	**0.1911**	**0.1911**
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	**3.94**	**0.1865**	**0.1865**

9. DIVIDEND

The Board does not recommend the payment of a interim dividend for the six months ended 30 June 2022 (interim dividend for 2021: Nil).

10. BILLS RECEIVABLES

(1) Classification of bills receivables

Item	Balance as at 30 June 2022 (Unaudited)	Balance as at 31 December 2021 (Audited)
Bank acceptance bills	**-**	-
Commercial drafts	**900,000.00**	15,000,000.00
Subtotal	**900,000.00**	15,000,000.00
Less: Provision for bad debt	**3,330.00**	52,500.00
Total	**896,670.00**	14,947,500.00

(2) Pledged bills receivable as at 30 June 2022

Item	Pledged amount as at 30 June 2022 (Unaudited)
Commercial drafts	**900,000.00**
Total	**900,000.00**

(3) Bills receivables endorsed or discounted as at 30 June 2022 but not mature at the balance sheet date

Item	Amount derecognised as at 30 June 2022 (Unaudited)	Amount not derecognised as at 30 June 2022 (Unaudited)
Commercial drafts	**-**	**-**
Total	**-**	**-**

(4) As at 30 June 2022, no bills were reclassified to trade receivables due to inability of the issuers to settle the bills.

(5) Classification by the methods for making provisions for bad debt

Classification	Balance as at 30 June 2022 (Unaudited)				
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Provision ratio (%)	Book value
Bad debt provision made on individual basis	-	-	-	-	-
Bad debt provision made on a collective basis	**900,000.00**	**100.00**	**3,330.00**	**0.37**	**896,670.00**
Including: Ageing portfolio	**900,000.00**	**100.00**	**3,330.00**	**0.37**	**896,670.00**
Low risk portfolio	-	-	-	-	-
Total	**900,000.00**	**100.00**	**3,330.00**	—	**896,670.00**

Classification	Balance as at 31 December 2021 (Audited)				
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Provision ratio (%)	Book value
Bad debt provision made on individual basis	-	-	-	-	-
Bad debt provision made on a collective basis	15,000,000.00	100.00	52,500.00	0.35	14,947,500.00
Including : Ageing portfolio	15,000,000.00	100.00	52,500.00	0.35	14,947,500.00
Low risk portfolio	-	-	-	-	-
Total	15,000,000.00	100.00	52,500.00	—	14,947,500.00

1) Bad debt provision for bills receivables made on a collective basis

Age	Balance as at 30 June 2022 (Unaudited)		
	Book balance	Provision for bad debt	Provision ratio (%)
Within 1 year	**900,000.00**	**3,330.00**	**0.37**
Total	**900,000.00**	**3,330.00**	**0.37**

Note 1: For the ageing portfolio comprising the amounts of the commercial drafts held as at the end of the period and the commercial drafts discounted as at the end of the period but not mature at the balance sheet date, the impairment losses of credit are provided for with reference to the expected credit loss rates for the parent company of trade receivables.

Note 2: The age of the aforementioned bills receivables of the Group were within one year.

(6) Provisions for bad debt accrued, recovered and reversed for bills receivables during the period

Category	Balance as at 31 December 2021 (Audited)	Changes for the six months ended 30 June 2022 (Unaudited)			Balance as at 30 June 2022 (Unaudited)
		Accrued	Recovered or reversed	Written back or written off	
Commercial drafts	52,500.00	-	**49,170.00**	-	**3,330.00**
Total	52,500.00	-	**49,170.00**	-	**3,330.00**

11. TRADE RECEIVABLES

Name of item	Balance as at 30 June 2022 (Unaudited)	Balance as at 31 December 2021 (Audited)
Trade receivables	**775,820,627.87**	745,187,896.34
Less: Provision for bad debt	**29,142,743.12**	28,874,948.91
Net	**746,677,884.75**	716,312,947.43

(1) Trade receivable by the method of provisioning for bad debt

Classification	Balance as at 30 June 2022 (Unaudited)				
	Book balance		Provision for bad debt		Book value
	Amount	Percentage (%)	Amount	Provision ratio (%)	
Provision for bad debt made on individual basis	**24,768,105.72**	**3.19**	**24,057,622.48**	**97.13**	**710,483.24**
Provision for bad debt made on a collective basis	**751,052,522.15**	**96.81**	**5,085,120.64**	**0.68**	**745,967,401.51**
Incl: Ageing portfolio	**751,052,522.15**	**96.81**	**5,085,120.64**	**0.68**	**745,967,401.51**
Total	**775,820,627.87**	**100.00**	**29,142,743.12**	—	**746,677,884.75**

Classification	Balance as at 31 December 2021 (Audited)				
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Provision ratio (%)	Book value
Provision for bad debt made on individual basis	24,983,111.84	3.35	24,182,656.80	96.80	800,455.04
Provision for bad debt made on a collective basis	720,204,784.50	96.65	4,692,292.11	0.65	715,512,492.39
Incl: Ageing portfolio	720,204,784.50	96.65	4,692,292.11	0.65	715,512,492.39
Total	745,187,896.34	100.00	28,874,948.91	—	716,312,947.43

