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 2023

	For the six months ended 30 June		**Year-on-year change**
	2023	2022	
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Results			
Operating revenue	**2,269,074**	1,887,079	20.24%
Total profit	**35,157**	25,848	36.02%
Net profit attributable to the shareholders of parent company	**26,353**	20,639	27.68%
Basic and diluted earnings per share (expressed in RMB per share)	**0.2440**	0.1911	27.68%

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Director(s)**") 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 2023 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2022.

In this announcement, certain amounts and percentage figures have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any tables, chats or elsewhere between total and sums of amounts listed therein are due to rounding.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2023

Item	*Notes*	For the six months ended 30 June **2023** *RMB* **(Unaudited)**	2022 *RMB* (Unaudited)
I. Total operating revenue		**2,269,073,989.64**	1,887,079,386.22
Incl: Revenue	*4*	**2,269,073,989.64**	1,887,079,386.22
II. Total operating cost		**2,231,021,432.51**	1,858,822,295.81
Incl: Operating cost	*4*	**2,126,723,737.82**	1,762,707,467.23
Taxes and surcharges		**4,620,057.41**	4,843,557.57
Selling expenses		**62,940,763.21**	53,809,120.23
Management expenses		**18,950,898.38**	18,401,674.42
Research & development expenses			
Finance costs	*6*	**17,785,975.69**	19,060,476.36
Incl: Interest expenses		**16,289,065.70**	17,152,560.51
Interest income		**2,374,764.20**	2,641,344.75
Add: Other income		**11,263.47**	295,562.20
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)		**-448,629.35**	-229,086.87
Impairment loss of assets (“–” for loss)		**-3,636,965.88**	-2,845,084.18
Gains on disposal of assets (“–” for loss)		**4,654.23**	20,894.19
III. Operating profit (“–” for loss)		**33,982,879.60**	25,499,375.75
Add: Non-operating revenue		**1,227,686.54**	588,793.44
Less: Non-operating expenses		**53,116.12**	240,293.80
IV. Total profit (“–” for total loss)		**35,157,450.02**	25,847,875.39
Less: Income tax expense	*7*	**8,804,904.87**	5,208,548.26
V. Net profit (“–” for net loss)		**26,352,545.15**	20,639,327.13
(I) By continuity of operations		**26,352,545.15**	20,639,327.13
1.Net profit from continuing operation(“–” for net loss)		**26,352,545.15**	20,639,327.13
2.Net profit from discontinued operation(“–” for net loss)			
(II) By ownership		**26,352,545.15**	20,639,327.13
1.Net profit attributable to the shareholders of parent company (“–” for net loss)		**26,352,545.15**	20,639,327.13
2.Profit of loss of minority interests (“–” for net loss)			

Item	Notes	For the six months ended 30 June **2023** **RMB** **(Unaudited)**	 2022 RMB (Unaudited)
VI. Net of tax of other comprehensive income			
Net of tax of other comprehensive income attributable to the shareholders 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 interests			
VII. Total comprehensive income		**26,352,545.15**	**20,639,327.13**
Total comprehensive income attributable to the shareholders of parent company		**26,352,545.15**	**20,639,327.13**
Total comprehensive income attributable to minority interests			
VIII. Earnings per share:			
(I) Basic earnings per share	*8*	**0.2440**	0.1911
(II) Diluted earnings per share	*8*	**0.2440**	0.1911

CONSOLIDATED BALANCE SHEET

As at 30 June 2023

Item	*Notes*	**30 June 2023**	31 December 2022
		RMB	*RMB*
		(Unaudited)	(Audited)
Current assets:			
Monetary funds		**444,987,040.40**	492,673,555.44
Trading financial assets			
Derivative financial assets			
Bills receivables	*10*	**3,998,134.41**	5,329,945.37
Trade receivables	*11*	**843,989,586.80**	844,442,544.71
Account receivable financing	*12*	**15,100,682.50**	15,483,006.79
Prepayments		**333,170,678.46**	388,217,993.17
Other receivables		**11,848,266.12**	96,654,746.27
Incl: Interest receivable			
Dividends receivable			
Buying back the sale of financial assets			
Inventories		**721,350,294.24**	586,853,688.43
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets		**42,860,740.67**	32,705,868.93
Total current assets		**2,417,305,423.60**	2,462,361,349.11
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		**292,962,802.79**	276,489,505.37
Construction in progress		**196,295.05**	
Right-of-use assets		**15,534,974.70**	17,590,155.87
Intangible assets		**78,840,695.47**	80,857,328.57
Development expenditure			
Goodwill		**6,024,104.16**	6,024,104.16
Long-term expenses to be amortized		**15,298,901.07**	16,338,602.59
Deferred income tax assets		**7,002,358.30**	6,224,098.37
Other non-current assets			
Total non-current assets		**415,860,131.54**	403,523,794.93
Total assets		**2,833,165,555.14**	2,865,885,144.04