1) Bad debt provision for trade receivables made on a collective basis

Age	**Balance as at 30 June 2022 (Unaudited)**		
	Book balance	**Provision for bad debt**	**Provision ratio (%)**
Within 1 year	**727,110,581.67**	**2,656,812.11**	**0.37**
1 to 2 years	**23,723,651.26**	**2,261,098.99**	**9.53**
2 to 3 years	**218,289.22**	**167,209.54**	**76.60**
More than 3 years	**-**	**-**	**-**
Total	**751,052,522.15**	**5,085,120.64**	**0.68**

(2) Trade receivable by ageing

Before accepting new customers, the Group assessed the credit worthiness of potential clients and set corresponding credit limits according to the internal credit assessment policies. The Group applies different credit policies to different customers. Credit period is generally six months. As for commodity sales, the trade receivables and operating revenue are recognised and the age of the same is calculated after the control right has been transferred to the buyers.

Age	**Balance as at 30 June 2022 (Unaudited)**			Balance as at 31 December 2021 (Audited)		
	Book balance	**Percentage (%)**	**Provision for bad debt**	Book balance	Percentage (%)	Provision for bad debt
Within 1 year	**728,335,235.35**	**93.88**	**3,293,303.27**	698,261,162.04	93.70	3,069,424.63
1 to 2 years	**24,314,536.68**	**3.13**	**2,813,659.40**	23,963,529.50	3.22	2,934,764.53
2 to 3 years	**1,887,764.45**	**0.24**	**1,836,684.77**	3,785,724.58	0.51	3,777,272.03
More than 3 years	**21,283,091.39**	**2.74**	**21,199,095.68**	19,177,480.22	2.57	19,093,487.72
Total	**775,820,627.87**	**100.00**	**29,142,743.12**	745,187,896.34	100.00	28,874,948.91

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

(4) Provisions for bad debts accrued and reversed (or recovered) in the period

Balance as at 31 December 2021 (Audited)	Changes for the six months ended 30 June 2022 (Unaudited)				Balance as at 30 June 2022 (Unaudited)
	Accrued	Recovered or reversed	Written back or written off	Others	
28,874,948.91	**392,828.53**	**125,034.32**	**-**	**-**	**29,142,743.12**

(5) No trade receivables were written off in the period.

12. ACCOUNT RECEIVABLE FINANCING

Item	Balance as at 30 June 2022 (Unaudited)	Balance as at 31 December 2021 (Audited)
Bank acceptance bills	**14,216,386.49**	-
Total	**14,216,386.49**	-

13. BILLS PAYABLES

Classification of bills	Balance as at 30 June 2022 (Unaudited)	Balance as at 31 December 2021 (Audited)
Bank acceptance bills	**818,410,573.01**	809,768,308.81
Total	**818,410,573.01**	809,768,308.81

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

14. TRADE PAYABLES

(1) Trade payables

Item	**Balance as at 30 June 2022 (Unaudited)**	Balance as at 31 December 2021 (Audited)
Loans	**508,622,108.61**	525,003,330.09
Equipment costs	**6,246,735.49**	7,856,953.98
Total	**514,868,844.10**	532,860,284.07

(2) Ageing analysis of trade payables

Below is an ageing analysis of trade payables based on transaction date as at 30 June 2022:

Age	**Balance as at 30 June 2022 (Unaudited)**	Balance as at 31 December 2021 (Audited)
Within 1 year	**495,324,187.12**	530,047,558.14
1 to 2 years	**18,339,006.57**	2,040,818.31
2 to 3 years	**673,750.48**	308,387.62
More than 3 years	**531,899.93**	463,520.00
Total	**514,868,844.10**	532,860,284.07

Note: Accounts payable with an age of more than one year are mainly unsettled payments.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2022, COVID-19 outbreaks occurred repeatedly in many places in China, and the international situation became more complicated and severe. China's economy achieved positive growth despite the pressure. The process of transformation and upgrading of China's pharmaceutical industry has been accelerating with the epidemic prevention and control in China having entered a new stage, people's significantly increasing attention to health, and the promulgation and implementation of a number of pharmaceutical industry policies. The pharmaceutical distribution industry will continue to reshape its ecological structure and move towards high-quality development with the acceleration of the implementation of new medical reform policies including the "Healthy China" strategy, the increased adoption of centralised procurement, "Internet + Healthcare", the tiered diagnosis and treatment system and the introduction of medical insurance payment fund, coupled with the empowerment and promotion of the digital transformation of the pharmaceutical industry. In addition, in the context of stricter supervision and incentive policies, the role of pharmaceutical distribution enterprises in the industry chain is becoming more and more prominent, the pharmaceutical distribution industry has a constantly increasing market concentration, and is accelerating its transformation from an era of competition for resources to competition for capacities.

Policies aim at high-quality development, and the pattern of the pharmaceutical distribution industry continues to reshape

The "14th Five-Year Plan" period is the key stage for China to deepen the "Healthy China" strategy. The state and relevant authorities have issued a series of policies to drive the high-quality development of the pharmaceutical industry. In October 2021, the Ministry of Commerce issued the Guiding Opinions on Promoting the High-quality Development of the Pharmaceutical Distribution Industry During the "14th Five-Year Plan" period (the "**Guiding Opinions**"), proposing that by 2025, the pharmaceutical distribution industry will have met people's health needs in China's new development stage, and the modern pharmaceutical distribution system will function better thanks to leading innovation, technology empowerment, urban and rural coverage, balanced layout, coordinated development, safety and convenience; and by 2025, the annual sales of the top 100 pharmaceutical wholesale enterprises will account for more than 98% of the total pharmaceutical wholesale market size. The Guiding Opinions clarifies the development direction of the pharmaceutical distribution industry in the next five years, and provides an important guide for the whole industry to achieve high-quality development. According to the explicit descriptions in the 14th Five-Year Plan for National Drug Safety and Promotion of High-Quality Development promulgated in December 2021 jointly by eight authorities including the National Medical Products Administration, by the end of the "14th Five-Year Plan" period, the overall drug regulatory capability will be close to the international advanced level, and the level of drug safety assurance will be continuously improved, and people will be more satisfied with the quality and safety of drugs and felt more at ease.

In March 2022, Premier Li Keqiang delivered the Government Work Report (the "**Work Report**") on behalf of the State Council at the Fifth Session of the 13th National People's Congress. The Work Report proposes to support the revitalization and development of traditional Chinese medicine and push forward the comprehensive reform of traditional Chinese medicine by vigorously promoting graded diagnosis and treatment, optimizing medical treatment procedures, speeding up the construction of national and provincial regional medical centres, driving the extension of high-quality medical resources to cities and counties, and improving the disease prevention and treatment capabilities at the grassroots level, thereby enabling people to get better medical services nearby. Since the 18th National Congress of the Communist Party of China, the position of traditional Chinese medicine in the pharmaceutical industry has become more and more prominent, and the development of traditional Chinese medicine has become a national strategy. The allocation of high-quality medical resources to lower-level medical institutions will be the main theme in the grassroots-level health care in 2022, adding a new driver to the high-quality development of the pharmaceutical industry.

The state has been promoting the formation of a new development pattern with the domestic cycle as the mainstay and the domestic and international cycles promoting each other, and accelerating the establishment of a unified national market system. The pattern of the pharmaceutical distribution market has also accelerated the pace of reshaping. In April 2022, the CPC Central Committee and the State Council issued the Opinions on Accelerating the Construction of a Unified Nationwide Market. The construction of a unified nationwide market with high efficiency, fair competition and full openness will promote the formation of a smooth and efficient domestic distribution with mutual promotion of supply and demand and production and marketing, and lay a solid foundation for high-quality economic development. For pharmaceutical distribution enterprises, a unified large market means addressing the regional inconsistency in pharmaceutical logistics policies. Through the formulation of unified standards for third-party pharmaceutical logistics access and setup of warehouses in different places and through the promotion of the alignment between pharmaceutical logistics standards system and the international standards, pharmaceutical distribution enterprises can conduct intensive operations, further expand market room and reduce operating costs.

Separation of prescribing and dispensing has been driven jointly by prescription outflow and online medical care

In January 2022, the National Development and Reform Commission and the Ministry of Commerce issued the Opinions on Various Special Measures to Relax Market Access in Developing Shenzhen into a Pilot Demonstration Zone of Socialism with Chinese Characteristics (the "**Opinions**"). The Opinions supports the establishment of an electronic prescription centre in Shenzhen and connecting with Internet hospitals, prescription systems of medical institutions, sales platforms for various prescription drugs, and the national medical insurance information platform of Guangdong Province. All prescription drugs will be sold online based on this centre without further approval. Shenzhen is another Internet prescription drug sales pilot area after the pilot of online sales of prescription drugs in Hainan Free Trade Port. The information interconnection between the two electronic prescription centres will have far-reaching influence on the flow of prescription drugs in the regional market and bring more orders to the retail pharmacies.

With the deepening of medical reform, the separation of prescribing and dispensing has become the general trend. Factors such as zero-markup drug policy, control of the proportion of drug sales in hospital revenues, and dual channels and the results of the pilot construction of electronic prescription centres in Hainan and Shenzhen help speed up the pace of prescription outflow in China and increase drug orders considerably. According to IQVIA's data forecast, with the advancement of the separation of prescribing and dispensing, the size of outflow of prescription drugs is about RMB 400-500 billion, of which the retail market is about RMB 300 billion. With the further implementation of the policy for separation of prescribing and dispensing, the market size from the outflow of prescriptions in the future will directly benefit medical insurance-covered stores, hospitals and direct-to-patient (DTP) pharmacies, and directly boost the overall growth of the pharmaceutical retail industry.