Item	*Notes*	**30 June 2023** ***RMB*** **(Unaudited)**	31 December 2022 *RMB* (Audited)
Current liabilities:			
Short-term borrowings		**585,124,698.53**	513,251,685.23
Trading financial liabilities			
Derivative financial liabilities			
Bills payables	*13*	**775,217,517.59**	876,775,586.87
Accounts payables	*14*	**581,097,105.27**	632,791,945.43
advance receipts			
Contract liabilities		**2,925,968.73**	13,528,877.69
Salaries payable to employees		**5,422,938.75**	13,346,444.66
Tax payables		**84,382,186.03**	94,155,794.37
Other payables		**207,030,257.97**	105,824,075.61
Incl: Interest payable			
Dividends payable			
Liabilities held for sale			
Non-current liabilities due within one year		**4,131,498.61**	4,154,632.64
Other current liabilities		**380,375.93**	1,758,754.11
Total current liabilities		**2,245,712,547.41**	2,255,587,796.61
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Incl: preferred stock			
perpetual note			
Lease liabilities		**13,797,304.44**	15,754,772.11
Long-term payables			
Long-term payroll payable			
Accruals and provisions			
Deferred income			
Deferred income tax liabilities		**841,027.51**	60,256.92
Other non-current liabilities			
Total non-current liabilities		**14,638,331.95**	15,815,029.03
Total liabilities		**2,260,350,879.36**	2,271,402,825.64
Shareholders' equity:			
Share capital		**108,000,000.00**	108,000,000.00
other equity instruments			
Incl: preferred stock			
perpetual note			
Capital reserve		**278,990,829.04**	278,990,829.04
Less: Treasury stock			
Other comprehensive income			
Special reserve			
Surplus reserve		**28,129,256.97**	28,129,256.97
General Risk Preparation			
Unallocated profits		**157,694,589.77**	179,362,232.39
Total equity attributable to the shareholders of parent company		**572,814,675.78**	594,482,318.40
Minority interests			
Total shareholders' interests		**572,814,675.78**	594,482,318.40
Total liabilities and shareholders' interests		**2,833,165,555.14**	2,865,885,144.04

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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**" or "**China**") 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 2023, 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 2023 to 30 June 2023, the currency unit is RMB yuan.

(5) Changes of accounting policies

On 30 November 2022, the Ministry of Finance of the PRC issued the Notice on Issuing Interpretation No. 16 (Cai Kuai [2022] No. 31) (《企業會計準則解釋第 16 號》（財會〔2022〕31 號）) (hereinafter referred to as "**Interpretation 16**"), Interpretation 16 stipulated (1) "Accounting treatment for the deferred income tax related to the assets and liabilities arising from a single transaction not applicable to the initial recognition exemption"; (2) "Accounting treatment for income tax impact on dividends related to financial instruments of equity instruments by the issue"; (3) "Accounting treatment for the modification of cash-settled share-based payments to equity settled share-based payments by the enterprise". Among them, item (1) shall be effective from 1 January 2023, and items (2) and (3) shall be effective from the date of the announcement.

The Group has applied the aforesaid new standards as required above.

In accordance with the bridging requirements of Interpretation 16, the Company has made retrospective adjustments to its financial statements. The impact of this accounting policy change on the Group:

Financial reporting items	**After the change in accounting policy 1 January 2023**	**Before the change in accounting policy 31 December 2022**	**Execute Interpretation No. 16 Impact Amount**	**Change (%)**
	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)
Deferred income tax assets	6,803,910.60	6,224,098.37	579,812.23	9.32
Non-current assets	404,103,607.16	403,523,794.93	579,812.23	0.14
Assets	2,866,464,956.27	2,865,885,144.04	579,812.23	0.02
Unallocated profits	179,942,044.62	179,362,232.39	579,812.23	0.32
Equity attributable to the shareholders of the parent company	595,062,130.63	594,482,318.40	579,812.23	0.10
Shareholders' equity	595,062,130.63	594,482,318.40	579,812.23	0.10
Liabilities and shareholders' equity	2,866,464,956.27	2,865,885,144.04	579,812.23	0.02

(6) The Group's major accounting estimates have not changed during the Reporting Period.

4. OPERATING REVENUE AND OPERATING COST

Item	For the six months ended 30 June 2023		For the six months ended 30 June 2022	
	Revenue (Unaudited)	**Cost (Unaudited)**	Revenue (Unaudited)	Cost (Unaudited)
Principal business	**2,241,970,940.81**	**2,126,723,737.82**	1,868,014,100.74	1,762,707,467.23
Other businesses	**27,103,048.83**		19,065,285.48	
Total	**2,269,073,989.64**	**2,126,723,737.82**	1,887,079,386.22	1,762,707,467.23

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 2023 (Unaudited)	2022 (Unaudited)
Interest expenses	**16,289,065.70**	17,152,560.51
Less: Interest income	**2,374,764.20**	2,641,344.75
Add: Foreign exchange loss	**-12,702.30**	766,124.39
Add: Handling fees	**3,383,260.34**	3,389,516.20
Add: Interest on lease liabilities	**501,116.15**	393,620.01
Total	**17,785,975.69**	19,060,476.36

7. INCOME TAX EXPENSES

(1) Income tax expenses

Item	For the six months ended 30 June 2023 (Unaudited)	2022 (Unaudited)
Current income tax calculated according to the tax law and related regulations	**9,003,352.57**	6,367,110.46
— Corporate income tax in Mainland China	**9,003,352.57**	6,367,110.46
— Profit tax in Hong Kong, PRC		
Deferred income tax expenses	**-198,447.70**	-1,158,562.20
Total	**8,804,904.87**	5,208,548.26

The Group had no Hong Kong income tax, since it had no taxable income in Hong Kong for the six months ended 30 June 2022 and 2023.

(2) Reconciliation between accounting profit and income tax expenses

Item	For the six months ended 30 June 2023 (Unaudited)
Combined total profit for the period	**35,157,450.02**
Income tax expenses calculated at statutory/applicable tax rate	**9,003,352.57**
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	**-198,447.70**
Income tax expenses	**8,804,904.87**

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	**4.40**	**0.2440**	**0.2440**
Net profit attributable to the shareholders of parent company (excluding non-recurring profit and loss)	**4.25**	**0.2357**	**0.2357**

9. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (interim dividend for 2022: Nil).