In June 2022, the National Health Commission and the State Administration of Traditional Chinese Medicine jointly issued the Detailed Rules on Supervision of Internet-based Diagnosis and Treatment (Trial) (the "**Detailed Rules**"), which means that the Internet-based diagnosis and treatment have directly entered the stage of strong supervision. The Detailed Rules contain strict requirements for the quality and safety of online medical services, including: prescriptions shall be issued by the doctors who diagnose the patients; it shall be strictly forbidden to use artificial intelligence to generate prescriptions; and it shall be strictly forbidden to provide drugs for patients before the prescriptions are issued. As the medical and drug regulatory authorities continue to strengthen the supervision of electronic prescriptions and various places gradually explore and promote the construction of electronic prescription centres, there are rules for Internet-based diagnosis and treatment activities and traces of online sales of prescription drugs, so that patients will receive safer online medical services.

Guangdong Province has accelerated the expansive, intensive and standardized development of the pharmaceutical retail chain industry

In April 2022, the Medical Products Administration of Guangdong Province issued the Measures for the Supervision and Administration of Drug Retail Chain Operations in Guangdong Province (the "**Measures**"), which was officially implemented from 1 May 2022. The Measures proposed to: (1) support independent pharmacies to join chain enterprises, broaden the distribution channels of chain enterprises, increase the market shares of drug sales of chain enterprises, and realise complementary advantages and resource sharing among chain enterprises, which is conducive to improving the drug retail chain rate and standardised management level of retail pharmacies in Guangdong, and accelerating the expansive, intensive and standardized development of the drug retail chain industry; (2) allow the chain headquarters' centralised storage, packing and shipment of the drugs sold by the network of its direct chain stores, and allow the transfer of the drugs between the direct chain stores, which is conducive to reducing chain enterprises' drug distribution costs and facilitating consumers' drug purchase; and (3) allow chain enterprises to engage no more than two pharmaceutical wholesale enterprises to distribute the drugs within their business scopes, or engage no more than two wholesale enterprises to distribute drugs on the basis of their own distribution centres. This is not only conducive to eliminating regional distribution barriers, improving the regional coverage of chain enterprises, increasing the range of distribution varieties, and facilitating enterprises to expand their operations, but also conducive to purchase choices and improving distribution timeliness after independent retail stores' joining.

In July 2022, the Medical Products Administration of Guangdong Province issued a relevant notice, which made it clear that Guangdong Province would speed up the cultivation of modern large-scale backbone pharmaceutical distribution enterprises, support the innovative development of pharmaceutical retail chain enterprises by mergers, reorganizations, acquisitions, franchises and other means, and comprehensively improve the drug retail chain rate and standardized management level.

According to the Guiding Opinions, by 2025, the annual sales of the top 100 pharmaceutical retail enterprises will have accounted for more than 65% of the total pharmaceutical retail market size, and the pharmaceutical retail chain rate will approach the overall goal of 70%. According to the data on MENET (www.menet.com.cn), in 2021, the drug sales in the six major markets on the three major terminals were RMB1,774.7 billion, an annual increase of 8% compared with 2020. Among them, the sales on the retail pharmacy terminal were the least affected by the epidemic, and recovered more quickly, with a growth rate of 10.3% and a market share of 26.9%, which was 0.6 percentage points higher than that in 2020. In 2021, there were 57,784 enterprises holding the Pharmaceutical Business Licenses in Guangdong Province. Among them, there were 528 retail chain headquarters, 23,092 retail chain stores and 32,696 independent pharmacies. According to this data, the drug retail chain rate in Guangdong was 41%. In view of the target of 70%, about half of the independent pharmacies in Guangdong Province may join franchises, be merged or acquired, or be eliminated.

Pharmaceutical manufacturers and distributors have been accelerating their transformation and upgrading, showing a trend of diversified and digital-intelligence development

Under the influence of multiple factors such as the guidance of the policy for "control of expenses covered by medical insurance", the change in the pattern of drug use in public medical institutions, and the graded diagnosis and treatment system, the whole pharmaceutical industry chain is facing new changes, and pharmaceutical manufacturers and distributors have been accelerating the transformation and upgrading of their business models. Facing more intense business competition, pharmaceutical distribution enterprises are bound to transform and upgrade their business models, and constantly explore innovative service concepts and service models to provide differentiated value-added services according to customers' different needs; pharmaceutical manufacturers will increase their investments and promotion in the pharmaceutical retail market, and pharmaceutical distribution enterprises with solid retail terminals will gain more favor from manufacturers and consolidate their advantages in market development.

With the wide application of cutting-edge technologies such as big data and Internet of Things, pharmaceutical logistics presents a trend of digital intelligence and diversification. The Guiding Opinions further proposed to push forward the "Internet plus Drug Distribution" and promote the digital transformation and upgrading of the drug distribution industry. In this context, many pharmaceutical distribution enterprises actively explore digital transformation, strengthen the upgrading and application of intelligent and automated logistics technology and intelligent equipment, continuously enhance the logistics collaboration capabilities of cross-regional supply chains, and constantly explore the construction of sub-warehouses and multi-warehouse operations, which will help integrate the resources of the upstream and downstream components of the supply chain, promote the integration of "logistics, information flow and capital flow", and establish a diversified but collaborative pharmaceutical supply chain system, so as to enhance the operational efficiency and competitiveness of the whole industry chain. Meanwhile, the national and regional pharmaceutical distribution companies are increasingly focused on transforming into pharmaceutical supply chain solution service providers, gradually setting up a full-chain delivery system from pharmaceutical manufacturers to patients, accelerating the expansion of third-party logistics business, and giving better play to the advantages of their logistics networks to provide pharmaceutical manufacturers with nationwide and regional third-party pharmaceutical logistics services with synergistic effect among multiple warehouses.