10. BILLS RECEIVABLES

(1) Classification of bills receivables

Item	Balance as at 30 June 2023 (Unaudited)	Balance as at 31 December 2022 (Audited)
Bank acceptance bills		
Commercial drafts	**4,012,177.03**	5,348,665.70
Subtotal	**4,012,177.03**	5,348,665.70
Less: Provision for bad debt	**14,042.62**	18,720.33
Total	**3,998,134.41**	5,329,945.37

(2) Pledged bills receivable as at 30 June 2023

Item	Pledged amount as at 30 June 2023 (Unaudited)
Commercial drafts	**4,012,177.03**
Total	**4,012,177.03**

(3) There was no bills receivables that had been endorsed or discounted as at 30 June 2023 but not mature at the balance sheet date.

(4) As at 30 June 2023, 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 2023 (Unaudited)				
	Book balance		Provision for bad debt		Book value
	Amount	Percentage (%)	Amount	Provision ratio (%)	
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	**4,012,177.03**	**100.00**	**14,042.62**	**0.35**	**3,998,134.41**
Including: Ageing portfolio	**4,012,177.03**	**100.00**	**14,042.62**	**0.35**	**3,998,134.41**
Low risk portfolio					
Total	**4,012,177.03**	**100.00**	**14,042.62**	—	**3,998,134.41**

Classification	Balance as at 31 December 2022 (Audited)				
	Book balance		Provision for bad debt		Book value
	Amount	Percentage (%)	Amount	Provision ratio (%)	
Bad debt provision made on individual basis					
Bad debt provision made on a collective basis	5,348,665.70	100.00	18,720.33	0.35	5,329,945.37
Including: Ageing portfolio	5,348,665.70	100.00	18,720.33	0.35	5,329,945.37
Low risk portfolio					
Total	5,348,665.70	100.00	18,720.33	—	5,329,945.37

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

Classification	Balance as at 30 June 2023 (Unaudited)		
	Book balance	Provision for bad debt	Provision ratio (%)
Ageing portfolio	**4,012,177.03**	**14,042.62**	**0.35**
Total	**4,012,177.03**	**14,042.62**	**0.35**

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 2022 (Audited)	Changes for the six months ended 30 June 2023 (Unaudited)			Balance as at 30 June 2023 (Unaudited)
		Accrued	Recovered or reversed	Written back or written off	
Commercial drafts	**18,720.33**		**4,677.71**		**14,042.62**
Total	**18,720.33**		**4,677.71**		**14,042.62**

11. TRADE RECEIVABLES

Name of item	Balance as at 30 June 2023 (Unaudited)	Balance as at 31 December 2022 (Audited)
Trade receivables	**865,013,799.19**	865,013,450.04
Less: Provision for bad debt	**21,024,212.39**	20,570,905.33
Net	**843,989,586.80**	844,442,544.71

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

Classification	Balance as at 30 June 2023 (Unaudited)				
	Book balance		Provision for bad debt		Book value
	Amount	Percentage (%)	Amount	Provision Ratio (%)	
Provision for bad debt made on individual basis	**17,037,211.04**	**2.00**	**17,037,211.04**	**100.00**	
Provision for bad debt made on a collective basis	**847,976,588.15**	**98.00**	**3,987,001.35**	**47.02**	**843,989,586.80**
Incl: Ageing portfolio	**847,976,588.15**	**98.00**	**3,987,001.35**	**47.02**	**843,989,586.80**
Total	**865,013,799.19**	**100.00**	**21,024,212.39**	—	**843,989,586.80**

Classification	Balance as at 31 December 2022 (Audited)				
	Book balance		Provision for bad debt		
	Amount	Percentage (%)	Amount	Provision ratio（%）	Book value
Provision for bad debt made on individual basis	17,137,505.02	1.98	16,525,274.67	96.43	612,230.35
Provision for bad debt made on a collective basis	847,875,945.02	98.02	4,045,630.66	0.48	843,830,314.36
Incl: Ageing portfolio	847,875,945.02	98.02	4,045,630.66	0.48	843,830,314.36
Total	865,013,450.04	100.00	20,570,905.33	—	844,442,544.71

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

Age	**Balance as at 30 June 2023 (Unaudited)**		
	Book balance	**Provision for bad debt**	**Provision ratio（%）**
Within 1 year	**836,265,585.18**	**2,956,056.16**	**0.35**
1 to 2 years	**11,711,002.97**	**1,030,945.19**	**8.8**
2 to 3 years			
More than 3 years			
Total	**847,976,588.15**	**3,987,001.35**	—

(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 2023 (Unaudited)**	Balance as at 31 December 2022 (Audited)
Within 1 year	**836,570,058.81**	838,690,868.18
1 to 2 years	**12,857,226.82**	10,677,499.45
2 to 3 years	**773,848.31**	1,380,979.86
More than 3 years	**14,812,665.25**	14,264,102.55
Total	**865,013,799.19**	865,013,450.04

(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

Item	Balance as at 31 December 2022 (Audited)	Changes for the six months ended 30 June 2023 (Unaudited)				Balance as at 30 June 2023 (Unaudited)
		Accrued	Recovered or reversed	Written back or written off	Others	
Individual basis	16,525,274.67	**612,230.35**	**100,293.98**			**17,037,211.04**
Collective basis	4,045,630.66	**-58,629.31**				**3,987,001.35**
Total	20,570,905.33	**553,601.04**	**100,293.98**			**21,024,212.39**

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

12. ACCOUNT RECEIVABLE FINANCING

Item	**Balance as at 30 June 2023 (Unaudited)**	Balance as at 31 December 2022 (Audited)
Bank acceptance bills	**15,100,682.50**	15,483,006.79
Total	**15,100,682.50**	15,483,006.79

13. BILLS PAYABLES

Classification of bills	**Balance as at 30 June 2023 (Unaudited)**	Balance as at 31 December 2022 (Audited)
Bank acceptance bills	**775,217,517.59**	876,775,586.87
Total	**775,217,517.59**	876,775,586.87

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

14. ACCOUNTS PAYABLES

(1) Accounts payables

Item	**Balance as at 30 June 2023 (Unaudited)**	Balance as at 31 December 2022 (Audited)
Trade payables	**580,168,866.82**	631,927,855.43
Equipment costs	**928,238.45**	864,090.00
Total	**581,097,105.27**	632,791,945.43

(2) Ageing analysis of accounts payables

Below is an ageing analysis of accounts payables based on transaction date as at 30 June 2023:

Age	**Balance as at 30 June 2023 (Unaudited)**	Balance as at 31 December 2022 (Audited)
Within 1 year	**571,339,287.43**	627,284,478.84
1 to 2 years	**4,398,982.73**	4,226,813.06
2 to 3 years	**4,473,985.58**	755,347.04
More than 3 years	**884,849.53**	525,306.49
Total	**581,097,105.27**	632,791,945.43

Note: Accounts payables aged over one year are mainly unsettled trade payables.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In recent years, with the growth of China's economy and the continuous improvement of people's living standards, the demand for medical and health services in the whole society has been growing, and the demand for pharmaceutical consumption has driven the expansion of the pharmaceutical distribution market, laying a foundation for the development of China's pharmaceutical distribution industry. Meanwhile, China has been profoundly transforming the business structure of the pharmaceutical distribution industry in accordance with modern ideas. With the strong empowerment by digitalization, the comprehensive regulation of the pharmaceutical industry has been enhanced, promoting the continuous high-quality development of China's pharmaceutical distribution industry. Moreover, policy-level regulation and management of the in-hospital medication market have been strengthened, promoting to the development of retail pharmacies in the off-hospital market, and pharmaceutical distribution enterprises are playing an increasingly important role along the industrial chain. The concentration of the pharmaceutical circulation industry market is constantly increasing and accelerating its transformation from the resource-based competition to capability-based competition.

According to preliminary calculations by the National Bureau of Statistics, China's gross domestic product in the first half of 2023 was RMB59,303.4 billion, representing a year-on-year increase of 5.5% in constant prices, which was 1.0 percentage point higher than the increase in the first quarter of 2023. With the fading of the impact of the epidemic and the successive promulgation of the national-level industry support policies, both the overall economic operation and the overall pharmaceutical distribution industry have rebounded.

The pharmaceutical distribution industry is generally stable, warming up, and becoming increasingly concentrated

According to the data from MENET, in 2022, the pharmaceutical sales in the six major markets in the three major terminals in China were RMB1,793.6 billion, representing a year-on-year increase of 1.1%. Among the above sales, retail pharmacy terminals accounted for 29%, which was 2.1 percentage points higher than that in 2021. According to the data from Guangdong Provincial Medical Products Administration, the total pharmaceutical distribution amount of the Guangdong Province amounted to RMB281.0 billion in 2022, representing an increase of 7.3% despite the unfavorable situation and ranking first across China.

From the perspective of market share, the concentration of pharmaceutical wholesale enterprises continues to increase. According to data from the Ministry of Commerce of the PRC (the "**Ministry of Commerce**"), in 2021, the top 100 pharmaceutical wholesale enterprises accounted for 74.5% of China's total pharmaceutical market size in the same period, representing with a year-on-year increase of 0.8% and accounted for 94.1% of the total China's wholesale medicines market size in the same period. According to the prediction by Qianzhan Industry Research Institute, the pharmaceutical distribution industry will have a lower overall growth rate and become more concentrated in 2023; calculated at a compound growth rate of 7%, China's pharmaceutical distribution market is expected to exceed RMB4 trillion by 2028.

In October 2021, the Ministry of Commerce issued the "Guidance on Promoting the High-Quality Development of the Pharmaceutical Distribution Industry during the 14th Five-Year Plan Period" (the "**Guidance**"), proposing that by 2025, the pharmaceutical distribution industry should adapt to the people's health needs in China's new development stage, and the modern pharmaceutical distribution system should be more innovative, technology-enabled, covering both urban and rural areas, balanced in layout, and collaboratively developed, and safe and convenient. By 2025, there will be 1-3 and 5-10 large digital and comprehensive pharmaceutical distribution enterprises with a scale of over RMB500 billion and over RMB100 billion, respectively, being cultivated, and the top 100 pharmaceutical distribution enterprises will account for more than 98% of the total China's pharmaceutical market size in the same period. The Guidance points out clearly the development direction of the pharmaceutical distribution industry in the next five years, providing important guidelines for the industry to achieve high-quality development.

The pharmaceutical logistics showed the trends of diversification and digitization development

With the widespread application of cutting-edge technologies such as big data and Internet of Things, the pharmaceutical logistics industry presents a trend of digitization and diversification development. The Guidance pointed out clearly the need to promote the "Internet + Pharmaceutical Distribution" and promote the digital transformation and upgrading of the pharmaceutical distribution industry. Thanks to the resource integration and collaboration capabilities of digital intelligence technology, an increasing number of national and regional pharmaceutical distribution enterprises are transforming themselves into pharmaceutical supply chain solution and service providers. By fully leveraging their advantages in logistics networks, enhancing their capabilities to customize services on a large scale, and integrating upstream and downstream resources of the supply chain, they are promoting the integration of "logistics, information flow, and capital flow", and establishing and continuously improving a diversified and collaborative pharmaceutical supply chain system to achieve differentiated product/service delivery, and provide efficient third-party pharmaceutical logistics services for pharmaceutical enterprises through nationwide and regional coordination based on multiple warehouses.