The number of pharmaceutical wholesale enterprises engaging third-party pharmaceutical logistics enterprises for storage and transportation has gradually increased. According to statistics, for the first half of 2022, there were more than1,400 pharmaceutical wholesale enterprises in Guangdong, among which more than 280 engaged third-party pharmaceutical logistics enterprises to store and distribute drugs, there were more than 560 chain pharmacy enterprises, among which more than 40 engaged third-party pharmaceutical logistics enterprises in Guangdong. Guangdong's drug retail market pattern shows a trend of accelerating changes, and regional distribution giants will continue to expand their market shares by virtue of their comprehensive competitive advantages.

Health management throughout the life cycle has been implemented to continuously promote the construction of "Healthy China"

China's 14th Five-Year Plan proposes to exhaustively advance the "Healthy China" initiative, put the protection of people's health in a strategic position for prioritised development, and provide people with a full range of whole cycle health services.

Proceeding from the whole set of overall, wide-ranging and social influential factors on health, the whole life cycle health management performs continuous health management and provides relevant services at different stages of the mankind with a focus on their life cycle for the purpose of integrated management over those factors. In the post-epidemic era, society attaches more and more importance to health, and the health spending awareness of the residents gradually increases, more and more pharmaceutical companies are exploring the whole life cycle management model of drugs. They leverage on new technologies such as Internet-based medical care and big data to promote a medical service system that provides all the people with a full package of medical solutions integrating prevention, treatment, rehabilitation and health management, which helps promote the pharmaceutical industry's healthy development and the volume expansion of the end market.

Sources of the above information: data of the Southern Medical Economic Research Institute of the National Medical Products Administration; MENET; Annual Report on China's Pharmaceutical Distribution Industry (2021) (《中國藥品流通行業發展報告》(2021)); Guangdong Province Drug Regulatory Statistics Annual Report (2021) （《廣東省藥品監管統計年度報告（2021 年）》）, Journal of China Drug Circulation (《中國藥品流通》期刊）.

BUSINESS REVIEW

Our principal business is pharmaceutical distribution in the PRC, with most of our operating revenue derived from pharmaceutical distribution. We procure pharmaceutical products from pharmaceutical manufacturers and distributor suppliers and sell the products to distributors, retail pharmacy stores, hospitals, clinics, health centres and other customers. We have always been specialising in the non-tendering market business, changing the traditional mode that large distributors focus on allocation while small and medium distributors focus on distribution. We have fully covered the non-tendering markets within the radius of 250 km from our logistics centres as center point, and achieved "multi-variety, small-batch, high-frequency" distribution with refined management and information technology. Meanwhile, we provide consulting, promotion and third-party logistics services for upstream and downstream participants.

We followed the operation target set, and continued to explore Guangdong market in depth and radiating to surrounding areas, and developing the business with retail end-customers. As at 30 June 2022, our distribution network covered 11,463 customers, among which 601 were distributors, 7,211 were retail pharmacy stores and 3,651 were hospitals, clinics, health centres and others, representing an increase of 824 in the number of customers, a decrease of 18 distributors, an increase of 577 retail pharmacy stores, and an increase of 265 hospitals, clinics, health centres and others compared to the corresponding period of last year.

In order to meet the different needs of customers and enhance customer adhesion, we strengthened cooperation with well-known domestic and overseas manufacturers, and expanded the variety and scale of first-level distribution products; and continued to optimise product structure by introducing marketable, high-quality products with high profit margin to enrich product categories. As at 30 June 2022, we had a total of 1,006 suppliers, of which 590 were pharmaceutical manufacturers and 416 were distributor suppliers, with the flat over the same period last year. As at 30 June 2022, we distributed 11,657 types of products, representing a decrease of 184 types of products compared to the corresponding period of last year.

Product Categories	**Number of products for the six months ended 30 June**	
	2022	2021
Chinese patent medicines	**4,431**	4,513
Western medicines	**4,283**	4,383
Others	**2,943**	2,945
Total	**11,657**	11,841

We have actively expanded third-party logistics to improve profitability

The Group has a well-established logistics network and information system and uniform storage conditions conforming to GSP management standards. It takes Charmacy (Guangzhou) Pharmaceutical Sorting and Distribution Center as the core warehouse, and has built a leading regional logistics hub. The Company had realised multi-warehouse collaboration with the other four logistics centers and shared the advantages in inventory and distribution network. As such, the Company can not only fully meet its own warehousing need due to the rapid growth of drug categories and quantities, but also provide warehousing, transportation or other value-added services for upstream and downstream participants by using the surplus storage room and logistics distribution capacity, thereby generating revenues for the Group and improving the Group's profitability. In addition to meeting the warehousing and logistics needs from the Group's own business, by 30 June 2022, the Group had cooperated with nearly 100 customers (such as manufacturers, commercial distributors and chain pharmacies) in third-party pharmaceutical logistics business and other value-added services (such as warehousing or transportation).