According to Guangdong Provincial Development and Reform Commission's notice in December 2022 on issuance of the Program for Building a Modern Distribution System in Guangdong Province During the 14th Five-Year Plan Period, the following efforts will be made to improve logistics enterprises' professional service level, cultivate and strengthen pharmaceutical logistics enterprises, innovate pharmaceutical distribution models, refine pharmaceutical logistics standards, enhance urban and rural distribution systems, and improve pharmaceutical distribution efficiency and overall quality control level. According to the Program, Guangzhou is supported in building a national center for modern logistics and distribution of pharmaceuticals, a data processing center for online pharmaceutical platforms, and a hub of national pharmaceutical retail chain headquarters. According to the data from Guangdong Provincial Medical Products Administration, there were 64,716 pharmacies in Guangdong Province in 2022, 48% of which were chain pharmacies.

The promulgation of new regulations on pharmaceutical distribution promotes the high-quality development of Guangdong's pharmaceutical distribution industry

The Regulations of Guangdong Provincial Medical Products Administration on the Management of Pharmaceutical Wholesale Enterprises' Storage and Transportation (the "**New Regulations**") takes effect from 1 July 2023. According to the New Regulations, if existing wholesale enterprises' existing services remain unchanged, they may maintain the original standards when applying for renewal of certificates; if they need to undertake new pharmaceutical storage and transportation services, they shall meet the relevant requirements of the New Regulations. The New Regulations addresses the "last-mile" distribution of regional pharmacies, which is of great significance for achieving effective and balanced coverage of pharmaceutical storage and transportation in urban and rural areas throughout the province. The New Regulations sets out detailed regulatory requirements and technical indicators for enterprise personnel, storage area, automated transmission facilities and equipment, information management systems, traceability systems and other aspects. Pharmaceutical wholesale enterprises with modern logistics management capabilities have more advantages under upgraded regulatory requirements.

The healthcare reform is urging pharmaceutical producers to seek expansion in the off-hospital market, pharmaceutical distributors with a solid foundation in retail terminal are preferred

In recent years, with deepen medical reform, China has promulgated multiple policies (such as "bulk purchase of pharmaceuticals", "graded diagnosis and treatment", "dual-channel medical insurance reimbursement", and "pharmacies-sold pharmaceuticals covered by outpatient deductibles") to end the practice of "hospitals funding their operations with profits from medicines". With the separation of prescribing and dispensing, hospitals will no longer be the absolute main purchasers of pharmaceuticals, and there will be tremendous opportunities in the outside-hospital pharmaceutical market. MENET expects the off-hospital market will reach an aggregate volume of RMB1.6 trillion by 2029, which will be equivalent to or even exceed the in-hospital market.

In the face of increasingly fierce business competition, pharmaceutical distribution enterprises must transform and upgrade their business models, continue to explore innovative service concepts and models, and provide customer-tailored differentiated value-added services. Pharmaceutical producers need to increase their inputs and promotion in the retail market of medicines. Pharmaceutical distributors with solid foundations in the retail terminal will be preferred by producers and be able to consolidate their competitive advantages in market expansion.

The continuous expansion of the pharmaceutical market is promoted jointly by the policies for online pharmaceutical sales and the release of market demand

The Measures for the Supervision and Administration of Online Pharmaceutical Sales enable collaborative supervision of online and offline pharmaceutical sales, promoting "new retail era" by retail pharmacies. With the further regulation of online pharmaceutical sales and the gradual exploration and promotion of electronic prescription centers and construction and medical insurance settlement via "one-stop" solutions in various regions, the sale of prescription medicines online will truly come to fruition. Online diagnosis and treatment activities will have rules to be followed, and prescription pharmaceuticals sold online will be traceable, and patients will be able to access safer online medical services, which lay a solid foundation for the high-quality development of the pharmaceutical distribution industry, helping accelerate the pace of prescription outflow in China, and significantly increasing the sales by contracted prescription pharmaceutical sales terminals. (According to the data on MENET, calculated at terminals' average retail prices, the sales of physical and online pharmacies (including pharmaceuticals and non-pharmaceuticals) in China reached RMB872.5 billion in 2022, representing a year-on-year increase of 9.7%. Physical pharmacies accounted for 70.1% of the aforesaid sales, and the sales by online pharmacies exceeded RMB260 billion. The proportion of sales (including pharmaceuticals and non-pharmaceuticals) by online pharmacies increased from 5.80% in 2016 to 29.90% in 2022.)

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

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

Taking people's life cycle as the main line, Full life cycle health management starts from the wide-ranging, social and holistic factors which affect health, performs continuous health management and provides services for different stages of life, and comprehensively manages the factors that affect health. In the post-epidemic era, society attaches more and more importance to health, and the health consumption awareness of the residents gradually increases, more and more pharmaceutical companies are exploring the full life cycle management model of medicines. 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.

The above data and data sources are: MENET (米內網); China Pharmaceutical Circulation Industry Development Report (《中國藥品流通行業發展報告》) (2022); Journal of China Pharmaceutical Commerce (《中國藥品流通》期刊); Guangdong Provincial Medical Products Administration(廣東省藥品監督管理局).

BUSINESS REVIEW

The principal business of the Group 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 distributor customers, retail pharmacy stores, private hospitals, clinics, health centres and other customers.

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 2023, our distribution network covered 12,262 customers, among which 584 were distributors, 8,064 were retail pharmacy stores and 3,614 were private hospitals, clinics, health centres and others customers, representing an increase of 799 in the number of customers, a decrease of 17 distributors, an increase of 853 retail pharmacy stores, and a decrease of 37 private 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 2023, we had a total of 1,008 suppliers, of which 581 were pharmaceutical manufacturers and 427 were distributor suppliers, representing an increase of 2 supplies compared to the same period last year. As at 30 June 2023, we distributed 10,758 types of products.

Product Categories	**Number of products for the six months ended 30 June**	
	2023	2022
	(Unaudited)	(Unaudited)
Chinese patent medicines	**4,158**	4,431
Western medicines	**4,067**	4,283
Others	**2,533**	2,943
Total	**10,758**	11,657

Fully Leverage the channel advantages, and collaborate with the branded manufacturers to create new performance growth

By assisting branded pharmacies in establishing long-term cooperation with downstream customers and leveraging its omnidirectional marketing network, the Group helps increase the exposure and influence of massively produced branded products in the market, reduce manufacturers' difficulty in channel expansion, and truly realize the brand value and benefits. The Group work closely with many manufacturers to regularly hold business matchmaking meetings, market information exchange meetings, team expansion meetings, promotion and explosive marketing meetings, and new product evaluation meetings. For example, the Group works with China Resources Jiangzhong* (華潤江中) to hold sprint planning and matchmaking meetings, works with Medi'Care* (潤美康) to hold in-depth expansion and exchange meetings, works with Haleon* (赫力昂) to hold new Golden Caltrate product* (金鈣爾奇) launch meetings, works with China Resources Sanjiu* (華潤三九) to hold end customer sales promotion, and takes other measures to strengthen resource coordination and sharing, expand diversified cooperation channels, help customers enhance product awareness, share diversified sales drive strategies and resources, promote efficient product distribution, and help end customers better improve explicit indicators such as revenue and gross profit, thereby jointly tapping new business growth points. The Group works with partners to build a sustainable pharmaceutical cooperation chain and deliver high-quality products and services to customers, thereby achieving win-win results. In the first half of 2023, with a good reputation and high-quality services, the Company was recognized as one of the Top 100 Chinese Pharmaceutical Commercial Enterprises in 2022-2023 by the

Pharmaceutical Chamber of Commerce under the All-China Federation of Industry and Commerce, and won the 4th Pharmaceutical Golden Stone Award and the Best Pharmaceutical Marketing Team Award in 2023.

Continue to strengthen the logistics capacity, and actively expand the third-party logistics business

The Group has cold chain equipment, refrigerated transportation vehicles, and intelligent warehousing equipment, such as AS/RS systems, temperature and humidity monitoring systems, and intelligent temperature control systems to ensure the quality and safety of pharmaceuticals in the warehousing and dispensing process, and greatly reduce logistics costs such as labor and losses, thereby meeting different pharmaceutical service needs to the greatest extent possible. In addition to the application of intelligent equipment, the Group has introduced a supporting IT-based management system, utilizing advanced automation technology to dispatch various logistics equipment in the system, and providing visual monitoring of equipment, real-time task monitoring, and implementation feedback. In this way, the Group can discover and locate difficult problems immediately, ensuring the smooth progress of warehousing and distribution work.

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 logistics centers in other regions and shared the advantages in inventory and distribution network. As such, the Company can fully meet the rapid growth of the Company's own pharmaceutical distribution business and the demand for its own warehousing need, and also provide value-added services such as warehousing and transportation for upstream and downstream customers by using the surplus storage room and logistics distribution capacity, thereby increase revenue for the Group and improving the Group’s profitability. On 30 June 2023, the Group had cooperated with multiple 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). By doing so, the Group has increased its customer count by over 30% year-on-year and increased its corresponding revenue by over 70% year-on-year. In the first half of 2023, thanks to its excellent warehousing and distribution capabilities, our Company was recognized as an Excellent Pharmaceutical Logistics and Distribution Enterprise in 2022-2023 by the Pharmaceutical Chain Circle Certification Center (for 3 consecutive years), a Modern Pharmaceutical Logistics Technology Test Base (Center) in 2022-2023 (for 2 consecutive years), and the Best Pharmaceutical Cold Chain Logistics Center (Base) in 2022-2023 (for 5 consecutive years), a Recommended Enterprise for Pharmaceutical Cold Chain Logistics Services in 2022-2023 (for 4 consecutive years), and awarded the China Logistics Industry ‘Golden Ant’ Innovation Award in 2022-2023 by the Organizing Committee of China (Guangzhou) International Logistics Equipment and Technology Exhibition (for 6 consecutive years).

The introduction of provincial state-owned shareholders to provide strong backing for high-quality development

Jiangyao Group Co., Ltd. (“**Jiangyao Group**”) achieved control over the Group during the Reporting Period and signed a three-year framework loan agreement with the Group on 2 March 2023. The general manager was authorized at the general meeting to apply to Jiangyao Group for financial assistance with an annual cap of RMB500 million according to the business development needs. Jiangyao Group aligns with the Group’s focus on the non-tendered pharmaceutical terminal market not subject to bid invitation and bidding. Out of trust in and expectations for the Group, Jiangyao Group provides financial and resource support for the Group to expand the business scale and achieve win-win results by taking complementary advantages. By fully leveraging the two parties’ synergistic effect and Jiangyao Group’s state-owned resources and industry development advantages, the Group will further enhance its overall operating level and comprehensive competitiveness to strive for its high-quality development.

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 achieving win-win outcomes through cooperation". We follow the market 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.