PROSPECTS

With the mission of "Creating a healthy, beautiful life" firmly in mind, we will uphold the business philosophy of "Operating honestly, creating benefits for others and the general public and achieving win-win outcomes through cooperation". We follow the development strategy of focusing on "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", and commit ourselves to becoming the most competitive health and medical service provider in China.

The pharmaceutical distribution industry will have new development opportunities with the prevention and control of COVID-19 epidemic in China having become a regular practice, and with China accelerating the establishment of a dual circulation development pattern in which domestic and foreign markets reinforce each other with the domestic market as the mainstay. The in-depth promotion of reform of medical care, medical insurance and pharmaceutical industry has speeded up the implementation of the "Healthy China" initiative. The medical reform represented by the "Two-Invoice System" and "Centralised Procurement In Large Quantities" leads to cost increase, profit decrease, and product structure adjustment in distribution enterprises which cover the bidding market and bring up opportunities to the third-party logistics service under the advantages of higher market concentration and greater product.

Pharmaceutical wholesale enterprises have been striving to optimise their network structures and service capabilities, and transitioning from previous horizontal expansion to vertical sinking so as to further optimise their delivery service networks in cities, towns and other areas. The medical reform which focuses on the separation of medical care and pharmacy and the hierarchical medical system squeezes the business scale of bidding market, but also brings up significant opportunities for the retail and primary diagnosis market.

In the long run, China's economy has both tenacity and growth potential, and the trend of steady progress will not change. Moreover, with the advancement of the medical reform, the government's increasing inputs into healthcare, the acceleration of ageing population and the enhancement of people's health awareness, the potential of China's medical and health industry is expected to be released faster, driving the market share of the non-tendering market to gradually expand, which will contribute to the long-term growth of our business.

Facing the industry development opportunities, we need to secure an edge in competition, earnestly study, deeply understand, and conscientiously implement the relevant policies for the pharmaceutical industry, positively grasp the policy opportunities and seek market opportunities to constantly push our market network development and improve our services, enhance our refined management, and achieve a high quality growth, so as to maintain a leading position in competition.

We adhere to the market strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas" and build a pharmaceutical retail terminal network with full coverage in Guangdong Province and surrounding areas. We will strengthen risk management, improve business quality, seize the opportunities arising from the expansion of the primary medical market, further construct the regional pharmaceutical distribution centres and constantly expand and develop the distribution networks in all areas by constantly expanding and refining the distribution networks that permeate every region, optimising the network layout, and expanding the pharmaceutical delivery coverages of pharmaceutical retail terminals such as retail pharmacies and various grassroots medical and health service institutions to fully achieve a dense coverage of sales, service, and logistics network in Guangdong and its surrounding areas.

We will actively develop feasible promotion measures for "Internet + Healthcare" and empower services through e-commerce platforms. We will grasp the opportunity arising from gradual implementation of regulations including "Internet + Healthcare" and the hierarchical medical system in the expansion of primary medical market, and constantly upgrade, develop the functions and applications of B2B e-commerce platform, and actively explore new technologies and new marketing methods, combining with multi-dimensional and comprehensive marketing and operation. We will speed up the product transfer in supply chain with higher efficiency and allow more clients to benefit from our excellent services and suitable tools, thus further enhancing customer stickiness. We will actively promote standardised, streamlined, and intelligent pharmaceutical delivery service and constantly improve our service ability to achieve operation result efficiently with a low cost.

We will search for long-term and deep strategic cooperation with pharmaceutical producers. We will focus on strengthening our cooperation with major prescription drug manufacturers to capture more growth opportunities in non-tendering market products, diversify our product portfolios and cement the strength of our products. Using the pharmaceutical retail terminal network resources and supremacy of the Group, we will provide upstream suppliers with across-the-board brand promotions and product landing program design and support service guarantee.

We will continue to strengthen the capacity building for pharmaceutical logistics modernisation and actively expand the third-party logistics business. We will actively explore the application of smart logistics technology, integrate transportation resources to enhance delivery service capabilities and promote the coordinated development of regional integrated logistics, thereby enhancing the overall operational capability. Leveraging on our strong logistic and warehousing capabilities, our warehousing and sorting scale will be expanded, and multi-warehouse collaboration by integrating pharmaceutical warehousing and transportation resources will be attained. We will further unleash our advantages in customers, products, management and services and expand the terminal delivery network, so that the pharmaceutical logistics network arrangement is more reasonable. At the same time, we will actively expand the third-party pharmaceutical logistics business to enhance storage utilisation rate, increase transportation efficiency, and leverage on our own logistics network advantages to provide upstream suppliers and downstream customers with professional and convenient warehousing, logistics and cargo transportation, so as to enhance the Group's market competitiveness and profitability.