China is accelerating the establishment of a dual distribution development pattern in which domestic and foreign markets reinforce each other with the domestic market as the mainstay. China's economy is generally undergoing optimized and upgraded restructuring. With the continuous improvement of people's living standards and health awareness, and with the ageing of the population, the demand for medical and health services in the whole society has been growing, and the demand for pharmaceutical consumption has driven the expansion of the pharmaceutical distribution market, laying a foundation for the development of China's pharmaceutical distribution industry. Meanwhile, China has been profoundly transforming the business structure of the pharmaceutical distribution industry in accordance with modern ideas to enhance the maturity of the pharmaceutical distribution industry, which is conducive to the growth of Chinese pharmaceutical distribution enterprises. Driven by favorable policies, the pharmaceutical distribution industry will be increasingly concentrated. With the empowerment of information technology, pharmaceutical distribution and supply chain services in China will be more thorough and effective.

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. On the other hand, influenced by policies such as separating medical treatment and pharmaceutical sales and promoting faster and wider centralised procurement, a gradually decreased share of the off-hospital market is expected to be accompanied by the major trend of a scale-up in the off-hospital market, which has enormous potential to tap. With the outflow of prescriptions from hospitals and in-depth development of Internet-based healthcare in the future, brick-and-mortar pharmacies will develop side by side with e-commerce medicine sellers, and the two will complement each other and serve consumers by virtue of their respective advantages.

Facing the industry development opportunities, we will follow policy changes, earnestly study, deeply understand, and strive to implement the relevant policies in the pharmaceutical industry in practice. We will grasp policy opportunities, actively seek market opportunities, continuously promote our market network expansion and improve our services, enhance our refined management, and achieve a high quality growth, so as to continuously improve our competitiveness based on sharping existing advantages.

I. Adhere to the strategy of "Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas"

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 its surrounding areas. We will strengthen risk management, improve operation 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 continuously expanding and refining the distribution networks that permeate into each 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.

II. Continuously explore intelligent applications of AI to accelerate corporate digital transformation

We will continue to explore the field of "Internet + Healthcare", digitalization, and AI collaboration to build a perfect technological system. We will leverage our supply chain advantages as the foundation, utilising B2B e-commerce platforms as vehicle and with make marketing and operating efforts as catalysts, combining innovative technologies and tools to meet the evolving needs of transaction scenarios and provide excellent services for customers, so that it can help more customers gain profits as a strategic partner and reliable supporter for customers in the fiercely competitive market.

III. Establish strategic cooperation with more branded manufacturers

We will establish strategic cooperation with more branded manufacturers, strive for more growth opportunities in non-tendering market products, diversify our product portfolios and cement the strength of our products. By using the pharmaceutical retail terminal network resources and advantages of the Group, we will provide upstream suppliers with across-the-board brand promotions and product landing program design and support service guarantee.

IV. Strengthen the capacity building for pharmaceutical logistics and actively expand third-party logistics business

We will actively explore the application of intelligent 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 of our refined management and services, 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 by using 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.

V. Proactively seek opportunities for industry cooperation both domestically and internationally to promote our high-quality development

We will leverage the resources and advantages of state-owned shareholders and proactively seek high-quality products and project cooperation both domestically and internationally, optimize its product supply chain, and introduce new technologies and concepts. In this way, the Group will further enhance soft power and competitiveness to consolidate our leading position in the non-bid-invitation pharmaceutical market in South China, and promote innovation and development in the pharmaceutical distribution industry.

Looking forward, we will continue to seize the future growth potential of the pharmaceutical non-tendering market, accelerate the duplication of the mature non-tendering pharmaceutical market operation model, redouble our efforts on digitisation and business innovation, 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 **2023** ***RMB'000*** **(Unaudited)**	 2022 *RMB'000* (Unaudited)
Principal business	**2,241,971**	1,868,014
Other businesses	**27,103**	19,065
Operating revenue	**2,269,074**	1,887,079

Customer type	For the six months ended 30 june **2023** ***RMB'000*** **(Unaudited)**	 2022 *RMB'000* (Unaudited)
Distributors	**1,076,993**	877,786
Retail pharmacy stores	**1,085,417**	907,672
Private hospitals, clinics, health centres and others	**79,561**	82,556
Revenue from principal business	**2,241,971**	1,868,014

During the six months ended 30 June 2023, our revenue from principal business was derived from product sales to (i) distributor customers; (ii) retail pharmacy stores; and (iii) private hospitals, clinics, health centres and others. During the six months ended 30 June 2023, over 96% of our revenue from principal business was derived from distributor customers and retail pharmacy stores.

The operating revenue for the six months ended 30 June 2023 was RMB2,269.07 million, an increase of 20.24% over the six months ended 30 June 2022, The operating revenue increased mainly due to (i) the Company's adherence to the business positioning of non-tender market and adherence to the market strategy of "Intensive engagement in Guangdong Province and Extensive Coverage across Surrounding Areas", winning the recognition and support of more brand manufacturers, obtaining more distribution rights and project cooperation opportunities for advantageous products, and driving related revenue growth; and (ii) the Company's product satisfaction rate and supply chain service advantages provide customers with a worry-free purchasing experience and meet the needs of more customers, thereby promoting revenue growth.

Operating cost, gross profit and gross profit margin

The Group's operating costs increased by 20.65% from RMB1,762.71 million for the six months ended 30 June 2022 to RMB2,126.72 million for the six months ended 30 June 2023. The magnitude of the change is consistent with the change in product sales revenue.

The Group's gross profit increased by 14.46% from RMB124.37 million for the six months ended 30 June 2022 to RMB142.35 million for the six months ended 30 June 2023. The Group's gross profit margin decreased from 6.59% for the six months ended 30 June 2022 to 6.27% for the year ended 30 June 2023. The Group's gross profit margin decreased mainly because the Group proactively adjusted some product portfolios based on market demand to ensure a larger market share in a highly competitive environment.

Selling expenses

The Group's selling expenses increased by 16.97% from RMB53.81 million for the six months ended 30 June 2022 to RMB62.94 million for the six months ended 30 June 2023. The increase is consistent with the increase in revenue of the principal business.

Management expenses

The Group's management expenses increased by 2.98% from RMB18.40 million for the six months ended 30 June 2022 to RMB18.95 million for the six months ended 30 June 2023. It was mainly because the employee remuneration increased by RMB1.02 million.

Finance costs

The Group's financial costs decreased by 6.69% from RMB19.06 million for the six months ended 30 June 2022 to RMB17.79 million for the six months ended 30 June 2023, which was mainly because the long-term loans decreased by RMB102.66 million and the loan interest expenses decreased by RMB3.01 million as a result compared to the same period last year.

Income tax expenses

The Group's income tax expense increased by 69.05% from RMB5.21 million for the six months ended 30 June 2022 to RMB8.80 million for the six months ended 30 June 2023, mainly due to the increase in major operating revenue. 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 Group's net profit increased by 27.68% from RMB20.64 million for the six months ended 30 June 2022 to RMB26.35 million for the six months ended 30 June 2023. Among them, net profit attributable to shareholders of the parent company increased by 27.68% from RMB20.64 million for the six months ended 30 June 2022 to RMB26.35 million for the six months ended 30 June 2023. It was mainly because of (i) the growth of the major operating revenue and the gross profit; and (ii) the effective control of the expenses.

Liquidity and financial resources

As at 30 June 2023, the cash and bank deposits of the Group amounted to RMB92.92 million, while the cash and bank deposits amounted to RMB68.86 million as at 31 December 2022.

As at 30 June 2023 and 31 December 2022, the Group recorded net current assets of RMB171.59 million and RMB206.77 million, respectively. As at 30 June 2023, the current ratio (based on the calculation of current assets divided by current liabilities) of the Group was 1.08 (31 December 2022: 1.09).

The bank borrowings of the Group as at 30 June 2023 were RMB585.12 million (short-term borrowings: RMB585.12 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.

Bills receivables, trade receivables and account receivable financing

As at 30 June 2023, the Group's bills receivables, trade receivables and account receivable financing amount was RMB863.09 million, a decrease of RMB2.17 million, and 0.25%, compared with the bills receivables , trade receivables and account receivable financing as of 31 December 2022. It was mainly because the Group enhanced customer credit management.

Bills payables and accounts payables

As at 30 June 2023, the Group's bills payables and accounts payables amounted to RMB1,356.31 million, a decrease of RMB153.25 million compared to the amount of bills payables and accounts payables as at 31 December 2022, which was mainly due to procurement based on product supply and demand and effective fund use.

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 Reporting Period. 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 2023, the Group did not use any financial instruments for hedging the foreign currency risk.

Interest rate risk

For the six months ended 30 June 2023, the Group had no bank borrowings which bear interest at a floating rate (2022: Nil).

Gearing Ratio

Set out below is the Group's gearing ratios as at 30 June 2023 and 31 December 2022, respectively:

	30 June 2023	**31 December 2022**
Gearing Ratio	**46.22%**	42.78%

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 2023, the Group's capital commitment amounted to nil. (31 December 2022: Nil).

Employees' information

As at 30 June 2023, the Group had a total of 811 employees (including executive Directors), representing a decrease of 9 employees compared with the number of employees as at 30 June 2022. The total staff cost (including emoluments of directors and supervisors) was RMB43.84 million, as compared to RMB36.87 million for the six months ended 30 June 2022. The emoluments were determined with reference to market practice and the performance, qualification and experience of individual employees.

The employees are entitled to bonuses 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 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 2023.

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 2023, the Group had no material acquisitions and disposals related to subsidiaries, associates and joint ventures.

Pledge of assets

As at 30 June 2023, the Group was granted a credit limit of RMB1,320.00 million by various banks, while the Group's utilised banking facilities totalled RMB1,004.34 million, which were secured by (i) property, plant and equipment held by the Group with a carrying amount of RMB256.59 million as at 30 June 2023; (ii) land use rights held by the Group with a carrying amount of RMB70.03 million as at 30 June 2023; and (iii) the Group's inventories with a carrying amount of RMB350.00 million as at 30 June 2023.

Assets subject to restrictions on ownership or use

As at 30 June 2023, the Group's restricted monetary funds amounted to RMB352.07 million, which served as deposit for bank acceptance bills and borrowings; the Group's restricted bills receivable and account receivable financing amounted to RMB7.01 million, which were restricted for being pledged to banks; the Group also pledged certain other assets totalling RMB676.62 million as guarantee for the Group's borrowings. Assets subject to restrictions on ownership or use totalled RMB1,035.70 million.

Contingent liabilities

As at 30 June 2023, the Group had no material contingent liabilities (2022: 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 2023 (interim dividend of 2022: 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**") during the six months ended 30 June 2023.

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 (the "**Supervisor(s)**"). Having made enquiries with all Directors and Supervisors, 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 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2023, 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 including two independent non-executive Directors and one non-executive Director, namely Mr. Wan Chi Wai Anthony (Chairman), Mr. Xu Fei 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 oversee internal control of the Company.

The Audit Committee has reviewed the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 and is of the view that the interim results for the six months ended 30 June 2023 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 2023 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.

Yan Jingbin

Chairman

Shantou, the PRC, 27 August 2023

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. Yan Jingbin, Ms. Fu Zheng and Mr. Xu Fei; and the independent non-executive Directors are Mr. Wan Chi Wai Anthony, Mr. Li Hanguo and Mr. Guan Jian (also known as Guan Suzhe).

** For identification purpose only*