We will actively explore the mode of cooperation with strategic state-owned shareholders, and further optimise our Group's shareholder structure and governance structure. We will introduce new business development resources and market influence to our Group in good time, facilitate the continuous improvement of the market influence, further strengthen our Group's soft power and competitiveness, and promote our Group's better and more sustainable development.

Looking ahead, we will continue to ride on the future growth potential of the pharmaceutical non-tendering market, accelerate the duplication of the mature non-tendering pharmaceutical market operation model, strive to elevate the operation efficiency of our pharmaceutical supply chain, optimise the portfolio of pharmaceutical products and customer service experience, and reduce the cost of pharmaceutical distribution, endeavouring to become the most competitive service provider in the medical and healthcare industry in China.

FINANCIAL REVIEW

Operating revenues

ITEM	FOR THE SIX MONTHS ENDED 30 JUNE	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRINCIPAL BUSINESS	**1,868,014**	1,978,106
OTHER BUSINESSES	**19,065**	14,908
OPERATING REVENUE	**1,887,079**	1,993,014

CUSTOMER TYPE	FOR THE SIX MONTHS ENDED 30 JUNE	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
DISTRIBUTORS	**877,786**	908,768
RETAIL PHARMACY STORES	**907,672**	997,840
HOSPITALS, CLINICS, HEALTH CENTRES AND OTHERS	**82,556**	71,498
REVENUE FROM PRINCIPAL BUSINESS	**1,868,014**	1,978,106

During the six months ended 30 June 2022, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) hospitals, clinics, health centres and others. During the six months ended 30 June 2022, over 95% of our revenue from principal business was derived from distributor customers and retail pharmacy stores.

Our operating revenue decreased by 5.32% to RMB1,887.08 million for the six months ended 30 June 2022 from RMB1,993.01 million for the six months ended 30 June 2021, mainly because retail pharmacies' epidemic prevention and control measures (such as visitor flow and sales restrictions) affected the visitor flows and sales when the COVID-19 epidemic occurred repeatedly in Guangdong Province in the first half of this year.

Operating cost, gross profit and gross profit margin

The operating cost of the Group decreased by 5.13% to RMB1,762.71 million for the six months ended 30 June 2022 from RMB1,857.97 million for the six months ended 30 June 2021. The decline of operating costs was at par with that of revenue.

The gross profit of the Group decreased by 7.90% to RMB124.37 million for the six months ended 30 June 2022 from RMB135.05 million for the six months ended 30 June 2021. The gross profit margin of the Group decreased to 6.59% for the six months ended 30 June 2022 from 6.78% for the six months ended 30 June 2021. This is mainly because retail pharmacies' epidemic prevention and control measures (such as visitor flow and sales restrictions) affected the visitor flows and sales and the promotion and sales of some products with high gross profit margins when the COVID-19 epidemic occurred repeatedly in Guangdong Province in the first half of this year.

Selling expenses

The selling expenses of the Group increased by 2.92% to RMB53.81 million for the six months ended 30 June 2022 from RMB52.28 million for the six months ended 30 June 2021. Main reason is the corresponding market maintenance cost increased due to the developed terminal business.

Management expenses

The management expenses of the Group decreased by 3.09% to RMB18.40 million for the six months ended 30 June 2022 from RMB18.99 million for the six months ended 30 June 2021. The main reason is the decrease in the remunerations and office expenses thanks to the improvement of the working efficiency of functional departments and the optimisation of the allocation of personnel structures.

Finance costs

The finance costs of the Group decreased by 12.55% to RMB19.06 million for the six months ended 30 June 2022 from RMB21.80 million for the six months ended 30 June 2021. This is mainly because the interest expenses decreased by RMB0.85 million due to the decrease in long-term loans, and the discount interest decreased by RMB 2.11 million due to the full allocation of funds.

Non-operating revenue

For the six months ended 30 June 2022, non-operating revenue amounted to RMB0.59 million, representing a increase of 748.50% as compared with the non-operating revenue of RMB0.07 million for the six months ended 30 June 2021. This is mainly because Shantou Municipality's subsidy for promoting the development of large-scale commercial enterprises and stimulating consumption in 2020 increased the Group's government subsidy receipt by RMB 0.55 million.

Income tax expenses

The income tax expenses of the Group decreased by 39.22% to RMB5.21 million for the six months ended 30 June 2022 from RMB8.57 million for the six months ended 30 June 2021, and the current income tax expenses were recognised and the deferred income tax assets and liabilities were adjusted according to the accounting standards.

Net profit

The net profit of the Group decreased by 20.50% to RMB20.64 million for the six months ended 30 June 2022 from RMB25.96 million for the six months ended 30 June 2021. In particular, the net profit attributable to the shareholders of parent company decreased by 20.50% to RMB20.64 million for the six months ended 30 June 2022 from RMB25.96 million for the six months ended 30 June 2021. This is mainly due to the slight decrease in the revenue and the gross profit margin.

Liquidity and financial resources

As at 30 June 2022, the cash and bank deposits of the Group amounted to RMB67.98 million, while the cash and bank deposits amounted to RMB144.23 million as at 31 December 2021.

As at 30 June 2022 and 31 December 2021, the Group recorded net current assets of RMB98.68 million and RMB79.30 million, respectively. As at 30 June 2022, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.05 (31 December 2021: 1.04).

The bank borrowings of the Group as at 30 June 2022 were RMB618.31 million (short-term borrowings: RMB515.49 million, long-term borrowings: RMB102.82 million, including long-term borrowings due within one year: RMB31.75 million). All the bank borrowings bear fixed interest rates. The carrying amount of the bank borrowings is presented in RMB, and is approximate to the fair value. The Group did not use any financial instruments for hedging purposes or did not have any existing borrowings and/or other hedging instruments for hedging net foreign currency investments.

Bill receivables, trade receivables and account receivable financing

As at 30 June 2022, the Group's bills receivables, trade receivables and account receivable financing amounted to RMB761.79 million, representing an increase of RMB30.53 million compared to those as at 31 December 2021. This is mainly because Guangdong Province ushered in the hot weather and a period of high incidence of influenza in June, so that the sales revenue in that month increased by RMB 67.37 million year-on-year, resulting in an increase in the total receivables at the end of the Reporting Period.

Bills payables and trade payables

As at 30 June 2022, the Group's bill payables and trade payables amounted to RMB1,333.28 million, representing a decrease of RMB9.35 million compared to those as at 31 December 2021. This is mainly because the funds were effectively allocated through the full use of the credit periods allowed by the suppliers and the bill exposure limits granted by the banks.

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 Directors 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 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 2022, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the six months ended 30 June 2022, 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 2022 and 31 December 2021, respectively:

	30 JUNE 2022	31 DECEMBER 2021
Gearing Ratio	**51.19%**	56.03%

Note: Gearing ratio is equal to net liabilities divided by aggregate capital as at the end of the period. 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 2022, the Group's capital commitment amounted to nil. (31 December 2021: Nil).

Employees' information

As at 30 June 2022, the Group had a total of 820 employees (including executive Directors), representing a decrease of 22 employees compared with the number of employees as at 30 June 2021. The total staff cost (including emoluments of directors and supervisors) was RMB36.87 million, as compared to RMB37.67 million for the six months ended 30 June 2021. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

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

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

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.

Significant investments held, acquisitions and disposals held

The Group had no significant investment, acquisition or disposal during the six months ended 30 June 2022.

Future plans related to significant investments and capital assets

As at the date of this announcement, the Group has no future plans related to significant investments and capital assets.

Material acquisitions and disposals related to subsidiaries, associates and joint ventures

During the six months ended 30 June 2022, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 30 June 2022, the Group was granted a credit limit of RMB1,444.80 million by various banks, while the Group's utilised banking facilities totalled RMB1,069.96 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB263.27 million as at 30 June 2022; (ii) land use rights held by the Group with a carrying amount of RMB128.99 million as at 30 June 2022; and (iii) the Group's inventories with a carrying amount of RMB350 million as at 30 June 2022.

Assets subject to restrictions on ownership or use

As at 30 June 2022, the Group's restricted monetary funds amounted to RMB375.63 million, which served as deposit for bank acceptance bills and borrowings; the Group's restricted bills receivable and account receivable financing amounted to RMB1.40 million, which were restricted for being pledged to banks and for bill discounting; the Group also pledged certain other assets totalling RMB742.26 million as guarantee for the Group's borrowings. Assets subject to restrictions on ownership or use totalled RMB1,119.28 million.

Contingent liabilities

As at 30 June 2022, the Group had no material contingent liabilities (2021: Nil).

Significant event after the reporting period

As at the date of this announcement, the Group had no significant events after the Reporting Period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (interim dividend of 2021: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company had been complying with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") for the six months ended 30 June 2022, save for the deviation as stated below:

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

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of the shareholders and investors.

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 the Company's securities 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 complied with the required standard as set out in the Model Code for the six months ended 30 June 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2022, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company.

AUDIT COMMITTEE AND REVIEW ON THE INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 and is of the view that the interim report for the six months ended 30 June 2022 has been prepared in accordance with the applicable accounting standards, rules and regulations, and appropriate disclosures have been duly made.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Company (www.chmyy.com) and the Stock Exchange (www.hkexnews.hk), and the interim report of the Company for the six months ended 30 June 2022 will be dispatched to shareholders of the Company and published on the above websites in due course.

By order of the Board

Charmacy Pharmaceutical Co., Ltd.

Yao Chuanglong

Chairman

Shantou, the PRC, 31 August 2022

As at the date of this announcement, the executive Directors are Mr. Yao Chuanglong, Ms. Zheng Yuyan and Ms. Zhang Hanzi; the non-executive Directors are Mr. Li Weisheng, Mr.Yan Jingbin and Ms. Fu Zheng; 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 purpose only*